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Owner:	Financial Strategy
Responsible Director:	Corporate Performance
Relevant Legislation/Authority:	<i>Local Government Act 2020 (Vic)</i>
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1. PURPOSE

The Borrowing Policy provides the appropriate parameters for Council to undertake borrowings without compromising the application of sound fiscal management principals. The policy allows Council the flexibility to respond to funding requirements while minimising risk.

The Borrowing Policy ensures that Council has a sound financial framework on which to:

- undertake borrowings.
- manage its loan portfolio.
- and adhere to the provisions of the *Local Government Act 2020 (Vic) (Act)*.

2. BACKGROUND

Councils must implement the principles of sound financial management. This includes managing financial risks; pursue spending and policies that are consistent with a reasonable degree of stability; and that decisions are made with future generations in mind and ensure the disclosure of financial information.

Borrowing activities will be undertaken in a manner that minimises risk to Council. Section 104 of the LGA outlines:

A Council cannot borrow money unless the proposed borrowings were included in the budget or revised budget.

3. SCOPE

This policy applies to the City when considering and determining the annual budget or alongside another relevant Council decision.

City officers must consider the application of this policy when:

- considering new borrowings; and
- refinancing existing borrowings (where long-term benefits of refinancing are greater than the cost of the existing loan).
- As approved by Council resolution.

It does not apply to determining operating accounts or overdraft facilities.

4. DEFINITIONS

Act means the *Local Government Act 2020 (Vic)*

City means the Greater Bendigo City Council, being a body corporate constituted as a municipal Council under the *Local Government Act 2020 (Vic)*.

Council means all of the Councillors collectively.

TCV means the Treasury Corporation of Victoria.

DTF means the Department of Treasury & Finance.

LGPRF means Local Government Performance Reporting Framework

Loans and borrowings compared to rates is the percentage of interest-bearing loans and borrowings of total rate revenue.

Loans and borrowings repayments compared to rates is the percentage of interest and principal repayments on interest-bearing loans and borrowings of total rate revenue.

Indebtedness is the measure of Councils ability to cover non-current liabilities from revenues the entity generates itself.

5. PRINCIPLES

This Borrowing Policy will provide clear direction to management, staff and Council in relation to the treasury function, and establishes a decision framework with principles to ensure:

- Financial risks are monitored and managed prudently having regard to economic circumstances.
- Financial policies and strategic plans, including the Long Term Financial Plan and Revenue and Rating Plan, will provide stability and predictability in the financial impact on the municipal community.
- That City gives consideration to those financial institutions which demonstrate a positive commitment within the region and to the ethical criteria detailed in section 6.4.
- The appropriate level of funds are available at the appropriate time to support its strategic objectives.
- Consideration of optimum times to borrow, taking into account interest rates, construction cost inflation rates, and the need to provide economic stimulus.
- Seek to minimise costs of borrowings.

- Where applicable, that the structure of the borrowing is appropriate for the nature of the assets being funded.
- Consider inter-generational ‘user pays’ principles as part of determining the most appropriate way to fund activities.

6. POLICY

6.1 Legislative Requirements

Section 91 of the Act requires Council to develop a Financial Plan, which incorporates a borrowings strategy as per the Model Financial Plan.

Section 104 of the Act states that a Council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget.

Council must approve all borrowings and Section 11(2)(l) stipulates that Council cannot delegate the power to borrow money.

The City must adhere to the financial management principles of the *Local Government Act 2020*, detailed [here](#).

6.2 Inter-Generational Equity

The Council shall consider equity between generations of ratepayers (inter-generational equity) whereby the mechanisms to fund specific capital expenditure take into account the ratepayers who benefit for the expenditure and therefore, on a user pay basis, who should pay for the costs associated with such expenditure.

However, this principle shall not be applied where it would be to the detriment of sound financial management.

In general, debt levels should be minimised to allow future Councils the opportunity to borrow in future years for capital works arising in those future periods without being impeded by significant borrowings by an earlier Council.

6.3 Long Term Sustainability of the City

The level of borrowing shall be within acceptable limits identified in relevant ratios to ensure long-term sustainability. Council needs to ensure that the amount of borrowing does not exceed these limits, so that debt servicing costs can be met on an ongoing basis without undue impact on future Council terms.

Total borrowings may move to the upper parameter level when:

- a major project has caused borrowings to be temporarily maximised; and/or
- interest rates are lower making debt financially attractive; and/or
- construction costs are increasing at a rate significantly greater than interest rates, whereby delaying a crucial project may be economically detrimental to Council; and/or
- a material call to ‘defined benefit’ Superannuation fund is required.

It is expected that the total borrowings will be at the lower parameter level when the economic conditions are contrary to the above.

This factor will be assessed by Council’s executive management team each year prior to the budget process.

Ratios reported and considered in decision making

The following key ratios will be considered:

Source	DESCRIPTION	Expected Range
LGPRF	<p>Loans and borrowings compared to rates Interest bearing loans and borrowings as a percentage of rate revenue</p> <p>Calculation: interest bearing loans and borrowings / rate revenue</p>	0% to 70%
LGPRF	<p>Loans and borrowings repayments compared to rates Interest and principal repayments on interest bearing loans and borrowings as a percentage of rate revenue</p> <p>Calculation: Interest and principal repayments on interest bearing loans and borrowings / rate revenue</p>	0% to 20%
VAGO	<p>Indebtedness The higher the % the less the entity is able to cover non-current liabilities from revenues the entity generates itself. Own source revenue is used rather than total revenue because it does not include grants for contributions.</p> <p>Calculation: Total borrowings / own-sourced revenue</p>	<p>More than 60% - High 40 – 60% - Medium 40% or less – Low</p>

The City will report on borrowings against the expected ranges as set by the LGPRF and VAGO annually.

Should a situation arise and Council is required to borrow funds for exceptional circumstances (e.g. natural disaster, emergency) Council's loans and borrowings repayments compared to rates ratio may exceed the higher level of the expected range (e.g. 20%).

The City will as soon as practically possible adjust future borrowings to ensure the loans and borrowings repayments compared to rates ratio returns within the expected range.

Details of borrowing ratios will be provided as part of the annual budget documentation together with the trend of these ratios for the City’s financial plan.

6.4 Loan Approval Process & Environment, Sustainability and Governance goals

New borrowings will be identified as part of the annual budget or a revised budget (Council agenda) process, and will be subject to public tender or TCV process. The public tender process will be in accordance with the City’s Procurement Policy and the Act.

When choosing providers of borrowings, consideration will be given to the practices and investment strategies of institutions, fund managers and schemes. In line with the City’s procurement policy, criteria will include relevant Environmental, Social and Governance (ESG) goals and outcomes.

Where interest rates are equal a preference will be given to borrowings with institutions that do not invest or finance in a material in fossil fuels and their subsidiaries.

6.5 Borrowing Redemption

When surplus funds exist for flexible borrowings, the decision to repay borrowings shall be made by the Director Corporate Performance based on the facts available at the time giving due regard to minimising the overall cost to the Council.

7. ROLES AND RESPONSIBILITIES

All borrowings are to be approved by Council. Council are able to authorise the Chief Executive Officer, Director Corporate Performance, or Manager Financial Strategy to execute all documents necessary to give effect to council's resolution to borrow funds.

The Financial Strategy Unit will ensure the application of this policy is monitored through the annual review and update of the City's Long Term Financial Plan, annual budget document and annual financial statements. The documents report on the City's loan portfolio and identify current borrowings.

The City will report on financial sustainability metrics, loans and borrowing compared to rates and loans and borrowing repayments compared to rates ratios as part of the annual budget process and in the annual report.

8. RELATED DOCUMENTS

Readers are encouraged to access relevant documents and/or resources which are available as per the below.

These include:

- [LGV's Local Government Performance Reporting Framework \(LGPRF\)](#)
- [LGV's framework guidelines for TCV loans](#)
- [City of Greater Bendigo Long Term Financial Plan 2021-2031](#)

Further information or advice on this policy should be directed to Financial Strategy

9. HUMAN RIGHTS COMPATIBILITY

The implications of this policy have been assessed in accordance with the requirements of the Victorian Charter of Human Rights and Responsibilities.

10. ADMINISTRATIVE UPDATES

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter this, such a change may be made administratively. Examples include a change to the name of a City unit, a change to the name of a Federal or State Government department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be made through consultation with the

staff Consultative Committee and with the approval of EMT or where required, resolution of Council.

11. DOCUMENT HISTORY

Date Approved	Responsible Officer	Unit	Change Type	Version	Next Review Date
<i>June 2018</i>	<i>NRM</i>	<i>Financial Strategy Unit</i>	<i>Review and Update</i>	<i>1</i>	<i>April 2022</i>
<i>March 2023</i>	<i>NM & ME</i>	<i>Financial Strategy Unit</i>	<i>Review</i>	<i>2</i>	<i>March 2027</i>