

COUNCIL POLICY



TITLE:	COUNCIL BORROWINGS POLICY
ID NUMBER:	CPO-CORPS-FI-008
DEPARTMENT:	Corporate Services
UNIT:	Finance
RESPONSIBLE OFFICER:	Chief Finance Officer

ADOPTED DATE AND BY WHOM:	23 January 2024
EXPIRY DATE:	23 January 2028
REVIEW DATE:	30 September 2027 <i>This policy will be reviewed every four years or as required by any legislative or council changes.</i>

AVAILABILITY:	Organisation wide	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
	Public	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
	Internet	Yes <input type="checkbox"/>	No <input type="checkbox"/>
ADVISE AVAILABILITY:	Media Release	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
	Sou Wester (Responsible Officer to prepare article)	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

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1. References

Loan Reconciliations Procedure DPRS-CORPS-FI-060 (DocSetID: 627518)

Glenelg Shire Council Financial Plan 2021-2031

Local Government Act 2020

Municipal Association of Victoria

Glenelg Shire Council, Records Management Policy OPO-CORPS-RECM-001 (DocSetID: 1933907)

2. Purpose

The purpose of this Borrowing policy is to:

- Establish objectives and principles that outline when it is appropriate for Council to undertake borrowings within a sound financial management framework
- Provide clear direction on the authority of Council or Council officers to make borrowing decisions
- Ensure Council keeps within the relevant prudential requirements provided by State Government
- Set out the way Council may establish and manage a debt portfolio.

All borrowings decisions must give effect to the financial management principles set out in the *Local Government Act 2020* ("the Act").

3. Scope

This policy applies to Council and Council officers when:

- Preparing and determining the annual budget and 10 year financial plan
- Considering new borrowings
- Refinancing existing borrowings.

This policy does not include lease liabilities or overdraft facilities that may be used in day-to-day management of Council's cash position.

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4. Departmental Policy

4.1 Legislative Framework

The *Local Government Act 2020* provides Council with the power to borrow. Council may not delegate the power to borrow and is prevented from borrowing money unless the proposed borrowings are included in the budget or a revised budget. This includes the requirement that Council must prepare and adopt a revised budget before Council can undertake any borrowings that have not been approved in the budget.

In accordance with Division 4, Section 101 of the Local Government Act 2020, Council is required to consider the following Financial Management Principles:

1. Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans;
2. Financial risks must be monitored and managed prudently having regard to economic circumstances.

A Borrowings Policy has been developed to strengthen the management of current and future liabilities of Council. Council will continue to comply with the Local Government Act 2020 Section 104 by including any proposed borrowings in the relevant Budget.

The Victorian Government established the Local Government Performance Reporting Framework (LGPRF) in 2014. It outlines the measures Council must report in its performance report, which forms part of Council's Annual Report. Certain indicators must also be included in Council Annual Budget and Financial Plan. This framework includes the financial performance of a Council, and specific to this policy, includes measures in relation to Council's obligations (to determine whether debt and other long term obligations are appropriate to the size and nature of Council's activities).

4.2 Policy Objectives

The Borrowings policy exists to provide an alternative financing option for:

- Capital works projects that are of strategic significance (that could not otherwise be financed from ongoing income sources and provide benefit across generations); or to
- Meet Council's obligations in relation to future defined benefit superannuation calls, if required
- To ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments, budgetary constraints and prudential ratios
- Manage any new borrowings in the context of optimising cash flow; and

- Develop and maintain a borrowing structure that achieves a balance between predictability and flexibility and aims to minimise borrowing costs.

4.3 Borrowing Principles

Financial Plan 2021-2031

In accordance with the Glenelg Shire Council Financial Plan 2021-2031, the following financial sustainability principles must be adhered to with new borrowings:

- Borrowings must only be applied for where it can be proven that repayments can be met in the Long-Term Financial Plan
- Borrowings must not be used to fund ongoing operations. An exception to this may occur if Council received a defined benefit call with Vision Super. In this instance Council would consider all financing options, including a payment arrangement with Vision Super, if available.
- Borrowings are appropriate for funding large capital works where the benefits are provided to future generations.

Ratios and Limits

Council aims to maintain a sustainable debt level by keeping total loan liability as a percentage of rates and charge revenue to medium risk as indicated by VAGO. If projected borrowings to be undertaken result in borrowing ratios in excess of the levels indicated in the table below, this decision will require Council approval and should only occur in instances where Council has an opportunity to benefit from a significant funding stream.

The relevant measure and target is described in the table below.

Measure	Level
Debt Servicing Ratio (Debt Servicing/ Rate Revenue)	Below 5%
Borrowing Rates Ratio (Total Borrowings/ Rate Revenue)	Below 60%

Borrowing Redemption

When surplus funds exist, the decision to repay borrowings shall be made by the Chief Finance Officer based on the facts available at the time giving due regard to minimising the overall cost.

5. Procedure

5.1 Approval Process

All new loans must be approved by resolution of Council, as part of the Council's budget approval process.

5.2 Determining Lending Institution

Once borrowing has been approved by Council, a lending institution will be determined. In determining a lending institution, Council will assess the appropriateness of the institution, including but not limited to:

- Government guaranteed banking institutions
- Local Government Funding Vehicle e.g Treasury Corporation of Victoria (TCV)
- State Government
- Federal Government
- Global partner institutions (typically used for leases).

Council should consider the appropriateness of the various types of debt products available (including savings offset arrangements) and optimise flexibility to balance between timing and the cost of debt. For example, Council may utilise the resources of the Municipal Association of Victoria ("MAV") to secure better procurement options for Heavy Plant and Light Fleet acquisitions.

Requests to the preferred lending institutions will be sought, with written quotations needing to include the:

- interest rate
- term of loan
- repayment intervals
- repayment instalment amount
- any applicable fees
- loan break costs.

5.3 Borrowing Arrangements

When entering borrowing arrangements, Council should seek to minimise interest costs over the long-term without introducing undue volatility in annual interest costs. For example a fixed interest rate may be used to ensure that the liability does not change rapidly and costs can be predicted accurately.

To mitigate interest rate risk when structuring borrowings council will:

- Structure loan repayments on a regular schedule considering the efficiency of payment schedule in relation to interest costs (e.g. monthly, quarterly, annually)
- Consider the long term impacts of the loan structure (e.g. fixed interest, principal and interest, interest only loans, residual payments).

Loan repayments will be made in a regular schedule, such as quarterly, bi-annually or otherwise determined at the time of entering the loan agreement. Consideration should be given to efficiency of payment while minimising interest costs.

5.4 Background

In late 2018, a financial institution offered the Council an 'Offset' facility which was beneficial as it permitted the offset of the loan balances against the Council On Call Account. This account currently holds any excess balance over the Daily Operations General Account and earns interest based on the Reserve Bank of Australia's cash rate plus .25 basis points. The RBA cash rate is the interest rate which banks pay to borrow funds from other banks in the money market on an overnight basis.

The cash rate is the Reserve Bank of Australia's operational target for the implementation of monetary policy. More information on the cash rate can be found on the RBA website <https://www.rba.gov.au/>.

6. Records Management

All Council records created and managed as a result of implementing this policy will be managed in accordance with the Council's Records Management Policy.

The Records Management Policy assigns responsibilities for records management to employees, supervisors, volunteers and other specific positions.

No Council records are to be destroyed without consideration of the requirements of the Act(s) that govern the functions relevant to this policy. Prior to destruction, advice must be sought from the Information and Data Unit, with consideration to the requirements of the appropriate Retention and Disposal Authority (RDA).

6. Victorian State Legislation Copyright Acknowledgement

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