COUNCIL POLICY

Borrowings	**Adopted By Council:**	26/10/17
	Date/s Revised:	17/02/21 22/05/2024
	Next Review Date:	05/2027
	Document No:	CP040
	Directorate:	Finance and ICT Services
	Responsible Officer:	Manager, Finance and ICT Services

PURPOSE

The purpose of this policy is to establish objectives and principles that outline when it is appropriate for Council to undertake borrowings, using a sound financial management framework that ensures Council keeps within the relevant prudential guidelines provided by State government, and that borrowings undertaken by Council are in accordance with requirements of the *Local Government Act 2020* (the Act). This policy sets out the manner in which Council may establish and manage its debt portfolio, noting it applies to all new borrowings undertaken by Council from the date of adoption of this policy.

Councils intend to take a very conservative approach to debt and the Borough of Queenscliffe is at the lower end of the scale for the Small Rural Councils grouping in terms of its capacity to debt servicing and commitments.

DEFINITIONS

For the purposes of this policy, the following definitions apply:

Borrowings
An important funding source for Council's capital works program, loans may be undertaken by Council as an alternate funding source to using its cash and investment reserves. Loans are typically undertaken for large value capital projects, with repayment over the medium to long-term (5-10 years). Undertaking borrowing creates both an asset (the funds provided) and a liability (the obligation to repay the money borrowed).

Budget
The annual budget takes into account the services and initiatives that contribute to achieving the strategic objectives specified in the Council Plan. It details the resources required over the next year to fund services provided to the community. It also includes details of proposed capital expenditure allocations to improve and renew Council's physical infrastructure, buildings and operational assets, as well as funding proposals for a range of priority operating projects.

Capital projects
Relatively large expenditure, which has benefits, expected to last for more than 12 months. This includes the renewal and upgrade of existing assets and the creation of new assets.

Financial sustainability
Including an assessment of financial and corporate performance, a financially sustainable council should be capable of: providing and funding the service needs of its community; meeting contingencies without needing to make radical changes to expenditure and/or revenue

policies; maintaining stability and equity in rating levels; and preserving intergenerational assets. The financial sustainability of councils is assessed annually by the Victorian Auditor-General, and via the LGPRF.

Local Government Performance Reporting Framework (LGPRF) A mandatory system of performance reporting for all Victorian councils, which commenced 1 July 2014, it ensures that councils are measuring and reporting on their performance in a consistent way to promote transparency and accountability in the local government sector.

Non-current liabilities Long-term liabilities of Council, which will fall due beyond the next 12 months. Borough of Queenscliffe has non-current liabilities/obligations for its existing borrowings and employee provisions (long service leave).

Obligations Measured within the LGPRF, obligations of Council include repayment of loans and borrowings in accordance with agreed loan schedules and the renewal of assets to ensure their existing service potential is maintained.

Own source revenue Income raised by councils, excluding government grants and community contributions. Borough of Queenscliffe own source revenue includes: rates and charges; statutory fees and fines; user fees; and other income.

POLICY

The policy principles that form the basis of this policy are:

- Council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget.
- The Policy will be adhered to in developing Council’s long term financial plan and all borrowings are to be identified in the plan.
- Council will not borrow to fund operating expenditure. This type of expenditure is to be funded from operating revenue streams (rates, fees and charges etc.).
- The exception to this principle is calls to ‘defined benefit’ Superannuation Fund. Large calls to ‘defined benefit’ fund will require a separate report to Council which will include recommended method of funding - use of working capital, Superannuation Fund or borrowings.
- Council will not borrow to fund recurrent capital works which is inclusive of acquisition, replacement or renewal of assets (e.g. road resurfacing). This type of expenditure is to be funded from operating revenue streams.
- Council will measure and report on renewal/upgrade expenditure relative to depreciation in order to highlight any renewal gap. This is to ensure assets are renewed as planned without the use of borrowings.
- Borrowings are to be linked to the financing of capital projects.
- Cash flows will be phased in order to consolidate the principle and interest requirements of approved capital projects.
- The term of any loan should not exceed the expected economic life of the asset.
- The total amount of borrowings must be sustainable in terms of Council’s ability to meet future repayments, budgetary constraints and prudential ratios (borrowings shall not be undertaken if the effect of such borrowings are projected to result in borrowings ratios above the prudential limits).

1. Legislative framework

Council borrowings are subject to specific legislative requirements as set out below.

Local Government Act 2020 (the Act)

All sections of the Act which relate to borrowings are listed below.

11 Delegations

(1) A Council may by instrument of delegation delegate to

(a) the members of a delegated committee; or

(b) the Chief Executive Officer

any power, duty or function of a Council under this Act or any other Act other than a power, duty or function specified in subsection (2).

…………

(2) (l) the power to borrow money.

104 Borrowings

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

2. Borrowing Ratios and Limits

Debt does not necessarily mean a council is acquiring things it cannot afford. It merely provides an alternative and immediate form of capital. The important thing to understand is that the purpose for which borrowings are used will ultimately determine the impact on Council's overall sustainability.

Any new borrowings to be considered by Council will be used for:

- Investing in specific major infrastructure, which is inter-generational (long-term);
- Investing in projects which generate income; and/or
- Matching government grants for priority capital projects.

To ensure the overall sustainability of Council, total borrowings of Council will be subject to the following limits (ratios).

Victorian Auditor General Office requirements (VAGO)

VAGO provides a report to Parliament each year, on the outcomes of the Local Government Audits. A key component of this report is an assessment of the financial sustainability of councils, with results reported for seven measures of sustainability that VAGO consider most important. The following indicator assess the financial sustainability risk associated with borrowing.

Indicator	Formula	Description	Risk
Indebtedness (%)	Non-current liabilities / own-sourced revenue	Comparison of non-current liabilities (mainly comprising borrowings) to own-sourced revenue. The higher the % the less the entity is able to cover	More than 60% - High 40-60% - Medium 40% or less - Low

		non-current liabilities from revenues the entity generates itself. Own source revenue is used rather than total revenue because it does not include grants or contributions	

For the Borough of Queenscliffe, considering its capacity to debt servicing, the borrowings should be managed within the target ratio of 10% or less unless Council decides otherwise (after consultation of the Audit and Risk Committee) based on requirements of the capital project/s are being funded.

<u>Local Government Reporting Performance Framework (LGPRF)</u>
The LGPRF uses the following indicators to assess the financial sustainability risk associated with borrowings.

Indicator	**Formula**	**Description**	**Risk**
Loans and borrowings compared to rates (%)	Interest bearing loans and borrowings / Rate revenue	Comparison of interest bearing loans and borrowings to rate revenue. The higher the % the less the entity is able to cover interest bearing loans and borrowings from rate revenues the entity generates.	More than 70% - High
Loans and borrowings repayments compared to rates	Interest and principal repayments on interest bearing loans and borrowings / Rate revenue	Comparison of interest and principal repayments on Interest bearing loans and borrowings to rate revenue. The higher the % the less the entity is able to cover interest and principal repayments on interest bearing loans and borrowings from rate revenues the entity generates.	More than 20% - High

For the Borough of Queenscliffe, considering its capacity to debt servicing, the borrowings should be managed within the following risk target ratios or less unless Council decides otherwise (after consultation of the Audit and Risk Committee) based on requirements of the capital project/s are being funded.

- Loans and borrowings compared to rates (%) – 15% or less
- Loans and borrowings repayments compared to rates – 2% or less

3. Determining appropriate lending institution

Once a borrowing has been approved by Council, officers will determine the most appropriate funding source. Aside from the traditional banks, councils now also have access to State managed arrangements.

3.1 Treasury Corporation Victoria (TCV)

The Borough of Queenscliffe has been granted approval as a participating authority under the Treasury Corporation of Victoria Act 1992. Participating authorities collaborate with TCV to oversee financial matters, ensuring stability and implementing prudent risk management measures for the State of Victoria.

Council will in the first instance consider borrowing from Treasury Corporation Victoria, within the framework established by Local Government Victoria (LGV). This framework was established by LGV to enable councils to take advantage of Victoria's credit rating, which allows the State to borrow and lend money at competitive rates than are commercially available.

3.2 Banks

If Council decides not to source borrowings through the TCV and instead may opt to enter into a loan agreement with one of the major lending institutions.

3.3 Procurement process

If Council decides to participate in the TCV, predetermined requirements for information to/from Council and the TCV will be managed in accordance with the scheme.

Should the traditional banking arrangement be considered more suitable to meet Council's current borrowing needs, the approach to borrowings will be in accordance with Council's Procurement Policy.

For new borrowings of $200,000 or greater, a public tender process must occur.

Where new borrowings of less than $200,000 are required by Council, a request will be made to appropriate lending institutions, inviting written quotations on Council's borrowing requirements.

Written quotations must include the:
- Interest rate;
- Term of loan;
- Repayment intervals/frequency;
- Repayment instalment amount;
- Any applicable fees; and
- Loan break costs (should Council opt to repay the loan earlier than planned).

A Council report specifying length of loan, type of interest rate (fixed/variable) and providing approval from the Chief Executive Officer is required prior to entering into a loan agreement. Under LGA section 11(2)(I) Council cannot delegate the power to borrow money.

The Manager, Finance and ICT Services will then prepare a briefing and recommendation for consideration by the Chief Executive Officer, who has the authority to accept a loan offer, so long as this is in keeping with Council's adopted budget for borrowings and/or Council resolution.

4. Responsibilities

Councillors and Officers have key responsibilities, in managing borrowings, as set out below.

4.1 Council

The Council is responsible for approving borrowings, by way of inclusion of all proposed borrowings in the Adopted Budget, or by way of Council resolution for revisions to proposed borrowings if applicable.

4.2 Chief Executive Officer

The Chief Executive Officer has authority to accept loan offers, following the resolution of Council, so long as the requirements of this policy are adhered to.

4.3 Manager, Finance and ICT Services

The Manager, Finance and ICT Services is responsible for maintaining all borrowings in the general ledger, reporting quarterly to Council on year-to-date loan balances and ensuring the appropriate loan balance is reconciled prior to the annual financial statements being finalised for review by the Victorian Auditor-General and inclusion in Council's annual report. This responsibility includes ensuring this policy is followed when borrowing funds.

CONTINUOUS IMPROVEMENT

This policy will be reviewed on a continuous basis, as a minimum every three years from the date of adoption.

OTHER REFERENCES

Borough of Queenscliffe Adopted Budget
Borough of Queenscliffe Annual Report (Performance Statement)
Borough of Queenscliffe Council Policy CP013: Procurement
Local Government Act 2020

END