

COUNCIL POLICY

Borrowing Policy [DRAFT]

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DOCUMENT UNCONTROLLED WHEN PRINTED

Document Control		
Policy number TBD	Status DRAFT	Approved by Council
Date approved 30 April 2024	Next review date 30 April 2028	
Directorate Customer and Community	Department Corporate	External

REVISION RECORD

MANDATORY – Use 1.0, 2.0 for adopted / approved versions and 1.1, 1.2 for drafts or revisions without change.

Date	Version	Revision description
30 April 2024	1.0	Development of Policy – Reviewed by the Audit and Risk Committee Adopted by Council

1. Purpose

This policy sets out the circumstances in which Council will undertake borrowings and manage its loan portfolio. The purpose of this policy is to provide clear direction on the authority of Council or Council officers to make borrowing decisions.

All borrowings decisions must give effect to the financial management principles set out in section 101 of the Local Government Act 2020 ("the Act").

2. Scope

This policy applies when Council is considering and determining the annual budget, and will be adhered to when reviewing Council's Financial Plan.

Council officers must apply this policy when:

- a. Considering new borrowings and;
- b. Refinancing existing borrowings (where the long term benefits of refinancing are greater than the cost of the existing loan).

3. Policy details

Legislative Framework

The Local Government Act 2020 (the Act) provides Councils the power to borrow. The Act does not place any restrictions or limitations on the ability for Council to borrow funds, other than a requirement that the borrowings are approved in the Budget.

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 stipulates that "a Council cannot borrow money unless the proposed borrowings were included in the adopted budget or revised budget."

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

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 the Council's Annual Report. Certain indicators must also be included in Council's Budget and Financial Plan. This framework includes 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.

Principles

The following principles have been set to ensure Council has a structured and disciplined approach to borrowing of funds that fit with a longer term financially sustainable framework.

- Council recognises that borrowings can support intergenerational equity principles,
- Borrowings are only to be used to finance items described in the council policy objectives;
- Borrowings need to be linked to the financing of an identified project and not be drawn down until the commencement of the project;
- Council will not borrow to fund capital works renewal or operating expenditure;
- All borrowings will be considered as part of Council's Long Term Financial planning using sound financial management principles and fall within the borrowing ratios outlined in the following section of this policy; and
- The nature of any borrowings (short or long term) and the interest rate (fixed or variable) will consider the purpose of the loan and seek to balance interest rate exposure with refinancing flexibility.
- All Council borrowings will be undertaken in Australian dollars – i.e. no foreign debt should be undertaken
- All requests to borrow funds is to be supported by a business case addressing at a minimum, the points in this policy
- A minimum amount of \$1,000,000 would be considered for a loan.

Borrowing Arrangements

When entering borrowing arrangements, Council will seek to minimise interest costs over the long-term without introducing undue volatility in annual interest costs.

Council's borrowings will be appropriately structured to constrain risk and will be consistent with the following parameters:

- Council will consider the appropriateness of the various types of debt product available.
- The tenor of the loan will not be greater than the expected useful life of the asset being funded by the loan.
- Council will maintain a repayment schedule consistent with "principal and interest" repayment calculations.
- Loan repayments will be made in a regular schedule.

Determining Appropriate Lending Institution

Once borrowing has been approved by Council, requests to appropriate 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; and

- loan break costs.

Borrowing Ratios and Limits

Borrowings shall not be undertaken if the effect of such borrowings are projected to result in borrowing ratios greater than the maximum levels indicated in the table below, unless explicitly resolved by Council. These ratios are reported through the Local Government Performance Reporting Framework.

Measure	Council's Maximum Level	Descriptor
Debt Ratio – Loans and borrowings repayments compared to rates interest and principal repayments on interest bearing loans and borrowings / rate revenue	10%	Assesses whether Council's level of repayments on interest-bearing loans and borrowings are appropriate compared to the size and nature of Council's activities
Borrowing Rates Ratio – Loans and Borrowings compared to rates interest bearing loans and borrowings / rate revenue	60%	Assesses whether Council's level of interest-bearing loans and borrowings are appropriate compared to the size and nature of Council's activities.

Reporting

All new borrowings are to be reported to the Audit and Risk Committee at the meeting following the finalisation of the borrowing agreement.

A complete report on Council borrowings will be presented to the Audit and Risk Committee in the last meeting before the end of the financial year.

Council Loans

Alpine Shire Council does not loan funds.

4. Roles and responsibilities

The following positions are responsible for

Responsibility	Role / Position
Implementation of this Policy	CEO Director Customer and Community Manager Corporate
Review of Policy	Manager Corporate
Reporting	Manager Corporate Accountant

5. Breaches

This policy can be reviewed or revoked by resolution of Council at any time.

Council Officers found to be in breach of this policy will be subject to relevant disciplinary action in accordance with Council's Enterprise Agreement.

6. Human Rights Charter compatibility

This policy has been assessed as being compatible with the *Charter of Human Rights and Responsibilities Act 2006 [Vic]*.

7. Gender Impact Assessment

A Gender Impact Assessment was undertaken, and it was deemed to be not applicable to this policy.

8. Supporting documents

This policy should be read in conjunction with all other relevant, Council policies and procedures, as well as relevant legislative requirements.

Related Legislation

- *Local Government Act 1989 [Vic]*
- *Local Government Act 2020 [Vic]*

Related Guidelines, Operational Directives or Policies

- Procurement Policy

9. Definitions and abbreviations

Term	Meaning
Capital project	<p>Work on an individual asset or group of assets that will result in the creation, upgrade or renewal of an asset or assets.</p> <p>A capital project includes renewal expenditure, upgrade expenditure and expansion expenditure as well as new expenditure.</p> <p>This policy excludes renewal as a reason for borrowing funds.</p>
Financial Plan	A key document for ensuring the long term financial sustainability of Council as per section 91 of the Local Government Act 2020.
Local Government Performance Reporting Framework (LGPRF)	The legislated framework through which all Victorian Councils are required to report specific key performance indicators (KPI's), allowing benchmarking across the sector. All information is available publicly via the "Know Your Council" website www.knowyourcouncil.vic.gov.au .
P&I	Principal and interest repayments
Rate revenue	Revenue from general rates, municipal charges, service rates and service charges (e.g. waste) levied on rateable properties.
VAGO	Victoria Auditor General's Office

10. Approval

DELETE / USE AS APPROPRIATE

Adoption by Council

THE COMMON SEAL OF THE
ALPINE SHIRE COUNCIL was
hereunto affixed this XX day of
<Month> 20XX
in the presence of:

.....
COUNCILLOR

.....
SIGNATURE

.....
COUNCILLOR

.....
SIGNATURE

.....
CHIEF EXECUTIVE OFFICER

.....
SIGNATURE