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RELATED STRATEGIC DOCUMENTS, POLICIES OR PROCEDURES:	Council Plan Financial Management Policy Investment Policy Risk Management Policy
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Signed by Chief Executive Officer

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This document is available in alternative formats (e.g. larger font) if requested.

1 PURPOSE

This Policy outlines the situations in which Council may use borrowings as a funding source. The Policy allows Council the flexibility to respond to funding requirements whilst minimising risk, taking into account Council's financial management principles and the requirements of both the Local Government Act 1989 and Local Government Act 2020.

The Policy outlines where borrowings may be suitable as a funding mechanism, how Council will source new borrowings, and how borrowings and repayments will be managed.

2 SCOPE

This Policy creates a framework that allows Council to use borrowings to achieve financial goals outlined in its strategic plans. Under this framework, borrowings may be used as an alternate funding source for opportunities or obligations that could not otherwise be funded from normal revenue streams.

This Policy applies to all new borrowings undertaken by Council, as well as existing borrowings. It does not apply to any short-term overdraft facilities linked to Council's transactional bank accounts. It applies to all Councillors, Committee members, employees and contractors who have the necessary delegations of Council.

3 POLICY

Council is committed to prudent financial management and will apply a risk based approach to consideration of borrowings.

The Local Government Act 2020 states that money cannot be borrowed unless the proposed borrowings were included in the budget or a revised budget, and Council will adhere to this requirement.

The Local Government Act 1989 provides Council with the power to borrow and sets out the legal requirements to be followed when Council is seeking to borrow funds, and Council will also pursue the highest standards of financial probity.

3.1 Principles of management

1. New borrowings will only be used to:
 - fund new assets, or
 - meet lump sum funding calls by the Trustee of the Local Authorities Superannuation Fund (LASF) associated with the Defined Benefits scheme, or
 - provide bridging finance for Development Contribution Plans (DCPs) where interest costs can be recouped by Council through the DCP scheme.
2. Council will only consider any proposed new borrowings through the budget process or a formal revised budget process.
3. Details of any proposed new borrowings will be provided to the community through the community engagement process associated with the budget or revised budget.

3.2 Long term sustainability of Council

The level of borrowing will be within acceptable prudential limits to ensure long-term sustainability. Council will 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 operations.

3.3 Inter-generational equity funding

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

3.4 Borrowing ratios and limits

3.4.1 Victorian Auditor General's Office

The Victorian Auditor General's Office (VAGO) reviews and reports on the financial sustainability of the Local Government sector. Two indicators best assess the financial sustainability risks associated with borrowing. Council will report on the following indicators:

Indicator	Formula	Description	Risk
Internal financing (%)	Net operating cash flow / net capital expenditure	This measures the ability of an entity to finance capital works from generated cash flow.	Less than 75% - High
		The higher the percentage, the greater the ability of the entity to finance capital works from their own funds.	75-100% - Medium
		Net operating cash flow and net capital expenditure are obtained from the cash flow statement.	More than 100% - Low
Indebtedness (%)	Non-current liabilities / own-sourced revenue	Comparison of non-current liabilities (mainly comprising borrowings) to own-sourced revenue.	More than 60% - High
		The higher the percentage, the less the entity is able to cover non-current liabilities from revenues the entity generates itself.	40-60% - Medium
		Own source revenue is used rather than total revenue because it does not include grants or contributions	40% or less - Low

Council will operate within the low risk target ratio of more than 100% for internal financing in order to provide flexibility to respond to funding requirements for new or unplanned capital expenditure.

Council will operate within the low risk target of 40% or less for indebtedness.

3.4.2 Local Government Performance Reporting Framework (LGPRF)

The LGPRF includes two additional ratios:

1. **Debt Commitment Ratio** measured as interest and principal repayments on interest bearing loans/rate revenue (recommended target 0% to 10%); and
2. **Borrowing Rates Ratio** measured as interest bearing loans and borrowings/rate revenue (recommended target 0% to 10%).

Council will operate within the target ratio as set by the LGPRF and will report on debt commitment and borrowing rate ratios as part of the budget process, performance reporting framework and in the annual report.

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

3.4.3 Loddon Risk Management Framework, Policy and Risk Appetite Statement

Council will review not only the borrowing ratios and limits outlined in this Policy, but review any proposed borrowings against the Risk Assessment Criteria outlined in Council's Risk Management key documents.

3.5 Accountability and responsibility

Accountability and responsibility for this policy is outlined below.

1. Council
 - Responsibility to ensure this Policy is consistent with the Council Plan and other related policies
 - Responsibility for the decision to approve this Policy by Council resolution
 - Responsibility for the decision to approve any loan request by Council resolution
2. Chief Executive Officer and Director Corporate
 - Overall responsibility for compliance with this Policy
 - Overall responsibility for enforcing accountability
 - Overall responsibility for providing resources
 - Overall responsibility for performance monitoring
3. Manager Financial Services
 - Responsibility for developing frameworks and procedures in compliance with this Policy
 - Responsibility to ensure compliance with frameworks and procedures
 - Responsibility to provide appropriate resources for the execution of the frameworks and procedures

4 DEFINITIONS OF TERMS OR ABBREVIATIONS USED

Term	Definition
LGPRF	Local Government Performance Reporting Framework
VAGO	Victorian Auditor-General's Office

5 HUMAN RIGHTS STATEMENT

It is considered that this policy does not impact negatively on any rights identified in the Charter of Human Rights and Responsibilities Act 2006. Loddon Shire Council is committed to consultation and cooperation between management and employees. The Council will formally involve elected Health and Safety Representatives in any workplace change that may affect the health and safety of any of its employees.

6 REVIEW

The Manager Financial Services will review this policy for any necessary amendments no later than 4 years after adoption of this current version.