



Mildura Rural City Council

## Borrowing Policy

### Policy – CP072

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Financial Services	Strategic Leadership Team	Council	June 2024	2024/99
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#### 1. The purpose of this policy

The Borrowing Policy provides the appropriate parameters for Council to undertake borrowings without compromising the application of sound financial management principles. This policy sets out the manner in which Council may establish and manage our borrowings.

#### 2. Policy Statement

This policy will:

- establish objectives and principles that outline when it is appropriate for Council to undertake borrowings within a sound financial management framework. This includes:
  - managing financial risks
  - pursuing spending and policies that are consistent with a reasonable degree of stability
  - decisions being made with future generations in mind, as borrowings are spread across the generations who benefit from them
  - ensuring disclosure of financial information.
- ensure Council keeps within the relevant prudential requirements provided by state government.

#### 3. Principles

3.1 To provide alternative financial options:

- for capital works projects of strategic or major significance, and for which would not otherwise be financed from ongoing income sources (e.g. from the normal capital works budget).
- to refinance existing debt
- to meet Council obligations in relation to future Defined Benefits Superannuation calls, if required.

- 3.2 To ensure the total amount of loan borrowings is sustainable in terms of:
- Council's ability to meet future repayments of both principal and interest payments from the operational budget
  - budgetary constraints
  - prudential ratios.
- 3.3 To ensure Council has a structured and disciplined approach that fits within Council's 10-year Financial Plan including:
- Borrowings are only used to finance items described within the policy objectives.
  - Borrowings need to be linked to the financing of an identified project(s).
  - Borrowings must not be drawn down until the commencement of the project for which the borrowings have been approved, while ensuring the appropriate level of funds are available at the appropriate time to support its strategic objectives.
  - Where applicable, the structure of the borrowings is appropriate for the nature of the project(s) being funded.
  - The length of the loan will not be greater than the expected useful life of the asset being funded by the loan.
  - Council will not borrow to fund operating expenditure except for calls for Defined Benefits Superannuation.
  - All borrowings will be considered in accordance with the sound financial management principles contained within the *Local Government Act 2020*.
  - The nature of any borrowings and the interest rate will take into account the purpose for the loan and seek to balance interest rate exposure with refinancing flexibility.

#### 3.4 **Inter-Generational Equity**

The Council will consider equity between generations of ratepayers (inter-generational equity) whereby the mechanisms to fund specific projects take into account the ratepayers who benefit from the expenditure and therefore, on a user-pays basis, who should pay for the cost associated with such expenditure. However, this principle will 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 projects arising from those future periods without being impeded by significant borrowings by an earlier Council.

#### 4. **Borrowing Ratios and Limits**

Unless otherwise resolved by Council, borrowings will 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, 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 budgets.

Source	Measure	Allowable Range	Council's Maximum Level
LGPRF	<p><b>Loans and borrowings compared to rates ratio</b></p> <p>Interest bearing loans and borrowings as a percentage of rate revenue</p> <p>Calculation: Interest bearing loans and borrowings / Rate revenue x 100</p>	0% – 70%	40%
LGPRF	<p><b>Loans and borrowing repayments compared to rates ratio</b></p> <p>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 x 100</p>	0% – 20%	5%
LGPRF and VAGO	<p><b>Indebtedness Ratio</b></p> <p>Total non-current liabilities as a percentage of own source revenue aims to ensure the level of long-term liabilities is appropriate to the size and nature Council's activities.</p> <p>Calculation: Non-current liabilities / own source revenue x 100</p>	2% - 70%	60%
TCV	<p><b>Indebtedness Ratio</b></p> <p>Total interest-bearing loans, current and non-current leases and borrowings as a percentage of own source revenue. This ratio takes into account current loans and leases, as well as non-current, as compared to only non-current in the ratio above.</p> <p>Calculation: Interest-bearing loans + current and non-current leases + current and non-current borrowings / own source revenue x 100</p>	2% - 60%	60%

## 5. Determining Lending Institution

Providing new borrowings have been identified as part of the annual budget or a revised budget process, Council can invite appropriate lending institutions to provide written quotations on Council's borrowing requirements, or alternatively utilise the TCV process. Written quotations must include:

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

Note (1) – For operational budget requirements, it is preferable for all loans and refinancing of loans to be fixed loans. This enables more certainty when budgeting for principal and interest within operating budgets.

## 6. Legislative Framework

The *Local Government Act 2020* (the Act) provides councils the power to borrow while following *Division 4, Section 101 Financial management* principles.

Under *Division 4, Section 104 Borrowings*, a council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget.

## 7. Implementation

7.1 Council is responsible for:

- approving borrowings by way of inclusion of all borrowings in the Budget
- approving borrowings by way of inclusion in a revised Budget, if applicable.

7.2 The Manager Financial Services is responsible for:

- ensuring policies and procedures are followed when borrowing funds
- ensuring new borrowings are included as part of Budget
- determining if a new revised annual budget is required in accordance with the *Local Government Act 2020*.

7.3 The Financial Services Team is responsible for:

- developing and maintaining a loan register
- developing and maintaining individual loan schedules for each loan facility

- providing assistance with budget calculations and information for proposed new borrowings, and ensuring their inclusion in Council's Budget or Revised Budget
- regular review of borrowing ratios and levels in accordance with this policy.

## 8. Definitions

<i>Borrowings</i>	Cash received from another party in exchange for future payment of the principal, interest and other finance charges.
<i>Borrowing Costs</i>	Interest and other costs that an entity incurs in connection with the borrowing of funds.
<i>Capital Project</i>	A long-term project requiring relatively large sums to acquire, construct and/or renew a capital asset (e.g. buildings). The project would result in a new, expanded or replaced asset.
<i>Council</i>	Mildura Rural City Council.
<i>Debt Portfolio</i>	The total of all Council's borrowings.
<i>Defined Benefit Fund</i>	Is a closed superannuation/retirement plan. The future liabilities of the fund in relation to investment performance may necessitate future funding calls.
<i>Interest Bearing Loans and Borrowings</i>	Is a loan or borrowing in which the debt is expressed as a principal amount and interest is calculated, charged, and collected on unpaid balances.
<i>Interest and Principal Repayments</i>	Are repayments made on principal amounts and/or interest from interest-bearing loans or borrowings.
<i>LGPRF</i>	Local Government Performance Reporting Framework
<i>LGV</i>	Local Government Victoria
<i>Loan Break Cost</i>	Costs associated with paying out a loan prior to the expiry date of the loan.
<i>Own Source Revenue</i>	Adjusted underlying revenue excluding revenue that is not under the control of Council (e.g. government grants)
<i>Prudential Ratios</i>	Financial ratios that measure Council's current performance against established limits. These assist in managing the risk of Council's borrowings.
<i>Rate Revenue</i>	Is revenue from general rates, municipal charges, service rates and service charges

TCV	Treasury Corporation of Victoria.
VAGO	Victorian Auditor-General's Office

## 9. Legislation and other references

### 9.1 Legislation

For further information related to this policy see:

- *Local Government Act 2020.*

### 9.2 Documents

This policy is implemented in conjunction with the following documents:

- Local Government Performance Reporting Framework (LGPRF) by Local Government Victoria (LGV)
- LGV's Framework guidelines for Treasury Corporation of Victoria (TCV) Loans
- Procurement of Goods, Services and Works Policy CP083
- Contract Management Policy OP194
- Fraud Control Policy CP053
- Fraud and Corruption Control Plan
- Risk Management Policy CP024.

### 9.3 Risk Assessment Reference

<b>Risk Category</b>	✓	<b>Risk Category</b>	✓
Asset Management		Financial Sustainability	✓
Committees		Human Resource Management	
Compliance – Legal & Regulatory	✓	Leadership & Organisational Culture	
Contract Management		Occupational Health & Safety	
Contract Tendering & Procurement	✓	Organisational Risk Management	
Corporate Governance	✓	Project Management	
Environmental Sustainability		Public Image and Reputation	