CORANGAMITE SHIRE

Borrowing Policy

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July 2018

Council Policy

Borrowing

Introduction
This policy provides for the effective and responsible utilisation of borrowings by Council within the government legislative framework.

Borrowing funds is a legitimate and responsible financial management tool. Emphasis is directed towards prudent borrowing decisions to limit unnecessary exposure to debt whilst ensuring sufficient liquidity to finance major projects, as it spreads the cost for such assets across the generations who benefit.

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 consistent with the *Local Government Act 1989*;
- To ensure borrowings:
    - Are sustainable and comply with legislative requirements.
    - Are considered on a case by case basis to optimise Council's loan portfolio.
    - Facilitate cash flow (liquidity) requirements, particularly where there are large scale projects.
    - Do not adversely impact Council's low risk rating of indebtedness as defined by the Victorian Auditor-General's Office financial sustainability risk indicators and risk assessment criteria.

The Policy will be adhered to in developing the annual Budget and long term financial plan.

Scope
This policy applies to all Councillors, and Council employees who make decisions or provide advice regarding borrowings and those involved in the development and adopting of budgets and long term financial plans.

Definitions
- Borrowing: Indebtedness in respect of money borrowed (loaned) or raised including a lease.
- Indebtedness: Comparison of non-current liabilities (mainly comprising borrowings) to own-sourced revenue. The higher the percentage, the less the entity is able to cover non-current liabilities from the revenues the entity generates itself.
- Lease:
    - An operating lease is where Council hires the asset for a set fee per period and at the end of the agreed time ownership of the asset remains with the lessor or the hire company. Council can terminate the lease at any time without incurring a penalty. This has been used previously by Council for photocopiers and equipment hire.

  - o A finance lease is where Council agrees to a series of payments and a residual value for the asset. There is a penalty for terminating the agreement prior to the finishing date. At the end of the period it is expected that Council purchase the asset for the agreed residual value.

LGPRF: Local Government Performance Reporting Framework.

References

- *Local Government Act 1989*;
- Victorian Auditor General's Office financial sustainability risk indicators and risk assessment criteria.

Policy Detail

The *Local Government Act 1989* (the Act) provides Councils the power to borrow. The Act states 'Subject to the principles of sound financial management, a Council may borrow money to enable the Council to perform the functions and exercise the power conferred on the Council under this Act or any other Act.' The Act also specifies the circumstances in which the power to borrow may be exercised, securities to be used for local government borrowings, and how the borrowings should be disclosed. Council must approve all borrowings. Council is unable to delegate the power to borrow money.

1. Principles

- Council will not borrow to fund operating expenditure. This type of expenditure is to be funded from operating revenue streams. The exception to this principle is where 'defined benefit' Superannuation Fund reserves are not sufficient to fund 'calls'. In this circumstance a separate report to Council which will include a recommended method of funding, including the use of working capital, operational savings, capital deferral and/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.

2. Borrowing Arrangements

- When entering into borrowing arrangements, Council will seek to minimise interest costs and maximise the best value for the community over the long term without introducing undue volatility in annual interest costs.
- In determining a lending institution Council will use either bank debt and/or the Local Government Funding Vehicle as sources of debt funding. If bank debt is chosen as the appropriate source of funding, requests to appropriate lending institutions will be made in accordance with Council's Procurement Policy inviting written quotations on Council's borrowing requirements.
- Written quotations must include the:
  - o Interest rate
  - o Term of loan
  - o Repayment intervals (monthly, quarterly, etc.)
  - o Repayment instalment amount
  - o Any applicable fees
  - o Loan break costs
- Council will consider the appropriateness of the various types of debt products available (including savings offset arrangements).

- The tenor of a loan will not be greater than twenty-five (25) years or the expected useful life of the asset being funded and will be managed strategically to stagger Council's debt maturity profile and reduce financial risk.
- Borrowings will be either "principal and interest" or "interest" only. Where an "interest" only loan is proposed it must be supported by a business case, incorporating a cost benefit analysis, which has been reviewed by Council's Audit Committee.
- Loan repayments (principal and interest) will be at least quarterly and determined at the time of entering the loan agreement. Consideration should be given to efficiency of payment while minimising interest costs.
- The nature of any borrowings (short or long term) and the interest rate (fixed or variable) will take into account the purpose of the loan and seek to balance interest rate exposure with refinancing flexibility.
- When undertaking borrowing decisions, Council's ongoing funding requirements will be considered, and borrowings will be aggregated into a single loan where practical.

3. Leasing

Leasing as a funding option should be considered where appropriate. Prior to considering a lease, appropriate analysis (buy/borrow/lease) should be undertaken. Leasing will be for a maximum period of five years for assets:

- Which diminish in value quickly (e.g. photocopiers and telecommunications equipment);
- Where assets will be disposed of in a short timeframe; and/or
- Where the lease option transfers responsibilities to the asset owner for maintenance and disposal.

4. Lending Institution

- In determining a lending institution Council will use either bank debt or the Local Government Funding Vehicle as sources of debt funding. If bank debt is chosen as the appropriate source of funding, requests to appropriate lending institutions will be made in accordance with Council's Procurement Policy inviting written quotations on Council's borrowing requirements. Written quotations must include the:
    - Interest rate
    - Term of loan
    - Repayment intervals
    - Repayment instalment amount
    - Any applicable fees, including loan break costs

5. Reporting and Monitoring

- Council will report aggregated borrowings in its annual financial statements including financial sustainability risk indicators in accordance with applicable accounting standards and the Act.
- Annually, Council's Audit Committee will receive a report on the financial risk profile, including the level of indebtedness.
- The LGPRF will also be used to measure and report borrowings, including financial sustainability risk indicators, and results published on the Know Your Council website.

Legislative compliance

In addition to this Policy all borrowings must comply with the *Local Government Act 1989,* relevant regulations and Ministerial guidelines.

Review Date
The Policy will be reviewed in June 2020 or as required by changed circumstances, including changes to legislation and policies.

It is considered that this Policy does not impact negatively on any rights identified in the *Charter of Human Rights and Responsibilities Act (2006)*.