Borrowings Policy

Responsible Officer Manager Finance	Adoption Date	June 2021
	Approved By	Council
Authorising Officer Chief Executive Officer	Review Date	June 2025
	Policy Type	Council Policy

Statement and 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”).

Scope

Council officers must consider the application of this policy when:

1. Preparing and determining the annual budget and 10 year financial plan;
2. Considering new borrowings; and
3. Refinancing existing borrowings.

Policy

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.

Council’s assessment of borrowings will be performed with a focus on sustainable debt levels, whereby:

- Availability of capital for investment is first determined; and
- Capital is subsequently allocated in line with strategic objectives.

Council recognises that borrowings can support intergenerational equity principles, where an ‘under-use’ of debt would result in intergenerational inequity in service provision and user-pays principles and an inability to meet the needs and preferences for growth of the municipality. As such, Council has established a Borrowings Policy that specifies the framework within which Council will borrow money.

By determining a target debt range that is considered to be financially sustainable, this policy will be used by Council to inform future capital decisions and support the growth of the municipality.

Council requires all borrowings to meet the following requirements:

- Council will not borrow to fund operating expenditure. Operating expenditure will be funded from operating revenue sources. Any exception to this requires a Council resolution and is likely to occur in exceptional circumstances beyond the control of Council. For example, a shortfall in the defined benefit plan of Vision Super compelling Council to make an unbudgeted contribution.
- Council will not borrow to fund renewal capital works.
- Borrowings must be linked to the financing of capital expenditure.
- The term of any borrowing must not exceed the economic life of the asset to which it relates.
- Borrowings will fall within the below target debt range:
    - New borrowings must not exceed VAGO's high risk rating for Indebtedness, being more than 60% non-current liability to own-source revenue.
    - Borrowings must maintain an average forecast 10 year target debt ratio of less than 7%.

Determination of loan type, term and lender

Council requires all borrowings to meet the following type, term and lender requirements:

Classification	Description	Loan type	Interest type	Loan term
Developer Contribution Plan (DCP)	Creation of an asset with Council responsibilities in accordance with the Wangaratta Planning Scheme. The capital works must be 100% attributable to the DCP and have no external funding %	P&I	Fixed	Flexible
Community Asset Projects	Capital project to create community assets, with incremental revenue or cost reductions.	P&I	Fixed	Not more than 10 years

Principal & Interest (P&I) repayments are preferred to Interest only repayments. This is because:

- Council prefers the use of fixed interest loans to manage interest rate risk.
- Principal and interest repayments also result in an overall reduction in interest cost over the life of the loan.
- Council's revenue sources and operating expenditures are relatively stable, meaning interest only loans offer limited benefits in the long term.
- Stability and reliability in Council's budgeting for borrowings, repayments and interest allows Council to ensure consistent service delivery.

In determining a lending institution, Council will assess the appropriateness of the lending institution, including but not limited to:

- Bank;
- Local Government Funding Vehicle;
- State Government;
- Federal Government; and
- Global partner institutions (typically used for leases).

Council will complete an analysis of the market to enable a recommendation of the borrowing type (lease, bonds, bank loans, other type of borrowing), loan term (number of years), and the interest rate type (fixed or variable). Council will consider the appropriateness of the various types of debt products available (including savings offset arrangements) and optimise flexibility to balance between timing and the cost of debt.

Leases

Leasing as a funding option forms part of Council's overall borrowing strategy therefore it should follow Council's Borrowing Policy.

There are two types of lease:

1. 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.
2. 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.

Council will undertake a lease versus buy analysis for assets:

- Which diminish in value quickly (e.g. motor vehicles, IT and gym 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.

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.

Monitoring and evaluation

The application of this policy will be monitored through the development and update of Council's 10 year Financial Plan, annual budget document and annual financial statements. These documents report on Council's loan portfolio, identify current borrowings and planned future borrowings.

Definitions

Capital project	Work on an individual asset or group of asses that will result in the creation, upgrade or renewal of an asset or assets. A capital project includes renewal expenditure, upgrade expenditure and expansion expenditure as well as new expenditure
DCP	Means Developer Contribution Plan. Council has two DCPs, Wangaratta North West Area and Wangaratta South Are under the Planning and Environment Act 1987
Debt ratio	Interest bearing loans and borrowings divided by rate revenue
Indebtedness	Non-current liabilities divided by own source revenue
Interest rate risk	The variability in return caused by movements in interest rates – Council would be susceptible to this risk if the funds are invested at a variable rate for a long period and interest rates moved upwards
P&I	Principal and interest repayments
VAGO	Victoria Auditor General's Office

References

Legislation

- Local Government Act 2020
- Planning and Environment Act 1987

Internal policies

- 10 year Financial Plan
- Budget

Review

Any change or update which materially impacts and/or alters this policy must be approved by Council. The policy will be reviewed by the Manager Finance every four years.