

Borrowing Policy

Date of Adoption	27 March 2024		
Adoption Method	<input checked="" type="checkbox"/> Council	<input type="checkbox"/> CEO	<input type="checkbox"/> Other (<i>please specify</i>)
CEO Signature			Date 11/04/24
Responsible Officer and Unit	Finance and Reporting		
Nominated Review Period	<input type="checkbox"/> Annually	<input checked="" type="checkbox"/> Every 4 years	<input type="checkbox"/> Other (<i>please specify</i>)
Last Endorsement Date	Not Applicable		
Next Endorsement Date	March 2028		

Macedon Ranges Shire Council acknowledges the Dja Dja Wurrung, Taungurung and Wurundjeri Woi Wurrung Peoples as the Traditional Owners and Custodians of this land and waterways. Council recognises their living cultures and ongoing connection to Country and pays respect to their Elders past, present and emerging. Council also acknowledges local Aboriginal and/or Torres Strait Islander residents of Macedon Ranges for their ongoing contribution to the diverse culture of our community.

DOCUMENT HISTORY	Version	Date	Author
Initial Draft			
Second Draft	0.2	21 February 2024	Manager Finance & Reporting
Final Draft	0.3	7 March 2024	Manager Finance & Reporting
Approval	0.4	27 March 2024	Council

Contents

1. Purpose/Objective	3
2. Background/Reasons for Policy	3
3. Scope	3
4. Principles	4
5. Roles and Responsibilities	4
6. Policy	5
Gender Impact Assessment	7
Definitions	8
References	9
Related Policies	9
Related Legislation	9

1. Purpose/Objective

This Policy provides the parameters for Council to undertake borrowings without compromising the application of sound financial management principles. It allows Council the flexibility to respond to funding requirements while minimising risk. The Borrowing Policy ensures that Council has a sound financial framework on which to:

- undertake borrowings.
- manage its loan portfolio.
- adhere to the provisions of the *Local Government Act 2020 (Vic) (Act)*.

2. Background/Reasons for Policy

Councils must implement the principles of sound financial management. This includes managing financial risks; pursuing spending and policies that are consistent with a reasonable degree of stability; making decisions with future generations in mind and ensuring the disclosure of financial information.

This policy ensures that borrowing activities will be undertaken in a manner that minimises risks to Council.

3. Scope

This policy applies to the Council when considering and determining the annual budget or alongside another relevant Council decisions, and concerns borrowings from external financial institutions.

Officers must consider this policy when:

- considering new borrowings; and
- refinancing existing borrowings (where long-term benefits of refinancing are greater than the cost of the existing loan) as approved by Council resolution.

The policy does not apply to determining operating accounts or activities relating to trusts or reserves. Council's overdraft facility is also excluded, due to being a short-term financial arrangement.

4. Principles

This Policy provides direction in relation to the treasury function, and establishes a decision framework with principles to ensure that a borrowing strategy is followed. The following principles and assumptions contribute to the borrowing strategy:

- Financial risks are monitored and managed prudently having regard to economic circumstances.
- Financial policies and strategic plans, including the Annual Budget, Financial Plan, Asset Plan and Revenue and Rating Plan, provide stability and predictability in the financial impact on the municipal community.
- Council considers those financial institutions which demonstrate a positive commitment to Environment, Sustainability and Governance goals as detailed in section 6.4 of this policy.
- Appropriate funds are available at the appropriate time to support the delivery of Council's strategic objectives.
- Optimum times to borrow, considering interest rates, construction cost inflation rates, and the need to provide economic stimulus are considered.
- Council seeks to minimise costs of borrowings.
- Where applicable, the structure of the borrowing is appropriate for the nature of the assets being funded.
- Inter-generational 'user pays' approaches are considered as part of determining the most appropriate way to fund activities.

5. Roles and Responsibilities

Council must approve all borrowings, and can authorise the Chief Executive Officer, Director Corporate, or Manager Finance and Reporting to execute all documents necessary to give effect to Council's resolution to borrow funds.

The Finance and Reporting team will oversee the monitoring of this policy during the annual review of Council's Financial Plan, annual budget, and financial statements. These documents provide insights into Council's loan portfolio, current borrowings, and financial sustainability metrics. The annual budget process and the Annual Report will include reporting on loans, borrowing, rates, and repayment ratios.

6. Policy

6.1 Legislative Requirements

- Council will develop a Financial Plan, which incorporates a borrowing strategy as per the Model Financial Plan, in line with the requirements of Section 91 of the Act.
- Council will not borrow money unless the proposed borrowings were included in a budget or a revised budget, approved by Council, as per Section 104 of the Act.
- All borrowings must be approved by Council, and Section 11(2)(l) of the Act stipulates that Council cannot delegate the power to approve borrowings.
- Council must adhere to the financial management principles of the Act.

6.2 Inter-Generational Equity

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

However, this principle shall 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 periods without being impeded by significant borrowings by an earlier Council.

6.3 Long Term Sustainability of the Shire

The level of borrowing shall be within acceptable limits identified by key ratios, including those in the Local Government Planning and Reporting Framework (LGPRF), to ensure long-term sustainability. Council should ensure that the amount of borrowing does not exceed these limits, so that debt servicing costs can be on an ongoing basis without negative impacts on future Council terms.

Ratios reported and considered in decision making:

The following key ratios will be considered:

Source	Description	Calculation of Ratio	Sector Expected Ratio Range	Council Target Ratio Range
LGPRF	<u>Loans and borrowings compared to rates</u> Interest bearing loans and borrowings as a percentage of rate revenue.	<i>Interest bearing loans and borrowings / rate revenue.</i>	0% - 70%	0% - 35%
LGPRF	<u>Loans and borrowings repayments compared to rates</u> Interest and principal repayments on interest bearing loans and borrowings as a percentage of rate revenue.	<i>Interest and principal repayments on interest bearing loans and borrowings / rate revenue</i>	0% - 20%	0% - 10%
VAGO	<u>Indebtedness</u> The higher the % the less the entity is able to cover non-current liabilities from revenues the entity generates itself. Own source revenue is used rather than total revenue because it does not include grants for contributions.	<i>Total borrowings / own-sourced revenue</i>	High > 60% Medium: 40 - 60% Low: 40% or less	0% - 40%

Total borrowings may move to the upper ratio range level when:

- A major project has caused borrowings to be temporarily maximised; and/or
- interest rates are lower making debt financially attractive; and/or
- construction costs are increasing at a rate significantly greater than interest rates, whereby delaying a crucial project may be economically detrimental to Council; and/or
- a material call to the 'defined benefit' Superannuation Fund is required.

It is expected that the total borrowings will be at the lower parameter level when the economic conditions are contrary to the above. This factor will be assessed by Council's executive management team each year prior to the budget process.

Council will report on borrowings against the expected ranges as set by the LGPRF and VAGO annually.

Should a situation arise where Council is required to borrow funds for exceptional circumstances (e.g. assets needed or impacted by natural disaster, emergency), Council's loans and borrowings repayments compared to rates ratio may exceed the higher level of the expected range of the key ratios.

Council will, as soon as practically possible, adjust future borrowings to ensure the loans and borrowings repayments compared to rates ratio returns within the expected range.

Details of borrowing ratios will be provided as part of the annual budget documentation together with the trend of these ratios for the Council's financial plan.

6.4 Loan Approval Process and Environment, Sustainability and Governance goals

New borrowings will be identified as part of the annual budget or a revised budget (Council Meeting agenda) process, and will be subject to public tender with authorised deposit taking institutions (ADIs) or by engaging the Treasury Corporation of Victoria (TCV). The public tender process will be in accordance with the Council's Procurement Policy and the Act.

In accordance with the Climate Change Action Plan and Council's Investment Policy, where interest rates are equal, Council will give preference to borrowing funds from ADIs that do not invest in fossil fuel industry and support the International Campaign to abolish Nuclear Weapons (ICAN).

Gender Impact Assessment

In accordance with the Gender Equality Act 2020, a Gender Impact Assessment was not required in relation to the subject matter of this report.

Definitions

Term	Definition
Act	The <i>Local Government Act 2020 (Vic)</i>
Authorised deposit taking institutions (ADIs)	organisations' such as banks, building societies and credit unions regulated by and subject to the prudential standards of the Australian Prudential Regulation Authority (APRA).
Defined Benefit Call	A demand for additional funding from institutional members of Defined Benefit Superannuation Fund to ensure that the fund can meet its future obligations to retirees (sufficient assets to cover its future liabilities.) The performance of fund assets, changes in actuarial assumptions, regulatory and other factors may impact a fund's ability to meet its future obligations and result in an unfavourable liabilities ratio. When this occurs, members are required to contribute funds to top up the assets through a 'Call'.
DTF	Victorian State Government Department of Treasury and Finance.
Indebtedness	The measure of Councils ability to cover non-current liabilities from revenues the entity generates itself.
LGPRF	Local Government Performance Reporting Framework
Loans and borrowings compared to rates	The percentage of interest-bearing loans and borrowings of total rate revenue.
Loans and borrowings repayments compared to rates	The percentage of interest and principal repayments on interest-bearing loans and borrowings of total rate revenue.
Materiality	The significance or importance of an item, event, or information in terms of its potential to influence the decision-making of users of financial statements. Materiality is a relative concept and is assessed in terms of the size (value), nature, or both, in relation to the financial position.

Term	Definition
TCV	Treasury Corporation of Victoria.
Treasury Function	Treasury Function involves the management of money and financial risks within Council. Its priority is to ensure the appropriate levels of money that is needed to manage its day-to-day business obligations, while also helping develop its long-term financial strategy and policies, the function also incorporates Council's the oversight of the investment and loan portfolios.
VAGO	Victorian Auditor General's Office.

References

- > Macedon Ranges Shire Council: Financial Plan
- > Macedon Ranges Shire Council: Asset Plan
- > Macedon Ranges Shire Council: Revenue and Rating Plan
- > Macedon Ranges Shire Council: Annual Budget
- > Treasury Corporation Victoria: Loans Framework and Guidelines
- > Local Government Victoria: Local Government Performance Reporting Framework (LGPRF)
- > Australian Accounting Standards (AASB)

Related Policies

- > Macedon Ranges Shire Council Procurement Policy
- > Macedon Ranges Shire Council Investment Policy
- > Macedon Ranges Shire Council Climate Change Action Plan

Related Legislation

- > *Local Government Act 2020 (Vic)*