

BORROWING POLICY

1.0 Purpose

To provide City of Ballarat with a borrowing policy based on sound, long-term financial management principles. Including:

- Establish objectives and principles that outline when it is appropriate for Council to undertake borrowings within a sound financial management framework;
- Ensure Council maintains a sustainable and prudent level of borrowings, within agreed thresholds; and
- Set out the manner in which Council may establish and manage a debt portfolio.

2.0 Scope

This Policy applies to all new borrowings undertaken by Council, as well as existing borrowings

This policy does not include lease liabilities or overdraft facilities that may be used in day-to-day management of Council's cash management.

3.0 Policy Statement

3.1 INTRODUCTION

Borrowing is a legitimate and responsible financial management tool when used to fund major projects, as it spreads the payments for such assets across the generations who benefit.

Borrowings are an important source of funding for Council. This policy provides a structured and disciplined approach to the borrowing of funds for the purpose of funding new infrastructure and, in special circumstances, operational expenditure.

Borrowings will be considered as part of Council's long term financial planning strategy, whilst implementing the financial management principles contained in section 101 of the Act.

During annual budget preparations, Council will review its loan borrowing needs and manage existing and new borrowings in the context of optimising cash flow. Per section 104 of the Local Government Act 2020 (Act), all borrowings must be included in Council's budget or revised budget.

3.2 BORROWING OBJECTIVES

The objective of borrowings is to enable Council to increase the wealth and well-being of residents in enabling it to deliver multigenerational or transformational projects. Ie. long-lived assets that will be enjoyed by current and future generations.

Borrowings will support council to deliver such projects, while maintaining appropriate levels of working capital to ensure the services contained in the Council Plan, Financial Plan and other Council strategies can be delivered unhindered.

3.3 BORROWING PRINCIPLES

To ensure Council has a structured and disciplined approach that fits within Council's Financial Plan, borrowings will only be considered for the following projects:

- New Capital Projects
- Major Asset Upgrades
- Environmental Projects that demonstrate future sustainability benefits.

Borrowings for these projects must meet all of the following criteria:

- minimum \$500,000;
- funding requirement must be linked to a specific project;
- must be included in a Budget or Revised Budget;
- drawn down to coincide with when the cash funds are required for the project; and
- where the project relates to an asset the length of the loan will not be greater than the expected useful life of the asset.

Council will also consider borrowing to fund Defined Benefit Superannuation Calls and to refinance existing loans.

3.4 BORROWING LEVEL

Council will ensure the total amount of borrowings is sustainable and consistent with sound financial management principles, in terms of its ability to meet future repayments and budgetary constraints.

Council will utilise the Local Government Performance Reporting Framework (LGPRF) to measure, monitor and report the level of borrowings.

The LGPRF outlines the measures Council must report in Council's Annual Report. This framework includes financial performance measures of Council, and specific to this policy, includes measures in relation to Council's obligations.

Council considers that borrowing levels within the following thresholds to be sustainable and consistent with sound financial management principles.

Ratio	Threshold
Loans and borrowings compared to rates (Interest bearing loans and borrowings / rate revenue)	0% to 60%
Loans and borrowings repayments compared to rates (Interest and principal repayments on interest bearing loans and borrowings / rate revenue)	0% to 10%
Non-current liabilities compared to own source revenue ([Non-current liabilities / Own source revenue] x 100)	0% to 40%
Liquidity Ratio (Current Assets / Current Liabilities)	>100%

It is understood that over time there may be short periods of time these thresholds are exceeded in managing Council's financial position, but consistent results above these limits is not sustainable. This will be subject to Council approval.

3.5 BORROWING STRUCTURE

When entering into borrowing arrangements, Council will seek to minimise interest costs over the long term without introducing undue volatility in annual interest costs.

Council's borrowings will be appropriately structured to constrain risk and will be consistent with the following parameters:

- Council will consider the appropriateness of the various types of debt products available;
- Council to maintain a repayment schedule consistent with "principal and interest" repayment calculations;
- Loan repayments made on a regular schedule: e.g. monthly, quarterly, annually or otherwise determined at the time of entering the loan agreement. Consideration given to the efficiency of payment schedule while minimising interest costs;
- It is preferable for borrowings to be fixed interest, principal and interest loans. This enables more certainty when undertaking long term financial planning; and
- Should borrowings be made as interest only, or include a residual (or balloon) payment, a provision by way of a reserve, or similar, will be made to ensure sufficient cash is available to meet such an obligation.

3.6 DETERMINING LENDING INSTITUTIONS

Council will in the first instance consider borrowing from Treasury Corporation Victoria, within the framework established by Local Government Victoria (LGV).

This framework was established by LGV to enable councils to take advantage of Victoria's strong credit rating, which allows the State to borrow and lend money at cheaper rates than are commercially available to councils.

Council will otherwise invite written quotations from appropriate lending institutions.

Written quotations must include:

- Interest rate
- Term of loan
- Repayment intervals
- Repayment instalment amount
- Any applicable fees
- Loan break cost

Evaluation of written quotations from financial institutions will be based on the following principles:

- (1) An evaluation of lifecycle costs of the loan arrangements; and
- (2) An evaluation of the flexibility proposed by the borrowing arrangement.

4.0 Supporting documents and references

4.1 Legislation

- *Local Government Act 2020*

4.2 Associated Documents

- *Procurement Policy*

- *Department of Jobs, Precincts and Regions - Treasury Corporation of Victoria loans to Victorian councils, 2021*
- *City of Ballarat Annual Budget*
- *City of Ballarat Financial Plan*

4.3 Definitions

<i>Borrowings</i>	Cash received from another party in exchange for future payment of the principal, interest and other finance charges
<i>Capital Project</i>	A long-term project requiring relatively large sums to acquire, construct and/or renew a capital asset (eg buildings). The project would result in a new, expanded or replaced asset.
<i>Council</i>	City of Ballarat
<i>Defined Benefit Fund</i>	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>	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>	Repayments made on principal amounts and/or interest from interest bearing loans or borrowings
<i>Loan Break Costs</i>	Costs associated with paying out a loan prior to the expiry date of the loan
<i>Rate Revenue</i>	Revenue from general rates, municipal charges, service rates and service charges

5.0 Policy owner

Executive Manager Financial Services

6.0 Authorisation

Adopted by Ballarat City Council on 23 March 2022.