

# Borrowing Policy

<p><b>Purpose</b></p>	<p>The purpose of this policy is to provide the appropriate parameters for Council to undertake external borrowings without compromising the application of sound fiscal management principles. The policy framework allows Council the flexibility to respond to funding requirements while minimising risk.</p> <p>The purpose of this Borrowing policy is to:</p> <ul style="list-style-type: none"> <li>• establish objectives and principles that outline when it is appropriate for Council to undertake external borrowings within a sound financial management framework;</li> <li>• ensure Council keeps within the relevant borrowing limit as set by this policy;</li> <li>• adhere to the financial performance principles and the provisions of the <i>Local Government Act 2020</i> (the Act); and</li> <li>• Demonstrate that both short-term viability and long-term sustainability are not compromised.</li> </ul>	
<p><b>Objective</b></p>	<p>The objective of this Borrowing policy is:</p> <ul style="list-style-type: none"> <li>• to provide an alternative financing option for: <ul style="list-style-type: none"> <li>○ major capital works projects that provide new, upgraded or renewed infrastructure of strategic significance, that would not otherwise be financed from one-off capital grants, and provide intergenerational benefits; or to</li> <li>○ meet Council’s obligations in relation to future Defined Benefit superannuation calls and/or</li> <li>○ to proactively fund climate resilient infrastructure or reactively fund a natural disaster, if required;</li> </ul> </li> <li>• to ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments, budgetary constraints and prudential ratios;</li> <li>• manage any new borrowings in the context of optimising both monthly and annual cashflow; and</li> <li>• develop and maintain a borrowing structure that to minimise borrowing costs.</li> </ul>	
<p><b>Scope</b></p>	<p>This policy will apply to borrowings of Council and outlines the type of expenditure that will be funded by debt and must be read in conjunction with all other funding policies adopted by Council as part of the Financial Plan.</p>	
<p><b>Definitions and Abbreviations</b></p>	<p><b>Major Capital Project</b></p>	<p>Means a major long-term investment project requiring at least \$10 million to acquire, construct and/or renew a capital asset (such as buildings). The project would result in a new, expanded or replaced asset.</p>
	<p><b>Council</b></p>	<p>Darebin City Council</p>
	<p><b>Defined Benefit Fund</b></p>	<p>Is a closed plan to new members from 31 December 1993. The future liabilities of the fund relative to investment performance may necessitate future funding calls.</p>

	<b>Financial Plan</b>	Is a long-term financial plan required under section 91 of the <i>Local Government Act 2020</i> and provides an outline of the Council's financial and other resources required to deliver upon key strategic plans over a 10-year period.								
	<b>Treasury Corporation Victoria (TCV)</b>	Victorian Government entity that provide the loans to eligible Local Government Councils.								
	<b>Victorian Auditor General's Office (VAGO)</b>	Audits and reports on the performance and management of resources within Local Government, including prudential ratios.								
<b>Policy Statement(s)</b>	<p><b>Principles</b></p> <p>The Borrowing Policy is underpinned by the following principles:</p> <ul style="list-style-type: none"> <li>• Borrowing is only to be used to finance items described in the policy objectives;</li> <li>• The Policy will be adhered to in developing Council's Financial Plan and all borrowings must be identified in the plan and consider the short, medium and long-term impacts of the borrowing decisions.</li> <li>• Council will not borrow to fund operating expenditure. This type of expenditure is to be funded from operating revenue streams (rates, fees and charges etc.), except to fund Defined Benefit Superannuation funding call and / or to fund natural disaster expenses.</li> <li>• Council will apply an equity lens when considering borrowing for capital projects.</li> <li>• Cash flows will be phased to consolidate the principal and interest requirements of approved capital projects.</li> <li>• The borrowing requirements will be reviewed annually during budget development and considered alongside the review of the financial assumptions within the Financial Plan and endorsed by Council. The review will be reported to the Audit and Risk Committee and include advice from appropriate financial institutions.</li> </ul> <p><b>Financial Sustainability Ratios</b></p> <p>The following three indicators assess the financial sustainability risks associated with borrowing over the longer term. Council will use these indicators when assessing new or refinanced borrowings and ensure borrowings remain within the endorsed risk appetite contained in the Risk Management Policy:</p> <table border="1" data-bbox="416 1615 1522 2080"> <thead> <tr> <th data-bbox="416 1615 612 1653">Indicator</th> <th data-bbox="612 1615 842 1653">Formula</th> <th data-bbox="842 1615 1259 1653">Description</th> <th data-bbox="1259 1615 1522 1653">Risk</th> </tr> </thead> <tbody> <tr> <td data-bbox="416 1653 612 2080">           Internal financing (%)         </td> <td data-bbox="612 1653 842 2080"> <math display="block">\frac{\text{Net operating cash flow}}{\text{net capital expenditure}}</math> </td> <td data-bbox="842 1653 1259 2080">           This measures the ability of an entity to finance capital works from generated cash flow.             The higher the % the greater the ability of the entity to finance capital works from their own funds.             Net operating cash flow and net capital expenditure are obtained from the cash flow statement.         </td> <td data-bbox="1259 1653 1522 2080">           Less than 75% - High             75 – 100% - Medium             More than 100% - low         </td> </tr> </tbody> </table>		Indicator	Formula	Description	Risk	Internal financing (%)	$\frac{\text{Net operating cash flow}}{\text{net capital expenditure}}$	This measures the ability of an entity to finance capital works from generated cash flow.  The higher the % the greater the ability of the entity to finance capital works from their own funds.  Net operating cash flow and net capital expenditure are obtained from the cash flow statement.	Less than 75% - High  75 – 100% - Medium  More than 100% - low
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Indebtedness (%)	Non-current liabilities / own-sourced revenue	Comparison of non-current liabilities (mainly comprising borrowings) to own-sourced revenue. 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 or contributions.	More than 60% - High 40 – 60% - Medium 40% or less - Low
Indebtedness (TCV) (%)	Total borrowings / own-sourced revenue	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.	More than 60% - High 40 – 60% - Medium 40% or less - Low

Council will operate below the high-risk range for the above measures to provide flexibility to respond to funding requirements for additional or unplanned capital expenditure.

### Short-Term Viability Ratios

The Local Government Performance Reporting Framework includes two additional ratios:

Indicator	Formula	Description	Risk
Debt Commitment Ratio	Interest and principal repayments on interest bearing loans / rate revenue	The higher the % the greater the level of rate revenue being consumed for Interest payments	>10% - High 5 – 10% - Medium 5% or less - low
<b>Borrowing Rates Ratio</b>	Interest bearing loans and borrowings / rate revenue	Known as the level of Rates effectively mortgaged	>60% - High 40 – 60% - Medium <40% - Low

### Determination of Loan Term and Interest Rate Type

Council will complete an analysis of the market to enable a recommendation on the loan term (number of years) and interest rate type.

### Implementation of this Policy

#### Determination of Lending Institution

New borrowings will be identified as part of the annual budget process and will be subject to TCV processes. Should TCV borrowings not be available, a public tender process will occur accordance with Council's Social and Sustainable Procurement Policy and the Act.

TCV do not have any direct borrowings or investments with entities that are involved with fossil fuel or the production of nuclear weapons in their core business strategy or main business activity.

	<p><b>Restriction</b> Council will abide by section 104 of the Act whereby money cannot be borrowed unless details of the proposed borrowings are included in the annual budget or revised budget.</p> <hr/> <p><b>Monitoring and reporting</b> The application of this policy will be monitored through the annual review of the Council's Long-Term Financial Plan and Annual Budget development. These documents report on Council's loan portfolio and identify current and proposed borrowings.</p> <p>Council will report on financial sustainability and viability metrics as part of the long-Term Financial Plan, Annual Budget process and in the Annual Report.</p>
<b>Responsibilities</b>	The Chief Financial Officer manages the provision of advice to the organisation regarding this policy.
<b>Breach of Policy</b>	This Policy is not a mandatory requirement under the Act, however it provides the principles to align to the Risk Management Policy. Any breach of this policy for new borrowings will need to be documented as part of the Annual Budget process and be subject to consultative engagement.

## GOVERNANCE

<b>Parent Strategy/ Plan</b>	10yr Financial Plan
<b>Related Documents</b>	<p>This policy should be read in conjunction with Council's:</p> <ul style="list-style-type: none"> <li>▪ Revenue and Rating Plan</li> <li>▪ Treasury and Investment Policy</li> <li>▪ Social and Sustainable Procurement Policy</li> <li>▪ Risk Management Policy</li> <li>▪ Risk Management Framework</li> </ul>
<b>Legislation/ Regulation</b>	<p><i>Local Government Act 2020</i></p> <p><i>Local Government Performance Reporting Framework (LGPRF)</i></p> <p>Victorian Auditor General's Office</p>
<b>Author</b>	Chief Financial Officer
<b>Policy Owner/Sponsor</b>	Council
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