



Borrowing and Debt Management 2021

Department/Unit	Business and Performance	First Implemented	22/06/2021	Review Date	30/06/2025
Origin	Manager Business and Performance	Reviewed	May 2021	Version	1
Authorising Officer	Chief Executive Officer	Effective From	22/06/2021	TRIM Reference	E34

Purpose/Objective

Borrowing can be an effective way to fund important Council priorities. When used responsibly, they can be an important tool for managing cash flow and helping to spread the burden of large investments across the generations that will benefit from those investments.

Council has a responsibility to manage existing and new borrowings in line with sound financial management principles, the *Local Government Act 2020* and corresponding regulations, and community expectations.

The purpose of this policy is to:

- establish objectives and principles that outline when it is appropriate for Council to undertake borrowing within a sound financial management framework;
- ensure Council keeps within the relevant prudential requirements provided by State Government; and
- set out the manner in which Council may establish and manage a debt portfolio.

This policy applies to all new borrowing undertaken by Council, as well as existing borrowings, where significant long term benefits of refinancing exist and the cost of breaking existing borrowing contracts is affordable within the short and medium term financial plans.

Policy Statement

Borrowing Principles

The following principles have been set to ensure Council has a structured and disciplined approach to borrowing of funds that fit with a longer term financially sustainable framework.

- Borrowings are only to be used to finance items described in the policy statement;
- Borrowing needs to be linked to the financing of an identified project and not to be drawn down until the commencement of the project;
- Council will not borrow to fund operating expenditure, other than large Defined Benefit superannuation calls;
- All borrowing must be declared in the Annual Budget or Revised Annual Budget as per section 104 of the *Local Government Act 2020*;
- All borrowings will be considered as part of Council's long term financial planning using sound financial management principles and fall within the borrowing ratios outlined in this policy; and
- The nature of any borrowing (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.

Borrowing Ratios and Limits

Borrowing shall not be undertaken if the effect of such borrowings are projected to result in borrowing ratios greater than the maximum levels indicated in the table below. These levels are in line with the *Local Government Performance Reporting Framework (LGPRF)* recommended maximum targets.

Measure	Council's Maximum Level
Debt Service Ratio Interest and principal repayments on interest bearing loans and borrowings / rate revenue	20%
Debt Level Ratio Interest bearing loans and borrowings / rate revenue	70%
Indebtedness Ratio Non-current liabilities / own source revenue	70%

Determining an Appropriate Lending Institution

Once borrowing has been approved by Council, requests to appropriate lending institutions in accordance with Council's Procurement Policy will be made inviting written quotations to Council's borrowing requirements.

Written quotations must include the:

- Interest rate;
- Term of loan;
- Repayment intervals;
- Repayment instalment amount;
- Any applicable fees; and
- Loan break costs.

Borrowing Arrangements

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 product available.
- The tenure of the loan will not be greater than the expected useful life of the asset being funded by the loan.
- Council will maintain a repayment schedule consistent with 'principal and interest' repayment calculations.
- Loan repayments will be made to a regular schedule, giving consideration to the efficiency of payment while minimising interest costs.

Definitions

Local Government Performance Reporting Framework (LGPRF) – The legislated framework through which all Victorian Councils are required to report specific key performance indicators (KPI's), allowing benchmarking across the sector. All information is available publically via the "Know Your Council" website www.knowyourcouncil.vic.gov.au.

Loan Portfolio - The combination of all interest bearing Loans taken out by Council.

Capital Project - An investment project requiring relatively large sums to acquire, construct, or upgrade a community asset.

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Defined Benefits Superannuation - The Defined Benefit Plan for local government employees was a compulsory scheme set up by the Victorian Government in 1982 and was closed in 1993. Unlike other exempt public sector schemes, it must be fully funded to pay the benefits owed to members now and into the future. Council has obligations to fund any shortfalls in the fund, as advised by VicSuper from time to time.

Interest bearing loans and borrowings – A loan or borrowing in which the debt is expressed as a principal amount and interest is calculated, charged, and collected on unpaid balances.

Interest and principal repayments – Repayments made on principal amounts and/or interest from interest bearing loans or borrowings, where the debt is expressed as a principal amount and interest is calculated, charged, and collected on unpaid balances.

Rate revenue – Revenue from general rates, municipal charges, service rates and service charges (e.g. waste) levied on rateable properties.

Own source revenue – Adjusted underlying revenue excluding revenue which is not under the control of council (including government grants).

Non-current liabilities – Financial liabilities that provide financing on a long-term basis and are not due for settlement within twelve months after the reporting period.

Appropriate lending institution – An Australian bank with a minimum S&P long term rating of BBB+ (or equivalent). Local Government Funding Vehicle and Treasury Corporation loans if available.

Scope

This policy applies to all new borrowings undertaken by Council, as well as existing borrowings, where significant long term benefits of refinancing exist and the cost of breaking existing borrowing contracts is affordable within the short and medium term financial plans. It does not apply to any short-term overdraft facilities.

Responsibilities

Council is responsible for approving borrowings by way of inclusion of all borrowings in the Annual Budget, or amended Annual Budget where applicable.

The Manager Business & Performance is responsible for ensuring policies and procedures are followed when borrowing funds.

The Chief Executive Officer has authority to accept loan offers, following the resolution of Council, so long as the requirements of this Policy are adhered to.

Reference/Related Policies

Local Government Act 2020

Mansfield Shire Council Procurement Policy

Mansfield Shire Council Financial Strategy

Mansfield Shire Council Financial Plan

Implementation

This Policy is effective from 22 June 2021.

Review Date

This Policy is to be reviewed by 30 June 2025.

Authorisation to Implement Policy

Signed: _____

Councillor

Witnessed: _____

Chief Executive Officer

Approval dated:

Mansfield Shire Council reserves the right to review, vary or revoke this Policy at any time.