

SCS-052 Borrowings Policy

TRIM Reference: D21/7744 Due for Review: April 2027
 Responsible Officer: Manager Finance

Purpose

This policy creates a sound financial framework on which Surf Coast Shire Council can undertake borrowings and manage its loan portfolio whilst adhering to sound fiscal management principles. The policy outlines where borrowings may be suitable as a funding mechanism, how Council will source new borrowings, and how borrowings and repayments will be managed whilst adhering to the provisions of the Local Government Act 2020.

Policy Objective

- To ensure Council’s new borrowings are sustainable and comply with legislative requirements.
- To manage cash flow, balance liquidity levels and manage borrowings within desired risk levels.
- To provide an alternate funding source for opportunities or obligations that could not otherwise be funded from normal revenue streams.

Scope

This policy sets out the Surf Coast Shire’s policy and risk assessment approach for management of borrowings, and applies to all loans undertaken on behalf of Surf Coast Shire Council and any loan refinancing activities. It does not apply to any short-term overdraft facilities linked to Council’s transactional bank accounts.

Definitions

Australian Bank	A bank or financial institution authorised under the laws of Australia to carry out the business of banking in Australia.
Loan Portfolio	The combination of all interest bearing loans taken out by Council.
Capital Project	An investment project to acquire, construct, or upgrade a community asset.
Development Contributions Plan	A development contributions plan levies contributions to fund the provision of works, services and facilities in relation to the development of land in an area
Defined Benefits Superannuation	The Defined Benefit Plan for local government employees was a compulsory scheme set up by the Victorian Government and was closed to new members 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. A cash reserve has been built over time to meet future commitments. Additional funds may be required to meet future calls if cash reserves are not sufficient.
Debt Servicing Costs	Annual Loan repayment costs (including principal and interest)

Policy

Borrowings 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.

Under this policy, new borrowings may be undertaken for:

- Capital works projects that are of strategic significance that could otherwise not be funded in the timeframe that they are required, or
- To help fund Council's obligations to provide community assets under a Development Contributions Plan, or
- To meet Council's obligations regarding any future Defined Benefits Superannuation calls, or
- To refinance Council's Loan Portfolio, if it would result in a net benefit to Council, taking into account the net present value of any savings achieved.

Importantly, new borrowings must only be undertaken if they meet Council's financial principles, in particular the two that relate directly to borrowings:

1. there must be capacity in the Financial Plan to fund debt servicing costs for every year of the loan; and
2. Borrowings must not be used to fund operational deficits or asset renewal requirements.

Additionally, the following sound financial management principles should be considered when new borrowings are being assessed:

1. managing risks,
2. pursuing spending and policies that are consistent with a reasonable degree of stability to the financial burden of Council's ratepayers, and
3. ensuring that decisions are made and actions are taken with regard to their financial effects on future generations.

Borrowing Principles

In addition to Council's financial principles outlined above, the following Borrowing Principles will apply:

- New borrowings will only be undertaken to fund items that meet the objectives of the Council Plan.
- New borrowings must be included in an adopted budget (including a revised budget) to meet legislative requirements.
- New borrowings must be tied to a specific project, so that the community can clearly identify the purpose of the borrowings. If that project is also dependent on external funding, signed funding agreements must be in place for those external funds before loan contracts can be entered into.
- Loan drawdown should occur as late as possible to avoid unnecessary interest costs.
- All loans will be sourced via invited expressions of interest, with at least three lending institutions made up of Australian Banks and/or Treasury Corporation Victoria.
- When assessing loan contracts, Council must take into account the purpose of the loan and seek to balance interest costs, repayment obligations and refinancing flexibility.
- The loan term must not exceed the useful life of the asset funded by the loan, unless related to the repayment of a Defined Benefits Superannuation Call.
- New borrowings are not to be undertaken if they lead to Council entering the "high-risk" category in the following financial indicators which assess the financial sustainability risks associated with borrowings:

Indicator	Measure	Low Risk	Medium Risk	High Risk
Loans and Borrowings Compared to rates	Interest bearing loans and borrowings / rate revenue			> 60%
Indebtedness	Non-Current Liabilities / Own Source Revenue	< 40%	40% – 60%	> 60%

Loan Portfolio Management

The Manager Finance is authorised to manage Council's loan portfolio.

This responsibility includes:

- Managing loan repayments and schedules,
- Preparing the budget and financial plan to include borrowings and repayments, and
- Administering process for new loans.

Council's bank signatories are authorised to complete bank transfers to meet scheduled repayments.

Legislation

The Local Government Act 2020 provides councils the power to borrow money.

Section 104 of the Local Government Act 2020 states that “A Council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget”

Section 11(2) of the Local Government Act 2020 specifically disallows Council from delegating the power to borrow money. Therefore, all borrowings must be approved by Council in an adopted budget or adopted revised budget.

Local Government (Planning and Reporting) Regulations 2020

Section 8(1) of the planning and reporting regulations states that “For the purposes of section 94(2)(j) of the Act, a budget must contain the following information in relation to the budget year to which it relates –

- a) The total amount to be borrowed (other than borrowings to refinance existing loans) during the budget year compared with the previous financial year;
- b) The information specified in subregulation (4);

Subregulation (4)

- g) The total amount borrowed at 30 June of the budget year compared with the previous financial year;
- h) The total amount projected to be redeemed during the budget year compared with the previous financial year;

Reporting to Council

Council’s borrowings are reported to Council in the quarterly budget report, annual report, and budget documents. Any activities for new borrowings will be approved by Council resolution before the process takes place.

Compliance Statements:

Local Government Act 2020 (LGA 2020)

Implications	Applicable to this Policy
Governance Principles (Consideration of the Governance Principles under s9 of the LGA 2020)	Yes
Policy/Relevant Law (Consideration of the Governance Principles under s9 of the LGA 2020)	Yes
Environment/Sustainability Implications (Consideration of the Governance Principles under s9 of the LGA 2020)	No
Community Engagement (Consideration of the Community Engagement Principles under s56 of the LGA 2020)	No
Public Transparency (Consideration of the Public Transparency Principles under s58 of the LGA 2020)	Yes
Strategies and Plans (Consideration of the Strategic Planning Principles under s89 of the LGA 2020)	No
Financial Management (Consideration of the Financial Management Principles under s101 of the LGA 2020)	Yes
Service Performance (Consideration of the Service Performance Principles under s106 of the LGA 2020)	No
Risk Assessment	No
Communication	No
Human Rights Charter	No

Governance Principles

This policy helps ensure that:

- Council decisions are made and actions taken in accordance with the relevant law, and
- It places Council in the best position regarding borrowings to achieve ongoing financial viability.

Policy/Relevant Law

This policy meets all requirements under the Local Government Act 2020 and the Local Government (Planning and Reporting) Regulations 2020.

Public Transparency

This policy will be available to the public on Council's website.

Financial Management

This policy aligns with the financial management principles outlined in s101 of the LGA 2020.

Records

Record	Retention/Disposal Responsibility	Retention Period	Location
Borrowings documentation, contracts, and repayment schedules	Finance Department	7 years	Council electronic archives

Document History

Version	Document History	Approved by – Date
1	<i>New document</i>	<i>Council – 27 April 2021</i>
2	<i>Reviewed document</i>	<i>Council – 26 April 2023</i>