



Mildura Rural City Council

Financial Borrowing Policy

Policy – CP072

Prepared	Reviewed	Approved	Date	Council Minute No.
Financial Services	Strategic Management Team	Council	July 2021	2021/0167
Content Manager File: 18/02/01		To be reviewed: July 2024		
Document Owner: Manager Financial Services		Review Frequency: Every three years		

1. The purpose of this policy is

To set out the manner in which Council may establish and manage its borrowings.

Loan 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.

2. Policy Statement

The purpose of this policy is to:

- establish objectives and principles that outline when it is appropriate for Council to undertake borrowings within a sound financial management framework
- ensure Council keeps within the relevant prudential requirements provided by the state government.

3. Principles

3.1 To provide alternative financial options for:

- capital works projects, which are of strategic or major significance, and which would not otherwise be financed from ongoing income sources (eg from the normal capital works budget)
- refinancing existing debt
- meeting Council obligations in relation to future defined benefits superannuation calls, if required.

3.2 To ensure the total amount of loan borrowings is sustainable in terms of:

- Council's ability to meet future repayments of both principal and interest payments from the operational budget
- budgetary constraints

- prudential ratios
- 3.3 To ensure Council has a structured and disciplined approach that fits within Council's 10-year Financial Plan, including:
- Borrowings are only used to finance items described within the policy objectives.
 - Borrowings need to be linked to the financing of an identified project.
 - Borrowings must not be drawn down until the commencement of the project for which the borrowings are approved.
 - The length of the loan will not be greater than the expected useful life of the asset being funded by the loan.
 - Council will not borrow to fund operating expenditure with the exception of funding calls for defined benefits superannuation.
 - All borrowings will be considered in accordance with the sound financial management principles contained within the *Local Government Act 2020*.
 - The nature of any borrowings and the interest rate will take into account the purpose of the loan and seek to balance interest rate exposure with refinancing flexibility.

4. Borrowing Ratios and Limits

Unless otherwise resolved by Council, borrowings shall not be undertaken if the effect of such borrowings is projected to result in borrowing ratios greater than the maximum levels indicated in the table below.

Measure	Allowable Range	Council's Maximum Level
Borrowing Rates Ratio (Interest bearing loans and borrowings / Rate revenue) x 100	0% – 70%	40%
Debt Commitment Ratio (Interest and principal repayments on interest bearing loans and borrowings / Rate revenue) x 100	0% – 20%	5%
Indebtedness Ratio (Non-current liabilities / own source revenue) x 100	2% - 70%	60%

5. Determining Lending Institution

In accordance with Council's Procurement of Goods, Services and Works Policy CP083, Council can request to appropriate lending institutions inviting written quotations on Council's borrowing requirements. Written quotations must include:

- Interest rate
- Term of loan
- Repayment intervals
- Repayment instalment amount

- Any applicable fees
- Loan break cost

Note:

1. Council's maximum loan term should not exceed 15 years.
2. For operational budget requirements, it is preferable for all new loans and refinancing of loans to be fixed loans. This enables more certainty when budgeting for principal and interest within operating budgets.

6. Legislative Framework

The *Local Government Act 2020* (the Act) provides councils the power to borrow while following *Division 4 Section 101 Financial management* principles.

Under *Division 4 Section 104 Borrowings*, a Council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget.

7. Implementation

7.1 Council:

- is responsible for approving borrowings by way of inclusion of all borrowings in the Budget.
- is responsible for approving borrowings by way of inclusion in a revised Budget, if applicable.

7.2 Manager Financial Services:

- is responsible for ensuring policies and procedures are followed when borrowing funds
- is responsible for ensuring new borrowings are included as part of the Budget
- is responsible for determining if a new revised annual budget is required in accordance with the *Local Government Act 2020*.

7.3 Financial Services Team:

- is responsible for developing and maintaining a loan register
- is responsible for developing and maintaining individual loan schedules for each loan facility
- is responsible for providing assistance with budget calculations and information for proposed new borrowings, and ensuring their inclusion in Council's Budget or Revised Budget.
- is responsible for regular review of borrowing ratios and levels in accordance with this policy.

8. Definitions

<i>Borrowings</i>	Cash received from another party in exchange for future payment of the principal, interest and other finance charges
<i>Borrowing Costs</i>	Interest and other costs that an entity incurs in connection with the borrowing of funds
<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>	Mildura Rural City Council
<i>Debt Portfolio</i>	The total of all of Council's borrowings
<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 Cost</i>	Costs associated with paying out a loan prior to the expiry date of the loan
<i>Own Source Revenue</i>	Adjusted underlying revenue excluding revenue that is not under the control of Council (eg government grants)
<i>Prudential Ratios</i>	Financial ratios that measure Council's current performance against established limits. These assist in managing the risk of Council's borrowings.
<i>Rate Revenue</i>	Revenue from general rates, municipal charges, service rates and service charges

9. Legislation and other references

9.1 Legislation

For further information related to this policy see:

- *Local Government Act 2020.*

9.2 Documents

This Policy is implemented in conjunction with the following documents:

- Local Government Performance Reporting Framework (LGPRF)
- Procurement of Goods, Services and Works Policy CP083
- Contract Management Policy OP194
- Fraud Control Policy CP053
- Fraud and Corruption Control Plan
- Risk Management Policy CP024

9.3 Risk Assessment Reference

Risk Category	✓	Risk Category	✓
Asset Management		Financial Sustainability	✓
Committees		Human Resource Management	
Compliance – Legal & Regulatory	✓	Leadership & Organisational Culture	
Contract Management		Occupational Health & Safety	
Contract Tendering & Procurement	✓	Organisational Risk Management	
Corporate Governance	✓	Project Management	
Environmental Sustainability		Public Image and Reputation	