



# Council Policy Manual

## WEST WIMMERA SHIRE COUNCIL

COUNCIL POLICY	
<b>BORROWINGS POLICY</b>	Policy No:
	Adopted by Council: 15 May 2019
	Next review date: May 2020
Senior Manager:	Director Corporate & Community Services
Responsible Officer:	Finance Manager
Functional Area:	Financial Services
Introduction & Background	<p>This policy outlines the West Wimmera Shire Council Borrowings strategy and provides an agreed framework or policy structure for the consideration of existing and future long term borrowings by Council.</p> <p>West Wimmera Shire Council is required to comply with the provisions relating to borrowings as detailed within the <i>Local Government Act 1989</i>. Refer <b>Schedule 1</b>.</p>
Purpose & Objectives	<ol style="list-style-type: none"> <li>1. To communicate Councils planned financial management for existing and future long term debt.</li> <li>2. The clear articulation that operational or recurrent works are not to be funded from long term debt.</li> <li>3. To establish framework that compliments and maximises the effectiveness of the Council long term investment in infrastructure and other capital assets.</li> <li>4. To support the objective and strategic consideration of competing capital investment proposals and how these investment proposals may be financed.</li> <li>5. To compliment a considered and agreed capital works evaluation framework on which future Council budgets can be premised and for various capital works proposals to be considered objectively.</li> <li>6. To safeguard the long term financial viability of the West Wimmera Shire Council.</li> </ol> <p>Council has a desire to maximise the use of loan funding in situations where the new capital asset has an income flow on which to compare the cost of loan finance, or where the capital asset is capable of being liquidated and the capacity for loan funding commitments to be reviewed accordingly. The life cycle nature of the new capital asset may be finite or short term prior to asset liquidation, and suited to shorter term loan funding.</p>



# Council Policy Manual

## WEST WIMMERA SHIRE COUNCIL

Policy Details	
1.	<p><b>Background</b></p> <p>Council recognises the Local Government sustainability ratios that are issued on an annual basis by the <u>Victorian Auditor-General's Office</u> (VAGO). These ratios provide a set of interrelated indicators for Local Government to use to assess individual Council and sector financial performance and position.</p> <p>Financial sustainability trends in Victorian Local Government are being tracked and monitored by VAGO via a series of sustainability indicators. The indicators produced by VAGO are as follows:</p> <ul style="list-style-type: none"><li>• Underlying Result Indicator</li><li>• Liquidity Indicator</li><li>• Self Financing Indicator</li><li>• Indebtedness Indicator</li><li>• Capital Replacement Indicator</li><li>• Renewal Gap Indicator</li></ul> <p>The Indebtedness Indicator has a formula being:</p> <p>Non Current Liabilities <i>divided by</i> Own – Sourced Revenue.</p> <p>Council is also regulated in relation to long term borrowings by indicative prudential limits set by <u>Local Government Victoria</u> (LGV). LGV survey Councils in relation to proposed long term borrowings on an annual basis, and maintain a watch over the levels of Council borrowings and other indicators applied against individual Councils and the Local Government sector.</p>
2.	<p><b>Policy Principles</b></p> <ol style="list-style-type: none"><li>a) Council aims to finance new capital works and assets to the greatest extent possible from revenue, grants, subsidies or any specific cash backed reserves established to fund capital works.</li><li>b) Council shall not borrow to fund operational or ongoing regular maintenance activities.</li><li>c) Council may consider to undertake borrowings to fund an external obligation placed upon it that is outside of its direct control (i.e to fund a superannuation liability call, etc)</li><li>d) Long term borrowings for capital works and new capital assets will be for intergenerational assets that are expected to reduce expenditure or increase revenue to service finance costs with benefits exceeding the repayment period.</li><li>e) Council will not enter into any financing arrangement which would involve the repayment of interest only unless that interest is at least matched by income</li></ol>



# Council Policy Manual

## WEST WIMMERA SHIRE COUNCIL

	<p>generated from the asset financed.</p> <p>f) West Wimmera Shire will not use long term debt to finance operational or recurrent works.</p> <p>g) Council will review annually the Indebtedness Indicator, together with other sustainability indicators, as issued by the Victorian Auditor-General and Local Government Victoria as applies to West Wimmera Shire, other small rural Councils and the Victorian Local Government sector as a whole.</p> <p>h) The repayment of new and existing long term borrowings will be set at between 20 – 25 years for major significant long life infrastructure. Capital works for Community and social infrastructure where no commercial revenue streams apply, shall generally be for a lesser period of no greater than 10 years. The above criteria will be assessed on case by case basis and will include consideration of prevailing circumstances and finance market conditions.</p> <p>i) Council will consider any borrowings proposal on merit based on the Council borrowings policy parameters that will maintain the Council position of not exceeding the parameter being the 'Low risk' category pertaining to the Indebtedness indicator as maintained by VAGO.</p> <p>j) This policy is premised on long term debt being a sound business practice when the long term debt is the appropriate form of finance, is used to finance capital assets / investments, and the debt servicing costs are within the capacity of Council to service effectively without placing Council under undue financial stress.</p> <p>k) The Finance Manager will be responsible for arranging loan funding that is appropriate for the requirements and situation at the time. Quotations are to be sourced from no less than three institutions and evaluated based on total finance costs and other relevant factors such as timing and restrictions.</p>
3.	<p><b>Borrowings in the Context of Rate Capping</b></p> <p>Council acknowledges that it must evaluate all other funding options when determining whether or not it would request a variation to any rate cap applied by the Minister for Local Government.</p> <p>Before making any request for a rate cap variation Council will evaluate the possibility of financing future capital works from borrowings rather than an increased rate cap. This shall be done in accordance with the Policy Principles as set out in part 2 of this policy. Such evaluation shall form part of any rate cap variation application and must form part of the public consultation process for any proposed rate cap variation.</p>
4.	<p>Schedule 1 – Local Government Act 1989 extract</p> <p><b>144. Power to borrow</b></p> <p>(1) <i>Subject to the principles of sound financial management, a Council may borrow money to enable the Council to perform the functions and exercise the powers conferred on the Council under this Act or any other Act.</i></p> <p>(2) <i>This section also applies to borrowings in the form of finance leases.</i></p> <p>(3) <i>The amount borrowed on the security of any special rates or special charges must not at any time exceed the estimated income from the special rates or special charges.</i></p>



# Council Policy Manual

## WEST WIMMERA SHIRE COUNCIL

### **145. Circumstances in which power to borrow may be exercised**

(1) Without limiting the generality of section 144, the power to borrow conferred by section 144 may be exercised—

- (a) to repay the principal money owing under any previous borrowings; or
- (b) to meet the consideration still outstanding under a contract which has been partly or wholly performed and in respect of which the power to borrow conferred by section 144 could have been exercised at the time the contract was made.

(2) The power to borrow conferred by section 144 cannot be exercised to repay an advance by overdraft under section 150(1) or 150(3) unless—

- (a) the approval of the Minister has been obtained; and
- (b) any conditions imposed by the Minister are complied with.

### **146. Budget or revised budget must include proposed borrowings**

(1) A Council cannot borrow money for ordinary purposes or the purposes of municipal enterprises unless the proposed borrowings were included in a budget or revised budget.

2) If the proposed borrowings are to re-finance existing loans, the Council is not required to include the proposed borrowings in a budget or revised budget.

### **147. Use of loan for different purpose**

A Council may only apply unexpended money previously borrowed for a particular purpose for capital works included in the current budget or a revised budget.

### **148. Borrowings to be secured**

(1) Except in the case of a finance lease, money borrowed under section 144 is to be secured by entering into a security—

- (a) in the case of borrowings for ordinary purposes, over the general rates; or
- (b) in the case of borrowings for the purposes of municipal enterprises, over the total value of the assets of the municipal enterprise and the income from the municipal enterprise; or
- (c) in the case of borrowings under section 144(3), over the special rates and special charges.

(2) Unless expressly forbidden by the Act or instrument under which a body corporate or company acts, a security under this section is a lawful investment for any money which a body corporate incorporated under an Act or any company is authorised to invest.

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