



Council Policy Manual

WEST WIMMERA SHIRE COUNCIL

COUNCIL POLICY	
BORROWINGS POLICY	Policy No:
	Adopted by Council: 19 June 2024
	Next review date: June 2026
Executive Director:	Director Corporate & Community Services
Responsible Officer:	Chief Financial Officer
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 2020</i> and any regulations made under this Act. Refer Schedule 1.</p>
Purpose & Objectives	<ol style="list-style-type: none"> 1. To communicate Councils planned financial management for existing and future long-term debt. 2. The clear articulation that operational or recurrent works are not to be funded from long term debt. 3. To establish framework that complements and maximises the effectiveness of the Council long term investment in infrastructure and other capital assets. 4. To support the objective and strategic consideration of competing capital investment proposals and how these investment proposals may be financed. 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. 6. To safeguard the long-term financial viability of the West Wimmera Shire Council. 7. To establish objectives and principles that outline when it is appropriate for Council to undertake borrowings within a sound financial management framework. 8. To ensure Council keeps within the relevant prudential requirements provided by State Government



Council Policy Manual

WEST WIMMERA SHIRE COUNCIL

	<p>9. To set out the manner in which Council may establish and manage a debt portfolio.</p> <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>
<p>Response to the Overarching Governance Principles of the Local Government Act 2020</p>	<p>Section 9 of the Local Government Act 2020 states that a Council must in the performance of its role give effect to the overarching governance principles.</p> <p>This policy is in response to the following overarching governance principle/s of the Local Government Act 2020:</p> <p>Financial management principles (section 101)</p>
<p>Policy Details</p>	
<p>1.</p>	<p>Background</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"> • Underlying Result Indicator • Liquidity Indicator • Self-Financing Indicator • Indebtedness Indicator • Capital Replacement Indicator • Renewal Gap Indicator <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</p>



Council Policy Manual

WEST WIMMERA SHIRE COUNCIL

	levels of Council borrowings and other indicators applied against individual Councils and the Local Government sector.
2.	<p>Policy Principles</p> <ul style="list-style-type: none">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.b) Council shall not borrow to fund operational or ongoing regular maintenance activities.c) Council may consider undertaking 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)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.e) Council will not enter any financing arrangement which would involve the repayment of interest only unless that interest is at least matched by income generated from the asset financed.f) West Wimmera Shire will not use long term debt to finance operational or recurrent works.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.h) The repayment of new and existing long-term borrowings will be set at between 5-10 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.i) In addition to (h) above, the borrowing term must not exceed the life-span of the asset for which the borrowing is made.j) 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.k) 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.l) The Chief Financial Officer will be responsible for arranging loan funding that is appropriate for the requirements and situation at the time. The Council must consider the indicative prices offered by TCV and may make enquiries into any



Council Policy Manual

WEST WIMMERA SHIRE COUNCIL

	<p>competitive pricing offered by banks, financial institutions or any other approved financiers.</p> <p>m) The Chief Financial Officer must present a financial and cash flow feasibility model based on the quotations received and will be authorised to enter into any negotiations with the most competitive bank / financial institution.</p>																			
3.	<p>Borrowings in the Context of Rate Capping</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>																			
4	<p>Borrowings Ratios and Limits</p> <p>Borrowings shall not be undertaken if the effect of such borrowings is projected to result in borrowing ratios greater than the maximum of Council's Target Ratios as indicated in the table below.</p> <p>In addition, the Local Government Performance Reporting Framework (LGPRF) borrowing ratios will be projected in Council's Annual and Four Year Budget and reported in Council's Annual Performance Report.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Measure</th> <th style="width: 15%;">Council's Target Ratios</th> <th style="width: 15%;">LGPRF Target Band</th> <th style="width: 30%;">LGPRF Acceptable Range</th> </tr> </thead> <tbody> <tr> <td>Debt Commitment Ratio Interest and principal repayments on interest bearing loans and borrowings / Rate Revenue</td> <td style="text-align: center;">0% to 10%</td> <td style="text-align: center;">0% to 5%</td> <td style="text-align: center;">0% to 20%</td> </tr> <tr> <td>Borrowing Rates Ratio Interest bearing loans and borrowings / Rate revenue</td> <td style="text-align: center;">0% to 60%</td> <td style="text-align: center;">20% to 60%</td> <td style="text-align: center;">0% to 70%</td> </tr> <tr> <td>Liquidity ratio Current assets / Current Liabilities</td> <td style="text-align: center;">> 120%</td> <td style="text-align: center;">120% to 200%</td> <td style="text-align: center;">100% to 400%</td> </tr> </tbody> </table>				Measure	Council's Target Ratios	LGPRF Target Band	LGPRF Acceptable Range	Debt Commitment Ratio Interest and principal repayments on interest bearing loans and borrowings / Rate Revenue	0% to 10%	0% to 5%	0% to 20%	Borrowing Rates Ratio Interest bearing loans and borrowings / Rate revenue	0% to 60%	20% to 60%	0% to 70%	Liquidity ratio Current assets / Current Liabilities	> 120%	120% to 200%	100% to 400%
Measure	Council's Target Ratios	LGPRF Target Band	LGPRF Acceptable Range																	
Debt Commitment Ratio Interest and principal repayments on interest bearing loans and borrowings / Rate Revenue	0% to 10%	0% to 5%	0% to 20%																	
Borrowing Rates Ratio Interest bearing loans and borrowings / Rate revenue	0% to 60%	20% to 60%	0% to 70%																	
Liquidity ratio Current assets / Current Liabilities	> 120%	120% to 200%	100% to 400%																	



5	Schedule 1 – Local Government Act extract
	<p>Extract from Local Government Act 2020:</p> <p>104 Borrowings</p> <p><i>A Council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget.</i></p> <p>Extract from the Local Government Act 1989:</p> <p>144. Power to borrow</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> <p>145. Circumstances in which power to borrow may be exercised</p> <p>(1) <i>Without limiting the generality of section 144, the power to borrow conferred by section 144 may be exercised—</i></p> <ul style="list-style-type: none">(a) <i>to repay the principal money owing under any previous borrowings; or</i>(b) <i>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.</i> <p>(2) <i>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—</i></p> <ul style="list-style-type: none">(a) <i>the approval of the Minister has been obtained; and</i>(b) <i>any conditions imposed by the Minister are complied with.</i> <p>146. Budget or revised budget must include proposed borrowings</p> <p>(1) <i>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.</i></p> <p>(2) <i>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.</i></p> <p>147. Use of loan for different purpose</p> <p><i>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.</i></p> <p>148. Borrowings to be secured</p> <p>(1) <i>Except in the case of a finance lease, money borrowed under section 144 is to be secured by entering into a security—</i></p> <ul style="list-style-type: none">(a) <i>in the case of borrowings for ordinary purposes, over the general rates; or</i>



Council Policy Manual

WEST WIMMERA SHIRE COUNCIL

	<p><i>(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</i></p> <p><i>(c) in the case of borrowings under section 144(3), over the special rates and special charges.</i></p> <p><i>(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.</i></p>
--	--

Policy Adopted:	Ordinary Meeting 16/06/11	Minute Book Page	RecFind 11/004558
Policy Reviewed:	Ordinary Meeting 18/06/15	Minute Book Page	RecFind 15/002501
	Ordinary Meeting 15/03/17	Minute Book Page 34970	RecFind
	Ordinary Meeting 15/05/19	Minute Book Page	RecFind E19/000237
	Council Meeting 20/05/20	Minute Book Page	RecFind E20/000099
	Council Meeting 19/06/24	Minute Book Page	SRV Governance – Policies, Procedures, Plans Strategies