

# BORROWINGS POLICY



Responsible Business Unit	Finance
Responsible Officer	Chief Financial Officer
Approved By	General Manager Corporate Services
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## 1. Purpose

The purpose of this policy is to establish a framework for responsible borrowing that prioritises community benefit, financial sustainability and transparency, whilst ensuring all Council loans serve local priorities. This policy also reinforces Council's commitment to its Financial Sustainability Strategy.

The Borrowings Policy ensures the Council has a sound financial framework on which to:

- undertake borrowings;
- manage its loan portfolio;
- maintain financial sustainability in line with its Financial Sustainability Strategy, and
- adhere to the provisions of the Local Government Act 2020 (the Act).

This policy takes into account action plan items 1.4 and 1.5 from the Yarra City Council Financial Sustainability Strategy, which aim to:

1.4	Prepare a Borrowing Policy based on sound, long-term financial management principles. Including: <ul style="list-style-type: none"><li>• Establish objectives and principles that outline when it is appropriate for Council to undertake borrowings within a sound financial management framework;</li><li>• Ensure Council maintains a sustainable and prudent level of borrowings, within agreed thresholds; and</li><li>• Set out the manner in which Council may establish and manage a debt portfolio</li></ul>
1.5	Prioritise the 'paying down' of existing borrowing and adopt a judicious approach to new borrowings in accordance with adopted Borrowing Policy.

## 2. Scope

This policy applies to all Council decisions involving external loans and borrowings, including existing borrowings that may be subject to early repayment or refinancing. It does not include lease liabilities or short term, non-interest bearing debt such as creditor invoices or corporate purchasing cards.

This Policy will be adhered to in developing Council's long term financial plan and all borrowings must be identified in the plan.

Council will not undertake new external borrowings unless the proposed borrowings were included in the annual budget or a revised budget.

This policy only applies to loans and does not apply to any operating bank overdraft accounts.

### 3. Objectives

The following objectives support this policy to ensure sustainable, responsible and appropriate management of Council's borrowings by:

- Enabling timely, cost-effective delivery of community infrastructure via the provision of alternative financing options to projects of strategic significance.
- Ensuring the total amount of loan borrowings is sustainable in terms of ability to meet future repayments, budgetary constraints, and prudential ratios, and commitments made under the Financial Sustainability Strategy;
- Spreading the financial burden fairly across current and future residents for inter-generational projects.
- Enabling Council to meet any emerging obligations in relation to defined benefit superannuation calls, if required; and
- Ensuring Council's funding activities are held and reported in accordance with legislative responsibilities.

### 4. Financial Sustainability Strategy

Long-term financial sustainability is essential to ensuring that Council can continue providing the services and programs our community relies on. It is therefore crucial that decisions made today are forward-thinking and consider the evolving needs of our current and future community.

Council has adopted a Financial Sustainability Strategy, which has confirmed having adequate cash reserves is essential if Council is to be well positioned to respond to the unprecedented population growth that is projected for Yarra over the next 20 years. As the population grows, the demand for more infrastructure and services also grows.

Council's core goal is to build and sustain Council's cash reserves to enable investment in the new infrastructure needed to support a growing and changing community as well as respond to unexpected or urgent events.

The Financial Sustainability Strategy emphasises the importance of building cash reserves to fund infrastructure and respond to unexpected events. While the strategy prioritises self-funding projects, it allows for borrowings when absolutely necessary. Any new borrowings must be approached prudently, reserved for capital works with clear long-term benefits, and must not compromise existing infrastructure or services.

## 5. Definitions

<b>Term</b>	<b>Definition</b>
Asset Renewal Works	The refurbishment or replacement of an existing asset (or part thereof) to its original condition.
Borrowings	Cash received from another party in exchange for future repayments with interest.
Borrowing Costs	Interest and other costs incurred in connection with the borrowing of funds from another party.
Capital Projects	A long-term investment project that may require a large allocation of money to construct, acquire, or renew a capital asset (such as a road or building).
Council	The City of Yarra.
Financial Institution	A bank or similar organisation in the business of dealing with financial transactions such as deposits, investments, and loans.
LGPRF	Local Government Performance Reporting Framework. The LGPRF provides a number of key performance indicators and measures that Council must disclose in its Annual Report (as part of the "Performance Statement").
Loan Portfolio	The collective value of Loans held by the City of Yarra.
Prudential Ratios	Financial ratios that measure Council's financial performance against established limits. These assist the Victorian State Government in managing the risk of Council borrowings.
Recurrent Expenditure	Ongoing operational expenditure for the delivery of day-to-day services.
TCV	Treasury Corporation Victoria – The Victorian Government body that provides loans to eligible Victorian Government organisations and Victorian Councils.

## 6. Policy

The Guiding Principles of this policy are:

- **Financial Sustainability:** Alignment with the Financial Sustainability Strategy to preserve financial objectives and intergenerational equity.
- **Intergenerational Benefits:** Funds must address local needs and improve public assets that can be enjoyed by both current future generations.
- **Transparency & Accountability:** All loan processes must be clearly documented and accessible.
- **Financial Neutrality:** All borrowing decisions will be made based on merit and community benefit, with a clear link to the Council Plan's strategic priorities..

**Borrowing Conditions:** Council will only undertake new borrowings for projects that:

- Align with the Council Plan and provide significant intergenerational benefits, or to address defined benefit superannuation calls when cash reserves are insufficient.
- Have first considered the application of existing cash reserves.
- Can be repaid (principal and interest) without compromising financial sustainability.
- Comply with all relevant legislation and guidelines.
- Utilise fixed-interest, full repayment terms to mitigate interest rate and balloon payment risks.

**Exclusions:** The Council will not borrow for recurrent operations or asset renewal projects, as these are considered business-as-usual and contradict the objectives of the Financial Sustainability Strategy.

**Loan Sourcing:** Before entering a new loan agreement, the Council will seek quotes from Treasury Corporation Victoria (TCV) as a preferred provider.

## 7. Legislative Requirements

The Local Government Act 2020 (The Act) provides Councils the power to borrow.

Section 11 (2l) of the Act states that a Council has 'the power to borrow money.'

Section 104 of the Act states: 'A Council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget.'

The Victorian Government established the Local Government Performance Reporting Framework (LGPRF) in 2014. It outlines the measures Council must report in its performance report, which forms part of Council's Annual Report.

Certain indicators must also be included in Council's Annual Budget and Long Term Financial Plan. This framework includes financial performance of a Council, and specific to this policy includes measures in relation to Council's obligations (to determine whether debt and other long-term obligations are appropriate to the size and nature of Council's activities).

## 8. Reporting and Management

Council borrowings will be reported after the end of each financial year within the audited Financial Statements, which will be considered by Council by the end of October following the each financial year.

Under the Local Government Performance Reporting Framework (LGPRF), Council must report annually on the following:

### **Loans and borrowings compared to rates**

This ratio compares a council's total borrowings to its rate revenue, indicating its reliance on borrowing relative to its primary source of income. A lower ratio indicates a lower reliance on debt by Council.

Councils cannot borrow from TCV if their Loans and borrowings compared to rates ratio exceeds 60%. Traditionally, this metric is reported as higher risk when the ratio is between 40-60%, medium risk between 20-40%, and lower risk when below 20%.

Council's target range (risk appetite) for Loans and Borrowings compared to rates is 0% - 40%

### **Loan and borrowings repayments compared to rates**

Calculated by comparing annual Interest and principal repayments on interest bearing loans and borrowings against Rate revenue, this ratio identifies what portion of annual rate revenue is dedicated to debt repayments.

Traditionally, this metric is reported as higher risk when the ratio is above 20%, with 10-20% regarded as medium risk, and low risk below 10%.

Council's target range (risk appetite) for Loan and borrowings repayments compared to rates is 0% - 10%

### **Indebtedness**

Calculated by comparing non-current liabilities to own source revenue, the indebtedness ratio provides an assessment of whether council long term liabilities are appropriate to the size and nature of council activities. Lower proportion of non-current liabilities suggests greater capacity to meet long-term obligations.

In general, an indebtedness ratio trending upwards above 60% indicates a high financial sustainability risk, 40%-60% is regarded as medium risk, and below 40% low risk.

Council's target range (risk appetite) for Indebtedness is 0% - 40%

Reporting on Council's loan portfolio will be included in its quarterly financial reports using the above ratios.

## 9. Administrative updates

From time to time, circumstances may change leading to the need for minor administrative changes to this policy. Where an update does not materially alter this policy, such a change may be made administratively.

Examples of minor administrative changes include changes to names of Council departments or positions, change to names of Federal or State Government departments or a minor amendment to legislation that does not have material impact. Officers may also make amendments to the list of related documents at such times where reference material or guidelines require updating.

Where any change or update may materially change the intent of this policy, it must be considered by Council.

### Responsibilities

Function	Roles and Responsibilities
Council	<ul style="list-style-type: none"><li>Approval of Borrowings within the annual budget or revised budget.</li></ul>
Executive Team	<ul style="list-style-type: none"><li>Executive oversight and guidance on loan and budget proposals.</li></ul>
Chief Financial Officer (CFO)	<ul style="list-style-type: none"><li>Periodic review and update of this policy</li><li>Recommendations in regards to new borrowings proposals (including levels and timing) and management of Council's existing loan portfolio.</li><li>Ensuring adherence to the Borrowings Policy.</li><li>Oversight and management of Council's loan portfolio, including loan repayments.</li><li>Reporting of loan balances and related key performance indicators.</li></ul>

## 10. Related Documents

- Local Government Act 2020
- Australian Accounting Standards
- City of Yarra Financial Sustainability Strategy 2023-2033
- City of Yarra Annual Adopted Budget and Financial Plan
- City of Yarra Employee Code of Conduct
- City of Yarra Delegation of Authority