

THE CITY OF
GREATER GEELONG

BORROWING POLICY

VERSION:	4
TYPE OF POLICY:	<i>Council</i>
APPROVAL DATE:	26 OCTOBER 2023
REVIEW DATE:	26 OCTOBER 2027
RESPONSIBLE OFFICER:	<i>Chief Financial Officer</i>
AUTHORISING OFFICER:	<i>Chief Executive Officer</i>

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Introduction

PURPOSE

The purpose of this policy is to provide the appropriate parameters for the City to undertake borrowings without compromising the application of sound financial management principles. The policy allows the City the flexibility to respond to funding requirements while operating within the risk appetite.

The borrowing policy ensures the City has a sound financial framework on which to:

- undertake borrowings;
- manage its loan portfolio; and
- adhere to the provisions of the Local Government Act 2020 (the Act).

BACKGROUND

The City must implement sound financial management principles, including:

- Managing financial risks within the established risk appetite and limits (refer to section 3 below),
- Spending within the budget parameters and where items are not budgeted on a post budget approved basis,
- Policies consistent with a reasonable degree of financial sustainability and stability,
- Those decisions are made with future generations in mind, and
- Ensuring the disclosure of financial information.

Borrowing activities will be undertaken in a manner which minimises risk to the City. Section 104 of the Act outlines, i.e., a Council cannot borrow money unless the proposed borrowings were included in the budget or revised budget.

SCOPE

This policy applies to the City when considering and determining the annual budget, any revised budget, borrowing funds within the budget settings, and making financial management decisions.

City Officers must consider the application of this policy when:

- The City cannot borrow money unless the proposed borrowings were included in the budget or a revised budget,
- Strategies the City may employ to facilitate stated goals or to achieve desired financial objectives,
- Consideration of new borrowings,
- Refinancing existing borrowings (where long-term benefits of refinancing are greater than the cost of the existing loan), and
- For the establishment of new debt facilities, as approved by resolution of Council at the time of budget adoption or as required.

Definitions

The following definitions apply to this Policy:

Term	Definition
City	The City of Greater Geelong organisation, led by the CEO.
City Officers	Includes employees, volunteers and contractors. Only employees are able to act under this Policy.
Council	The City of Greater Geelong Council comprised of elected councillors and led by the Mayor.
Debt facility	Also called a loan facility, is maximum amount a lender has permitted a borrower to borrow.
ELT	The Executive Leadership Team of the City, as constituted from time to time.
Responsible Officer	<p>The officer delegated by the Authorising Officer with the responsibility for the development, deployment, monitoring and review of the document.</p> <p>The Responsible Officer is generally the director or manager of the relevant directorate or department responsible for the subject matter that is the topic of a governance document.</p> <p>The CEO will determine the Responsible Officer if more than one business area is equally involved in the subject matter. The Responsible Officer is the first point of contact for enquiries regarding the document.</p>
Capital Project	Means a long-term investment project requiring relatively large sums to acquire, construct and/or renew a capital asset (such as buildings). The project would result in a new, expanded or replaced asset.
Defined Benefit Fund	Is a closed plan to new members from 31 December 1993. The future liabilities of the fund relative to investment performance may necessitate future funding calls.
Developer Contribution Plan Project	<p>A Development Contributions Plan (DCP) is a mechanism used to levy new developments for contributions to planned infrastructure needed by the future community. An approved DCP is a DCP that forms part of a planning scheme.</p> <p>A DCP project is a project which a contribution has been received from the developer to fund infrastructure and other community items.</p>
Loan Book	Means the collective value of loans held by the City.

Term	Definition
Local Government Performance Reporting Framework (LGPRF)	Outlines the measures to be included in the City's performance report.
Long-Term Financial Plan	The long-term financial plan provides an outline of the City's financial and other resources required to deliver upon key strategic plans over a 10-year period.
Section 173 Agreement	Is a legal agreement made between the City of Greater Geelong and another party or parties, under section 173 of the Planning and Environment Act 1987.
Victorian Auditor General's Office (VAGO)	Examines and reports on the management of resources within the public sector.
Treasury Corporation Victoria (TCV)	Victorian Government entity that provides the loans to eligible Local Government Councils.
Financial management principles	Sound financial management is the careful tracking and prudent management of the City's financial resources and cash-flow. Without sound financial management, information can be wrong or absent, decision-making is flawed, and minor issues can become serious problems putting the City itself at risk.
Financial Institution	<p>A financial institution (FI) is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange.</p> <p>For the purpose of this Policy this is defined as Authorised Deposit-taking Institutions (ADIs).</p>
Financial Statements	<p>Financial Statements are, the Balance Sheet, the Comprehensive Income Statement, Statement of Changes in Equity, Statement of Cash Flow, and Statement of Capital Works.</p> <p>The primary purpose of financial statements is to aid current and prospective stakeholders in making resource-allocation decisions.</p>

Policy

1. POLICY STATEMENT OF PRINCIPLES

- 1.1 The Borrowing Policy is underpinned by the following principles:
 - 1.1.1 The Policy will be adhered to in developing the organisation's long term financial plan and all borrowings must be identified in the plan.
 - 1.1.2 The City will measure and report on renewal/upgrade expenditure relative to depreciation to highlight any renewal gap. This is to ensure assets are renewed as planned without the use of borrowings.
 - 1.1.3 Borrowings must be linked to the financing of a capital project.
 - 1.1.4 Cash flows will be phased to consolidate the principal and interest requirements of approved capital projects.
 - 1.1.5 The City will not borrow to fund operating expenditure. This type of expenditure is to be funded from operating revenue streams (rates, fees, and charges etc.).
 - 1.1.6 The City will not borrow to fund recurrent capital works which is inclusive of acquisition, replacement, or renewal of assets (e.g., road resurfacing). This type of expenditure is to be funded from operating revenue streams.
 - 1.1.7 The term of any loan must not exceed the expected economic life of the asset.
 - 1.1.8 The exception to this principle would be a call to 'defined benefit' Superannuation Fund. Large calls to 'defined benefit' fund will require a separate report to Council which will include a recommended method of funding, use of working capital, superannuation fund or borrowings.

2. POLICY OBJECTIVES

- 2.1 To ensure the City's new borrowings are within the Risk Appetite, agreed limits, sustainable and comply with legislative requirements.
- 2.2 To ensure the loan type and term of loan will be treated on a case-by-case basis to optimise borrowings within the construct of the loan book.
- 2.3 To manage cash flow, liquidity levels and manage borrowings within Risk Appetite and agreed limits.

BORROWING AND RATIOS AND LIMITS

3. VICTORIAN AUDITOR – GENERAL’S OFFICE REQUIREMENTS

- 3.1 VAGO reviews and reports on the financial sustainability of the Local Government sector. Three indicators best assess the financial sustainability risks associated with borrowing. The City will use the following three indicators when assessing new or refinanced borrowings and ensure borrowings remain within endorsed risk limits:

INDICATOR	FORMULA	DESCRIPTION	RISK
Internal financing (%)	Net operating cash flow / net capital expenditure	<p>This measures the ability of an entity to finance capital works from generated cash flow.</p> <p>The higher the % the greater the ability of the entity to finance capital works from their own funds.</p> <p>Net operating cash flow and net capital expenditure are obtained from the cash flow statement.</p>	<p>Less than 75% - High</p> <p>75 – 100% - Medium</p> <p>More than 100% - Low</p>
Indebtedness (%)	Non-current liabilities / own-sourced revenue	<p>Comparison of non-current liabilities (mainly comprising borrowings) to own-sourced revenue. The higher the % the less the entity is able to cover non-current liabilities from revenues the entity generates itself.</p> <p>Own source revenue is used rather than total revenue because it does not include grants for contributions.</p>	<p>More than 60% - High</p> <p>40 – 60% - Medium</p> <p>40% or less - Low</p>
Indebtedness (TCV) (%)	Total borrowings / own-sourced revenue	<p>The higher the % the less the entity is able to cover non-current liabilities from revenues the entity generates itself.</p> <p>Own source revenue is used rather than total revenue because it does not include grants for contributions.</p>	<p>More than 60% - High</p> <p>40 – 60% - Medium</p> <p>40% or less - Low</p>

- 3.2 The City will operate below the high-risk range for the above measures to provide flexibility to respond to funding requirements for new or unplanned capital expenditure.

4. LOCAL GOVERNMENT REPORTING PERFORMANCE FRAMEWORK (LGPRF)

- 4.1 LGPRF includes two additional ratios:
- 4.1.1 **Debt Commitment Ratio** measured as interest and principal repayments on interest bearing loans / rate revenue (recommended target 0% to 10%); and
 - 4.1.2 **Borrowing Rates Ratio** measured as interest bearing loans and borrowings / rate revenue (recommended below 80%)
- 4.2 The City will operate within the target ratio as set by the LGPRF.

5. CREDIT RATING

- 5.1 The City's credit rating will be assessed by the Financial Institutions as part of the tender process for new borrowings and may be disclosed to the City.

6. DETERMINATION OF LOAN TERM AND INTEREST RATE TYPE

- 6.1 The City will complete an analysis of the market to enable a recommendation on the loan term (number of years) and interest rate type (fixed or variable).

7. DETERMINATION OF LENDING INSTITUTION

- 7.1 New borrowings will be identified as part of the annual budget process.
- 7.2 The City will in the first instance consider borrowing from Treasury Corporation Victoria, within the framework established by Local Government Victoria (LGV). This framework was established by LGV to enable councils to take advantage of Victoria's strong credit rating, which allows the State to borrow and lend money at cheaper rates than are commercially available. Council will otherwise invite written quotations through a public tender. The public tender process will be in accordance with the City's Procurement Policy and the Act.

8. LOAN TYPE AND TERM

- 8.1 The City's borrowings for the following projects will be a mixture of interest only and principal and interest (P&I) loans based on the table below.
- 8.2 The classification loan type and term are based on the City's ability to recover the cost of the loan from the service/activity being borrowed for:
- 8.2.1 Developer Contribution Plans;
 - 8.2.2 Fees and charges from the service/activity where the financing costs are recoverable (e.g., leisure services, childcare services); and
 - 8.2.3 Service/activity where there is the opportunity for cost reductions (e.g., renewables) and/or where a number of services/activities can be aggregated where there is an element of cost reduction.
- 8.3 The loan type and term may be varied in accordance with abovementioned section 'Determination of loan term and interest rate type.'

CLASSIFICATION	BORROWING	LOAN TYPE	TERM OF LOAN	RATIONALE
DCP – Fully funded	DCP Projects – land acquisition or where State/Federal contribution to project provides funding	Interest Only	Flexible	Income is to be received over a number of periods and the principal will be reduced accordingly
DCP – other	DCP projects which create an asset with City responsibilities	P&I	Up to 10 years	P&I repayments to be factored into budget estimates each year
Incremental Revenue; projects which provide the City revenue not linked to rates	Community Asset Projects – Construction projects which create a community asset	P&I	Up to 10 years	P&I repayments to be factored into budget estimates each year
Incremental Revenue or Cost Reduction; projects which provide the City with revenue or cost savings not linked to rates	General – Income or cost savings linked to a Capital project (e.g. landfill cell, LED street lighting)	Interest Only Or P&I	Flexible	Interest to be charged and to form cost of service delivery. Principal to be recovered and accounted for through identified cost savings.

9. COST ALLOCATION OF BORROWINGS

- 9.1 If the capital project is for a service that is funded by user charges (e.g. leisure services) and borrowings are the agreed funding source then the user charges pricing model will be updated to reflect the total cost of the borrowings.
- 9.2 If the capital project is for a service that is not funded by user charges, then borrowings should only be considered where the project is considered by the City to be beneficial to the majority of ratepayers and costs will not be directly attributed to a service.

10. RESTRICTION

- 10.1 For the avoidance of doubt and as noted above (Background) the City will abide by section 104 of the Act whereby money cannot be borrowed unless details of the proposed borrowings are included in the annual budget or revised budget.

Implementation of this Policy

MONITORING AND REPORTING

The application of this policy will be monitored through the annual review and update of the City's Long Term Financial Plan, Budget documents and annual Financial Statements. The documents report on the City's debt portfolio including current borrowings.

The City will report on financial sustainability metrics, debt commitment and borrowing rate ratios as part of the Budget process and in the annual Financial Statements.

ADVICE AND ASSISTANCE

The Responsible Officer for this policy manages the provision of advice to the organisation regarding this policy.

A person who is uncertain how to comply with this policy should seek advice from this person or from their Manager.

RECORDS

The City must retain records associated with this Policy and its implementation in accordance with its Records Information Management Policy.

REVIEW

The Policy will be reviewed on a 4-year basis, and key borrowing metrics will be reviewed annually during budget development and endorsed by Council. The review will include advice from appropriate financial institutions.

References

Legislation

The Local Government Act 2020

Other Documents

Local Government Performance Reporting Framework (LGPRF)

Victorian Auditor - General's Office (VAGO)

Procurement Policy

Records Information Management Policy