WARRNAMBOOL
CITY COUNCIL

BORROWINGS STRATEGY

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Background

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.

In developing Councils Long Term Financial Plan, borrowings have been identified as an important funding source for infrastructure necessary to support the new growth areas, provision of generational infrastructure assets and to invest in projects that provide an appropriate return on investment through income generation or cost savings.

Purpose

The purpose of this strategy is to provide the appropriate parameters for the Council to undertake borrowings without compromising the application of sound fiscal management principals. The strategy allows the Council the flexibility to respond to funding requirements while minimising risk.

The strategy ensures that Council has a sound financial framework on which to:

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

Legislative Framework

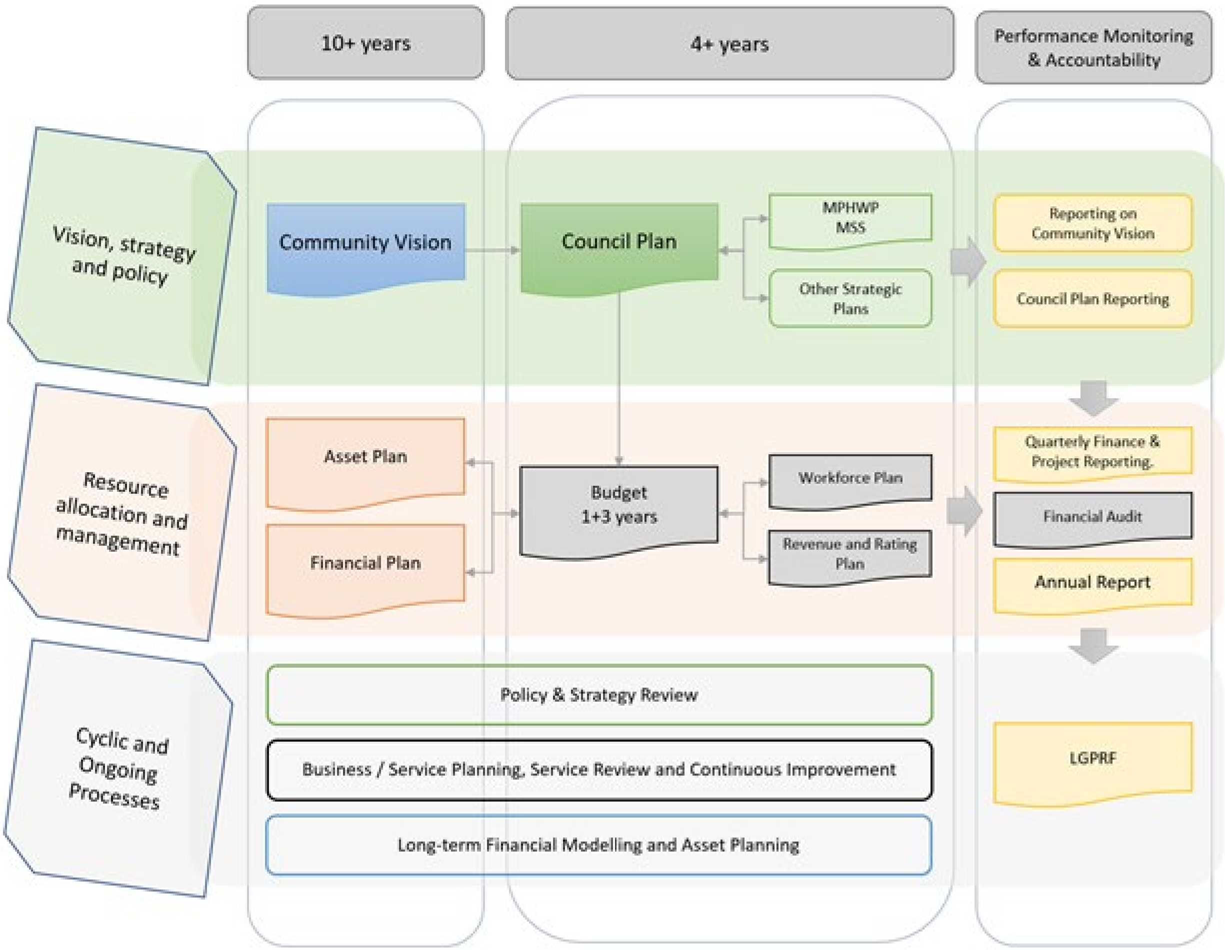
The Local Government Act 2020 (Section 104) gives Council the power to borrow funds provided it is included in the budget or the revised budget.

The Act introduces strategic planning principles for Victorian councils which include an integrated approach to planning, monitoring and performance reporting.

Part 4 of the Local Government Act 2020 requires councils to prepare the following:

- A Community Vision (for at least the next 10 financial years);
- A Council Plan (for at least the next 4 financial years);
- A Financial Plan (for at least the next 10 financial years);
- An Asset Plan (for at least the next 10 financial years);
- A Revenue and Rating Plan (for at least the next 4 financial years);
- An Annual Budget (for the next 4 financial years);
- A Quarterly Budget Report;
- An Annual Report (for each financial year);
- A Workforce Plan (including projected staffing requirements for at least 4 years); and
- Financial Policies.

The legislative timeframes for development, review and adoption of the elements of the Integrated Strategic Planning and Reporting Framework (ISPRF) and the time horizons for each element vary. However there are also many linkages, including the central importance of community engagement. It is therefore vital to recognise the relationships and degrees of integration between different elements. To aid this process, a visual representation of the ISPRF has been developed.



The borrowing strategy is an important financial strategy that will help to inform the key strategic documents of Council.

Linkage to Council Plan

Council's strategic objectives are set out in the Council Plan whilst the 4 year budget and long term financial plan contains the financial resources to achieve these objectives. These plans outline the funding sources proposed to deliver on the strategic objectives for the community.

In seeking to remain financially sustainable, Council utilises a range of funding sources of which borrowings is one. It is acknowledged that Councils are generally infrastructure intensive as this is required to provide the extensive range of services to their communities much of which would not be provided for in any other form.

The Council Plan outlines the strategic intent of service provision and advocacy for the local community.

Principles of Financial Management

The Victorian Local Government Act 2020 (Section 101) sets out the following principles of financial management:

(1) The principles of financial management are that a Council must –

(a) revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans;
(b) financial risks must be monitored and managed prudently having regard to economic circumstances;
(c) financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community;
(d) accounts and records that explain the financial operations and financial position of the Council must be kept.

(2) For the purposes of the financial management principles, financial risk includes any risk relating to the following—
(a) the financial viability of the Council;
(b) the management of current and future liabilities of Council;
(c) the beneficial enterprises of the Council.

Strategic Intent

Council is of the opinion that borrowings are an acceptable source of funding. Council will plan to utilise this form of funding in future budgets and in its long term financial plan. Whilst understanding and adhering to the principles of sound financial management as set out in the local government act, Council must decide how this manifests itself in practical terms for the future and how it will utilise borrowings as such.

The principles outlined below in the strategy form the policy basis for Council Borrowings. The following principles codifies what process for decision making is to be applied when considering the use of borrowings for Warrnambool City Council.

Borrowing Policy Principles

- No borrowings for operational purposes.
- Borrow for major infrastructure projects which have long useful lives thereby applying equity of burden across ratepayers of different generations who would enjoy the benefits of the asset.
- Consider borrowing for unforeseen one-off major impacts (i.e defined benefits superannuation calls, natural disasters) that may have a generational impact.
- Priority for projects with above loan repayment returns – These are projects which are capable of generating new cash inflows, or reduced cash outflows, which are greater than the principal and interest cash flows associated with a loan.

- Loan repayments of principal and interest to repay debt over its loan term.
- Maintain a prudential borrowing ratio (debt/rate revenue) of no greater than 50%.
- Maintain a debt servicing ratio (loan repayments/rate revenue) of no greater than 8%.
- All Victorian Auditor General Office VAGO Sustainability indicators relating to debt which a sustainable rating.
- Council will secure its loan funds through competitive tendering, either as a standalone tender or through collaborative tendering arrangements approved by the Minister for Local Government or directly with the Treasury Corporation of Victoria.

Borrowing Arrangements

When entering into borrowing arrangements, Council will seek to minimise interest costs over the long term without introducing undue volatility in annual interest costs. Council's borrowings will be appropriately structured to constrain risk and will be consistent with the following parameters:

Council will consider the appropriateness of the various types of debt products available (including savings offset arrangements);

- The term of a loan will typically be 10 years, but no greater than the expected useful life of the asset being funded by the loan;
- Council intends to maintain a repayment schedule consistent with "principal and interest" repayment calculations. In the case of interest only borrowings, this will require an investment reserve to be established to hold funds equivalent to principal repayments;
- Loan repayments will be made in a regular schedule, such as quarterly, bi-annually or otherwise determined at the time of entering the loan agreement. Consideration should be given to efficiency of payment while minimising interest costs