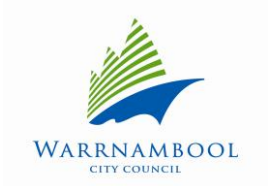




WARRNAMBOOL  
CITY COUNCIL

# **BORROWINGS STRATEGY**

APPROVAL DATE: 1 May 2017  
REVIEW DATE: June 2021



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## Background

In developing the Strategic Resource Plan (SRP) and the Long Term Financial Plan, borrowings have been identified as an important funding source for infrastructure necessary to support the new growth areas and to deal with the flattening of major generational infrastructure costs.

Warrnambool Council has a history borrowed strongly to finance large infrastructure projects and the provision of drainage infrastructure to facilitate new development in the city was an exemplar of this direction. The updated SRP contains borrowings to fund the new infrastructure works necessary to facilitate development in the identified growth areas.

The debt reduction program likewise creates a future opportunity to revisit borrowings for projects and stay within appropriate prudential borrowing limits.

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.

## Legislative Framework

The Local Government Act 1989 (the Act) (Section 125) provides that Councils are required to develop Council Plans generally within 6 months of each general election. The Council Plan must document Council's strategic objectives and strategies for achieving those objectives at least over the next 4 years as well as indicators for monitoring the achievement of objectives. The Act (Section 126) requires the Council Plan to incorporate a Strategic Resource Plan.

The Strategic Resource Plan identifies resources required to achieve the strategic objectives for at least the next four years and in particular the financial resources which are set out in standard financial statement format.

While the Council Plan is set for a minimum four year period, good governance and planning processes would ensure it is based on longer term objectives in relation to Council services and infrastructure. These aspirations are then translated into the medium term goals set out in the Council Plan. Council has a number of processes through which long term service and infrastructure needs are identified. In particular, asset management and capital expenditure planning typically spans a 10 year or longer time horizon.

Changes mooted in the development of a new Local Government Act and work required to fulfil any submissions to the Essential Services Commission (ESC) must look at a longer 10 year plus horizon.

Part of any ESC review of rates is the effective utilisation of all available resources by a Council i.e. its current rating effort other recurrent revenue streams and the manner in which its borrowings regime is applied.

Under the Act (Section 127) a budget must also be prepared each financial year. The budget must be prepared in a standard format, describe the "activities and initiatives to be funded" and must also state "...how the activities and initiatives...will contribute to achieving the strategic objectives" Council.

The Act provides for Councils the power to borrow.

Section 144(1) of the Act states: 'Subject to the principles of sound financial management, a Council may borrow money to enable the Council to perform the functions and exercise the power conferred on the Council under this Act or any other Act.'

Sections 145 to 149 of the Act further specify the circumstances in which the power to borrow may be exercised, securities to be used for local government borrowings, and how the borrowings should be disclosed, etc.

In particular, Section 146 provides that '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.' Further 'If the proposed borrowings are to re-finance existing loans, the Council is not required to include the proposed borrowing in a budget or revised budget.'

Council Plans can be amended. The Act (Section 125(7)) requires that "...a Council must consider whether the current Council Plan requires any adjustment" and (Section 125(8)) that "...a Council may make any adjustment it considers necessary". Any such adjustments to the Council Plan must be advised to the Minister within 30 days of the making the adjustment (Section 125(10)).

Similarly, the Act (Section 128(1)) requires that a revised budget be prepared "...if circumstances arise which cause a material change in the budget and which affects the operations and position of the Council."

Therefore the Act clearly provides for amendments to be made to the Council Plan (including the Strategic Resource Plan) and the Annual Budget.

In practical terms the Council Plan and Budget are subjected to review at least on an annual basis.

### **Linkage to Council Plan**

Council's strategic objectives are set out in the Council Plan whilst the Strategic Resource Plan contains the financial resources to achieve these objectives it outlines the funding sources proposed to deliver on its strategic objectives for its 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 a local community.

### Principles of Sound Financial Management

The Victorian Local Government Act 1989 (Section 136) sets out the following principles of sound financial management:

- (2) The principles of sound financial management are that a Council must –
- (a) manage financial risks faced by Council prudently having regard to economic circumstances;
  - (b) pursue spending and rating policies that are consistent with a reasonable degree of stability of the rates burden;
  - (c) ensure that decisions are made and actions are taken having regard to their financial effects on future generations;
  - (d) ensure full, accurate and timely disclosure of financial information relating to the Council
- (3) The risks referred to in subsection (2)(a) include risks relating to –
- (a) the level of Council debt;
  - (b) the commercial or entrepreneurial activities of the Council;
  - (c) the management and maintenance of assets;
  - (d) the management of current and future liabilities;
  - (e) changes in the structure of the rates and charges base.”

### Strategy as Policy:

Council is of the opinion that borrowing 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.

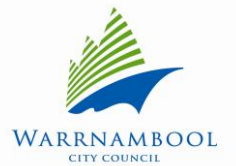
### **Borrowing Policy Principles:**

- 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.

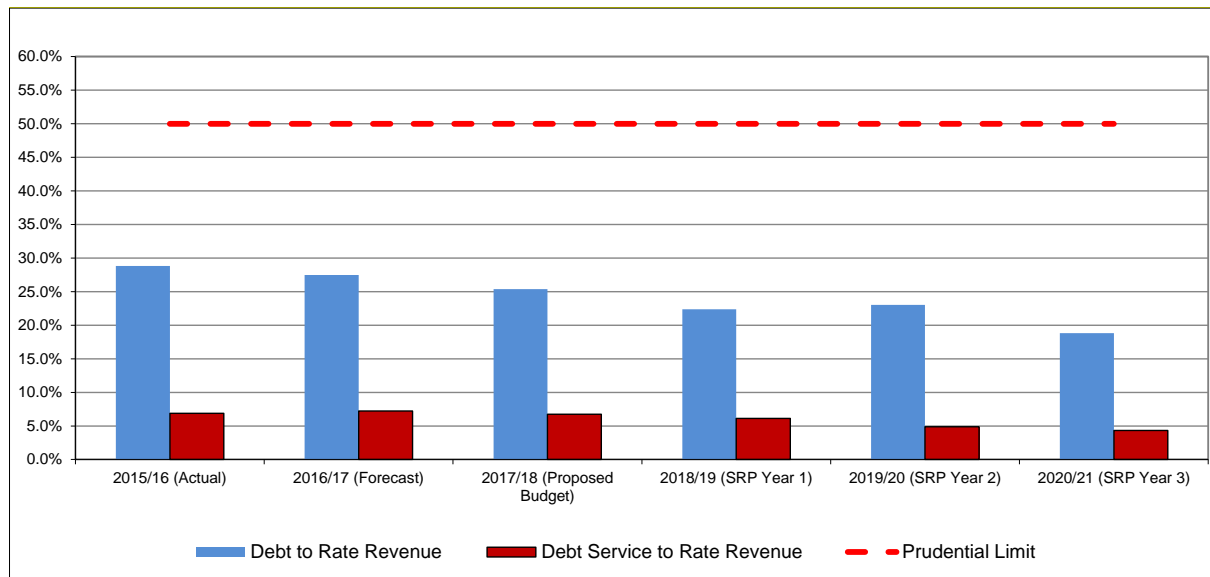
### **Period of policy currency and review**

This policy will remain current until its review which will be scheduled for consideration in June 2021.

# BORROWINGS STRATEGY



The following graph demonstrates council's compliance with its borrowing principles.



Council's is expecting to reduce its debt levels over the SRP from a peak of \$9.9 million down to \$7.3 million and expects this downward trend to continue into the future. **(NB: These figures do not include a current loan guarantee of \$2.9 million to the Warrnambool RSL sub branch for extension works this Guarantee also affects our borrowing limits as a liability.)**