



# Council Policy

## Borrowing and Debt Management Policy

Department/Unit	Business and <del>Finance</del>	First Implemented	June 2021	Review Date	<del>February 2029</del>
Origin	<del>Financial Controller</del>	Reviewed	<del>April 2025</del>	Version	<del>2</del>
Authorising Officer	Endorsement by Council	Effective From	<del>21 May 2025</del>	Records Reference	E34

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### Purpose/Objective

Borrowing can be an effective way to fund important **Mansfield Shire** Council (**Council**) priorities. When used responsibly they can be an important tool for managing cash flow and helping to spread the burden of large investments across the generations that will benefit from those investments.

Council has a responsibility to manage existing and new borrowings in line with sound financial management principles, the *Local Government Act 2020* (**the Act**) and corresponding regulations and community expectations.

The purpose of this policy is to:

- ▶ establish objectives and principles that outline when it is appropriate for Council to undertake borrowing within a sound financial management framework;
- ▶ ensure Council keeps within the relevant prudential requirements provided by State Government; and
- ▶ set out the manner in which Council may establish and manage a debt portfolio.

### Policy Statement

#### Borrowing Principles

The following principles have been set to ensure Council has a structured and disciplined approach to borrowing of funds that fit with a longer term financially sustainable framework.

- ▶ Borrowings are only to be used to finance items described in the policy statement.
- ▶ Borrowing needs to be linked to the financing of an identified project and not to be drawn down until the commencement of the project.
- ▶ Council will not borrow to fund operating expenditure, other than large Defined Benefit superannuation calls.

- ▶ All borrowing must be declared in the Annual Budget or Revised Annual Budget as per section 104 of the Act.
- ▶ All borrowings will be considered as part of Council's long term financial planning using sound financial management principles and fall within the borrowing ratios outlined in this policy.
- ▶ The nature of any borrowing (short or long term) and the interest rate (fixed or variable) will take into account the purpose of the loan and seek to balance interest rate exposure with refinancing flexibility.

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### Borrowing Ratios and Limits

Borrowing shall not be undertaken if the effect of such borrowings are projected to result in borrowing ratios greater than the maximum levels indicated in the table below. These levels are in line with the *Local Government Performance Reporting Framework (LGPRF)* recommended maximum targets.

Measure	Council's Maximum Level
<b>Debt Service Ratio</b> Interest and principal repayments on interest bearing loans and borrowings / rate revenue	20%
<b>Debt Level Ratio</b> Interest bearing loans and borrowings / rate revenue	70%
<b>Indebtedness Ratio</b> Non-current liabilities / own source revenue	70%

### Determining an Appropriate Lending Institution

Once borrowing has been approved by Council requests to appropriate lending institutions in accordance with Council's *Procurement Policy* will be made inviting written quotations to Council's borrowing requirements.

Written quotations must include the:

- ▶ Interest rate;
- ▶ Term of loan;
- ▶ Repayment intervals;
- ▶ Repayment instalment amount;
- ▶ Any applicable fees; and
- ▶ Loan break costs.

### 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.
- ▶ The tenure of the loan will not be greater than the expected useful life of the asset being funded by the loan.
- ▶ Council will maintain a repayment schedule consistent with 'principal and interest' repayment calculations.
- ▶ Loan repayments will be made to a regular schedule, giving consideration to the efficiency of payment while minimising interest costs.

## Definitions

Term	Definition
Local Government Performance Reporting Framework (LGPRF)	The legislated framework through which all Victorian Councils are required to report specific key performance indicators (KPI's), allowing benchmarking across the sector. All information is available publicly via the "Know Your Council" website <a href="http://www.knowyourcouncil.vic.gov.au">www.knowyourcouncil.vic.gov.au</a> .
Loan Portfolio	The combination of all interest bearing loans taken out by Council.
Capital Project	An investment project requiring relatively large sums to acquire, construct, or upgrade a community asset.
Defined Benefits Superannuation	The Defined Benefit Plan for local government employees was a compulsory scheme set up by the Victorian Government in 1982 and was closed in 1993. Unlike other exempt public sector schemes, it must be fully funded to pay the benefits owed to members now and into the future. Council has obligations to fund any shortfalls in the fund, as advised by VicSuper from time to time.
Interest bearing loans and borrowings	A loan or borrowing in which the debt is expressed as a principal amount and interest is calculated, charged, and collected on unpaid balances.
Interest and principal repayments	Repayments made on principal amounts and/or interest from interest bearing loans or borrowings, where the debt is expressed as a principal amount and interest is calculated, charged, and collected on unpaid balances.
Rate revenue	Revenue from general rates, municipal charges, service rates and service charges (e.g. waste) levied on rateable properties.

Term	Definition
Own source revenue	Adjusted underlying revenue excluding revenue which is not under the control of council (including government grants).
Non-current liabilities	Financial liabilities that provide financing on a long-term basis and are not due for settlement within twelve months after the reporting period.
Appropriate lending institution	An Australian bank with a minimum S&P long term rating of BBB+ (or equivalent). Local Government Funding Vehicle and Treasury Corporation loans if available.

## Scope

This policy applies to all new borrowings undertaken by Council, as well as existing borrowings, where significant long term benefits of refinancing exist and the cost of breaking existing borrowing contracts is affordable within the short and medium term financial plans.

It does not apply to any short-term overdraft facilities.

## Responsibilities

Council is responsible for approving borrowings by way of inclusion of all borrowings in the Annual Budget or amended Annual Budget where applicable.

The Financial Controller is responsible for ensuring policies and procedures are followed when borrowing funds.

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The Chief Executive Officer has authority to accept loan offers, following the resolution of Council, so long as the requirements of this Policy are adhered to.

The Business and Finance Department is the owner of this policy. Any reviews of this Policy must be made in consultation with the Financial Controller.

## References / Related Policies

- ▶ *Local Government Act 2020*
- ▶ Mansfield Shire Council Procurement Policy
- ▶ ~~Mansfield Shire Council Financial Strategy Policy~~
- ▶ Mansfield Shire Council Financial Plan 2021-31

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## Gender Impact Assessment

The Borrowing and Debt Management Policy has considered the Gender Equality Act 2020 in its preparation but is not relevant to its content. The Policy has been assessed as not requiring a

Gender Impact Assessment (GIA) as it is purely administrative in its nature and does not have the potential to influence broader social norms and gender roles.

## Implementation

This Policy is effective from 21 May 2025.

Deleted: 22 June 2021

## Review Date

This Policy is to be reviewed by February 2029.

Deleted: 30 June 2025

## Authorisation to Implement Policy

Signed: \_\_\_\_\_

Councillor

Witnessed: \_\_\_\_\_

Chief Executive Officer

Approval dated: 21 May 2025

Deleted: 22 June 2021

Mansfield Shire Council reserves the right to review, vary or revoke this Policy at any time.