



Loan Borrowing Policy

REM REFERENCE	TBC
POLICY TYPE	Council: adopted by Council resolution
APPROVAL	Council
DATE ADOPTED	XX May 2026
DIRECTORATE	Corporate and Commercial Services
POLICY OWNER	Manager Financial and Integrated Planning
NEXT REVIEW	May 2030
REVISION RECORD	VERSION REVISION DESCRIPTION

1. Purpose

The Loan Borrowing Policy provides the appropriate parameters for Council to undertake borrowings without compromising the application of sound fiscal management principals. The policy allows Council the flexibility to respond to funding requirements, while minimising risk.

The Loan Borrowing Policy ensures that Council has a sound financial framework on which to:

- Establish objectives and principles that outline when it is appropriate for Council to undertake external borrowings within a sound financial management framework.
- Ensure Council keeps within the relevant borrowing limit as set by this policy.
- Demonstrate that both short-term viability and long-term sustainability are not compromised.
- Adhere to the provisions of the *Local Government Act 2020* (Vic) (Act).

2. Scope

This policy applies Council and all Council officers when considering and determining the annual budget or alongside another relevant Council decision.

Council officers must consider the application of this policy when:

- Preparing and determining the annual budget and 10-year financial plan.
- Considering new borrowings.
- Refinancing existing borrowings (where long-term benefits of refinancing are greater than the cost of the existing loan) as approved by Council resolution.

It does not apply to determining operating accounts or activities relating to trusts. Council's overdraft facility is also excluded, due to being a short-term financial arrangement.

3. Governance Principles and Council and Wellbeing Plan Alignment

3.1. Governance Principles

A Council must, in the performance of its role, give effect to the overarching governance principles (*Local Government Act 2020 (Act)* s9). In accordance with the Act, this Policy aligns with the following governance principles:

Principle (a) Council decisions are to be made and actions taken in accordance with the relevant law;

Principle (b) priority is to be given to achieving the best outcomes for the municipal community, including future generations;

Principle (c) the economic, social and environmental sustainability of the municipal district, including mitigation and planning for climate change risks, is to be promoted;

Principle (g) the ongoing financial viability of the Council is to be ensured;

Principle (i) the transparency of Council decisions, actions and information is to be ensured.

3.2. Council and Wellbeing Plan Alignment

Strategic Outcome 4: Council Performance and Leadership – A forward-thinking and responsive council that values community input, committed to optimising services, ensuring robust governance and making sustainable decisions.

4. Policy

4.1. Principles

4.1.1. The Loan Borrowing Policy is underpinned by the following principles:

- Financial risks are monitored and managed prudently, having regard to economic circumstances.
- The Policy will be adhered to in developing the organisation's long term financial plan and all borrowings must be identified in the plan.
- Council considers those financial institutions which demonstrate a positive commitment to Climate change, as detailed in section 4.6 of this policy.
- Council will only consider any proposed new borrowings through the budget process or a formal revised budget process.
- Details of any proposed new borrowings will be provided to the community via the budget or revised budget.

4.1.2. Borrowings must be directly linked to the financing of a capital project including environmental projects that demonstrate future sustainability benefits.

- 4.1.3. Borrowings can be used to provide bridging finance for Development Contribution Plans (DCPs) where interest costs can be recouped by Council through the DCP scheme.
- 4.1.4. Appropriate funds are available at the appropriate time to support the delivery of Council's strategic objectives.
- Optimum times to borrow, considering interest rates, construction cost inflation rates, and the need to provide economic stimulus are considered.
 - The term of any loan must not exceed the expected economic life of the asset.
 - Decisions being made with future generations in mind, as borrowings are spread across the generations who benefit from them.
- 4.1.5. Council will not borrow to fund recurrent capital works which is inclusive of replacement or renewal of assets (e.g., road resurfacing). This type of expenditure is to be funded from operating revenue streams.
- 4.1.6. Council will not borrow to fund operating expenditure except for calls for Defined Benefits Superannuation. 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.
- 4.2. Inter-generational equity funding**
- 4.2.1. Council will consider equity between generations of ratepayers (inter-generational equity) whereby the mechanisms to fund specific capital expenditure take into account the ratepayers who benefit from the expenditure and therefore, on a user pays basis, who should pay for the costs associated with such expenditure
- 4.3. Borrowing Ratios and Limits**
- 4.3.1. The level of borrowing shall be within acceptable limits identified by key ratios, including those in the Local Government Planning and Reporting Framework (LGPRF), to ensure long-term sustainability. Council should ensure that the amount of borrowing does not exceed these limits, so that debt servicing costs can be sustained on an ongoing basis.

Source	Measure	Calculation of Ratio	Sector Expected Ratio Range
LGPRF	Loans and borrowings repayments compared to rates. Interest and principal repayments on interest bearing loans and borrowings as a percentage of rate revenue.	Interest and principal repayments on interest bearing loans and borrowings / rate revenue	0% to 20%

Source	Measure	Calculation of Ratio	Sector Expected Ratio Range
LGPRF	Loans and borrowings compared to rates. Interest bearing loans and borrowings as a percentage of rate revenue.	Interest bearing loans and borrowings / rate revenue	0% to 70%
VAGO	Internal financing (%) This measures the ability of an entity to finance capital works from generated cash flow. The higher the percentage, the greater the ability of the entity to finance capital works from their own funds.	Net operating cash flow / net capital expenditure	Less than 75% - High 75-100% - Medium More than 100% - Low
VAGO	Indebtedness The higher the % the less the entity is able to cover non-current liabilities from revenues the entity generates itself. Own source revenue is used rather than total revenue because it does not include grants for contributions.	Total borrowings / own-sourced revenue	More than 60% - High 40 – 60% - Medium 40% or less – Low
(TCV)	Indebtedness (%) The higher the % the less the entity is able to cover non-current liabilities from revenues the entity generates itself. Own source revenue is used rather than total revenue because it does not include grants for contributions.	Total borrowings / own-sourced revenue	More than 60% - High 40 – 60% - Medium 40% or less - Low

- 4.3.2. Council may resolve to exceed these targets to meet specific funding requirements, (e.g. assets need or impacted by natural disaster, emergency). Council will, as soon as practically possible, adjust future borrowings to ensure the loans and borrowings repayments compared to rates ratio returns within the expected range.
- 4.3.3. In addition, the LGPRF borrowing ratios will be projected in Council's Financial Plan and Annual Budget and reported in Council's Annual Performance Statement.

4.4. Minimum Loan Thresholds

- 4.4.1. For efficiency purposes, the establishment of a loan facility should not be undertaken for minor capital works. Loan funds should ideally be restricted to hallmark projects or investments that are unable to be financially achieved unless loan funds are accessed. Borrowing should only be considered for new or significantly upgraded major assets that provide a broad community benefit. A minimum loan threshold of \$1 million dollars across the life of the project should be met prior to loan funding becoming a consideration.

4.5. Borrowing Structure

- 4.5.1. When entering into borrowing arrangements, Council will seek to minimise interest costs over the long term without introducing undue volatility in annual interest costs.
- 4.5.2. 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.
 - Council to maintain a repayment schedule consistent with "principal and interest" repayment calculations.
 - Loan repayments made on a regular schedule: e.g. monthly, quarterly, annually or otherwise determined at the time of entering the loan agreement. Consideration given to the efficiency of payment schedule while minimising interest costs.
 - It is preferable for borrowings to be fixed interest, principal and interest loans. This enables more certainty when undertaking long term financial planning.
 - Should borrowings be made as interest only, or include a residual (or balloon) payment, a provision by way of a reserve, or similar, will be made to ensure sufficient cash is available to meet such an obligation.

4.6. Determining Lending Institutions

- 4.6.1. New borrowings will be identified as part of the annual budget or a revised budget (Council Meeting agenda) process and will be subject to public tender with authorised deposit taking institutions (ADIs) or by engaging the Treasury Corporation of Victoria (TCV). The public tender process will be in accordance with the Council's Procurement Policy and the Act.
- 4.6.2. In accordance with the Climate Change Action Plan and Council's Investment Policy, where interest rates are competitive, Council will give preference to borrowing funds from ADIs that do not invest in fossil fuel industry.

4.7. Borrowing Redemption

- 4.7.1. When surplus funds exist, the decision to repay borrowings shall be made based on the facts available at the time giving due regard to minimising the overall cost to Council.

4.8. Leases

- 4.8.1. Leasing as a funding option forms part of Council's overall borrowing strategy therefore it should follow Council's Borrowing Policy.
- 4.8.2. There are two types of lease:
- i. An **operating lease** is where Council hires the asset for a set fee per period and at the end of the agreed time ownership of the asset remains with the lessor or the hire company. Council can terminate the lease at any time without incurring a penalty.
 - ii. A **finance lease** is where Council agrees to a series of payments and a residual value for the asset. There is a penalty for terminating the agreement prior to the finishing date. At the end of the period it is expected that Council will purchase the asset for the agreed residual value.
- 4.8.3. Council will undertake a lease versus buy analysis for assets:
- Which diminish in value quickly (e.g. motor vehicles, IT and gym equipment)
 - Where assets will be disposed of in a short timeframe and/or,
 - Where the lease option transfers responsibilities to the asset owner for maintenance and disposal.

4.9. Reporting

- 4.9.1. Council will report on financial sustainability metrics, loans and borrowing compared to rates and loans and borrowing repayments compared to rates ratios as part of the annual budget process and in the annual report.
- 4.9.2. Council will report on its loan portfolio as a part of Quarterly Financial Reports which are endorsed at a Council meeting.

5. Roles and Responsibilities

Role	Responsibility
Councillors	Responsible for: • Approving borrowings by way of inclusion of all borrowings in the Annual Budget. • Approving borrowings by way of inclusion in a revised Budget, if applicable.
Chief Executive Officer	Responsible for authorising loan offers, following the resolution of Council, so long as the requirements of this Policy are adhered to.
Manager Financial and Integrated Planning	Responsible for: • Ensuring policies and procedures are followed when borrowing funds • Ensuring new borrowings are included as part of the Annual Budget

	Determining if a revised annual budget is required in accordance with the <i>Local Government Act 2020</i>.
Financial and Integrated Planning department	Responsible for: - Developing and maintaining a loan register - Developing and maintaining individual loan schedules for each loan facility - Providing assistance with budget calculations and information for proposed new borrowings, and ensuring their inclusion in Council's Budget or Revised Budget - Regular review of borrowing ratios and levels in accordance with this policy.

6. Policy non-compliance

Failure to comply with this Policy will expose Council to financial loss, risks non-compliance with the Act and damage of Council's reputation

7. Definitions

Term	Definition
<i>Act</i>	The <i>Local Government Act 2020</i> (Vic)
<i>TCV</i>	The Treasury Corporation of Victoria
<i>DTF</i>	The Department of Treasury & Finance
<i>Borrowings</i>	Cash received from another party in exchange for future payment of the principal, interest and other finance charges
<i>Capital Project</i>	A long-term project requiring relatively large sums to acquire, construct and/or renew a capital asset (e.g. buildings). The project would result in a new, expanded or replaced asset.

8. Related documents

8.1. Legislation

- Local Government Act 2020*

8.2. Documents and resources

- Victorian Auditor General's Office (VAGO) indicators
- Local Government Performance Reporting Framework (LGPRF)
- Frankston City Council Procurement Policy
- Frankston City Council Investment Policy

- Frankston City Council Climate Change Action Plan
- Frankston City Council Financial Plan
- Frankston City Council Long Term Infrastructure Plan

9. Implementation of the Policy

This Policy (in conjunction with other Related Documents) will be implemented immediately following the Council resolution to adopt this Policy.