

LOAN BORROWING POLICY REVIEW (CONT.)

MITCHELL SHIRE COUNCIL

Council Meeting Attachment

CORPORATE SERVICES

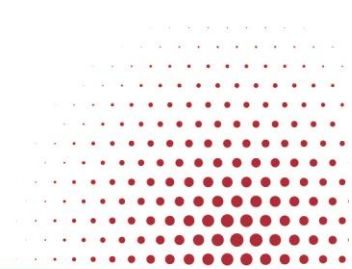
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LOAN BORROWING POLICY REVIEW

Attachment No: 1

Loan Borrowing Policy



LOAN BORROWING POLICY

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Finance Department
Corporate Services
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MITCHELL SHIRE COUNCIL





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1. POLICY PURPOSE

Loan borrowing is a legitimate and responsible financial management tool when used to finance major projects, as it spreads the payments for such assets across the generations who benefit.

The purpose of this Borrowings policy is to:

- establish objectives and principles that outline when it is appropriate for Council to undertake borrowings 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.

2. SCOPE

The borrowing 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).

3. POLICY

3.1. LEGISLATIVE FRAMEWORK

The Local Government Act 1989 (The Act) provides 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 150 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.

Council must approve all borrowings and Section 98(1)(c) stipulates that Council not delegate the power to borrow money.

The Victorian Government established the Local Government Performance Reporting Framework (LGPRF) in 2014. It outlines the measures Council must report in its performance report, which forms part of Council's Annual Report. Certain indicators must also be included in Council's Annual Budget and



Strategic Resource Plan (SRP). This framework includes financial performance of a Council, and specific to this policy includes measures in relation to Council's obligations (to determine whether debt and other long term obligations are appropriate to the size and nature of Council's activities).

3.2. POLICY OBJECTIVES

- To provide an alternative financing option for:
 - capital works projects that are of strategic significance (that could not otherwise be financed from ongoing income sources and provide benefit across generations); or to
 - meet Council's obligations in relation to future defined benefit calls, if required;
- To ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments, budgetary constraints and prudential ratios;
- Manage any new borrowings in the context of optimising cashflow; and
- Develop and maintain a borrowing structure that achieves a balance between predictability and flexibility and aims to minimise borrowing costs.

3.3. 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 objectives;
- Borrowings need to be linked to the financing of an identified project and not be drawn down until the commencement of the project;
- Council will not borrow to fund operating expenditure (other than large defined benefit calls);
- 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 section 3.4 of this policy); and
- The nature of any borrowings (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.



3.4. BORROWINGS RATIOS AND LIMITS

Borrowings 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.

In addition, the Local Government Performance Reporting Framework (LGPRF) borrowing ratios will be projected in Council's SRP and Annual Budget and reported in Council's Annual Performance Report.

Measure	Council's Target Ratio	Recommended Targets
Debt Commitment Ratio Interest and principal repayments on interest bearing loans and borrowings / Rate Revenue.	0% to 10%	LGPRF 0% to 10%
Borrowing Rates Ratio Interest bearing loans and borrowings / Rate revenue	0% to 50%	LGPRF 0% to 50%
Indebtedness Ratio Non-Current liabilities / Own Source Revenue	0% to 50%	LGPRF 0% to 50% VAGO < 60% (low to medium risk)

3.5. DETERMINING APPROPRIATE LENDING INSTITUTION

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

Written quotations must include the:

- Interest rate
- Term of loan
- Repayment intervals (monthly, quarterly, etc.)
- Repayment instalment amount
- Any applicable fees
- Loan break costs



3.6. BORROWING ARRANGEMENTS

When entering into borrowing arrangements, Council will seek to minimise interest costs over the 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 tenor of a loan will not be 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;
- Loan repayments will be made in a regular schedule, such as quarterly, semi-annually or otherwise determined at the time of entering the loan agreement. Consideration should be given to efficiency of payment while minimising interest costs.

4. RESPONSIBILITIES

- Council is responsible for approving borrowings by way of inclusion of all borrowings in the Annual Budget (or Amended Annual Budget where applicable).
- Manager Finance is responsible for ensuring policies and procedures are followed when borrowing funds.
- The CEO has authority to accept loan offers, following the resolution of Council, so long as the requirements of this Policy are adhered to.

5. POLICY EVALUATION / REVIEW PROCESS

The Policy is reviewed when any of the following occur:

- The relevant legislation is amended or replaced.
- Other circumstances as determined from time to time by a resolution of Council.

Notwithstanding the above, this Policy is to be reviewed annually in conjunction with the Annual Budget.