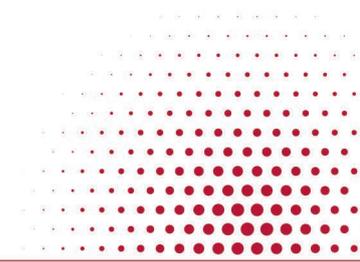


Loan Borrowing Policy

Policy Owner	Finance and Assets Department
Creation Date	30 April 2012
Previous Revision Date	November 2021
Revision Date	May 2023



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 Loan Borrowing 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 way Council may establish and manage a debt portfolio.

SCOPE

The Loan 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.

POLICY

Legislative Framework

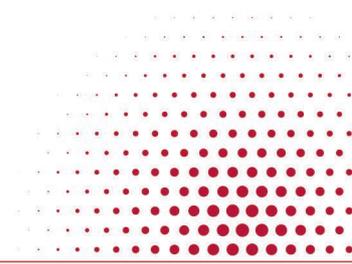
The *Local Government Act 2020* (the Act) provides Councils the power to borrow.

Section 91 of the Act requires Council to develop a Financial Plan, which incorporates a borrowings strategy as per the Model Financial Plan.

Section 104 of the Act stipulates that a Council cannot borrow money unless the proposed borrowings were included in the adopted budget or revised budget.

Council must approve all borrowings and Section 11(2)(l) stipulates that Council cannot 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 the Council's Annual Report. Certain indicators must also be included in Council's Budget and Financial Plan. 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.



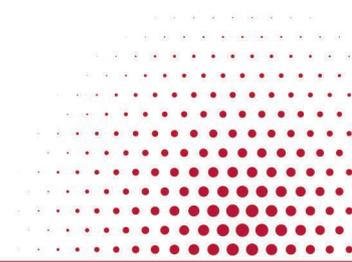
Objectives

- To provide an alternative financial option for:
 - Capital works projects that provide new infrastructure of strategic significance, that would not otherwise be financed from ongoing income sources or one-off capital grants, and provide intergenerational benefits; or to
 - Meet Council's obligations in relation to future Defined Benefit superannuation 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 (fixed interest rates) and flexibility (variable interest rates) and aims to minimise borrowing costs.

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 capital works renewal or operating expenditure, other than large Defined Benefit superannuation 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 the following section of this policy; and
- The nature of any borrowings (short or long term) and the interest rate (fixed or variable) will consider the purpose of the loan and seek to balance interest rate exposure with refinancing flexibility.



Borrowing Ratios and Limits

Borrowings shall not be undertaken¹ if the effect of such borrowings are projected to result in borrowing ratios greater than the maximum levels indicated in the table below.

Measure	Council's Maximum Level
Debt Commitment Ratio interest and principal repayments on interest bearing loans and borrowings / rate revenue	10%
Borrowing Rates Ratio interest bearing loans and borrowings / rate revenue	60%

Determining Appropriate Lending Institution

Once borrowing has been approved by Council, requests to appropriate lending institutions will be sought, with written quotations needing to include the:

- interest rate;
- term of loan;
- repayment intervals;
- repayment instalment amount;
- any applicable fees; and
- loan break costs.

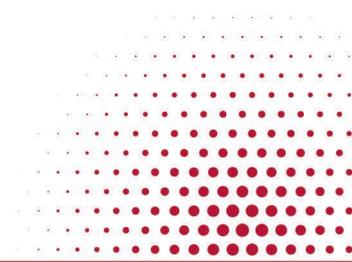
Borrowing Arrangements

When entering 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 product available.
- The tenor 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 in a regular schedule, considering the efficiency of payment while minimising interest costs.

¹ unless otherwise expressly resolved by Council to exceed policy limits



DEFINITIONS

This section defines the key terms used in this policy.

Capital Works

An investment project requiring investment to construct and/or renew a capital asset. The project would result in a new, expanded or replaced asset.

Defined Benefit superannuation

Is a closed plan to new members from 31 December 1993. The future liabilities of the superannuation fund relative to investment performance may necessitate future funding calls.

Council

The Mitchell Shire Council comprised of elected councillors and led by the Mayor.

RESPONSIBILITIES

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

The Manager Finance and Assets is responsible for ensuing policies and procedures are followed when borrowing funds.

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.

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 interim Policy will be reviewed in 18 months or earlier if required.