



# Loan Borrowing Policy

<b>Policy Owner</b>	Finance and Assets Department
<b>Creation Date</b>	30 April 2012
<b>Previous Revision Date</b>	16 May 2017
<b>Revision Date</b>	16 May 2021

*Contact us:*

Phone: (03) 5734 6200

Fax: (03) 5734 6222

Email: [mitchell@mitchellshire.vic.gov.au](mailto:mitchell@mitchellshire.vic.gov.au)

Website: [www.mitchellshire.vic.gov.au](http://www.mitchellshire.vic.gov.au)





### **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 manner in which 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 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 cannot delegate the power to borrow money.

The Victoria 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 Annual Budget and Strategic Resource 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.



### Policy Objectives

- To provide an alternative financial option for:
  - Capital works projects that are 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.

### 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 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 take into account the purpose of the loan and seek to balance interest rate exposure with refinancing flexibility.

### Borrowing Ratios and Limits

Unless otherwise resolved by Council, 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.

Measure	Council's Maximum Level
<b>Debt Commitment Ratio</b> interest and principal repayments on interest bearing loans and borrowings / rate revenue	10%
<b>Borrowing Rates Ratio</b> interest bearing loans and borrowings / rate revenue	60%
<b>Indebtedness Ratio</b> non-current liabilities / own source revenue	40%



### **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;
- 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 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 intends to maintain a repayment schedule consistent with 'principal and interest' repayment calculations.
- Loan repayments will be made in a regular schedule, giving consideration to the efficiency of payment while minimising interest costs.

### **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 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 Policy is to be reviewed every four years or earlier if required.