

GREATER SHEPPARTON CITY COUNCIL

BORROWING POLICY

Adopted by Council: Day Month Year

Next Review: Day Month Year



BORROWING POLICY

Code:	34.POL4
Version:	1.0
Business Unit:	Finance and Rates
Responsible Officer:	Manager Finance and Rates
Approved By:	Chief Executive Officer
Adopted By:	Council Day Month Year
Next Review:	Day Month Year

DOCUMENT REVISIONS

Version #	Summary of Changes	Date Adopted

PURPOSE

The Borrowing Policy provides Council with the parameters to undertake borrowings within a sound financial management framework, enabling Council to respond to financing requirements whilst minimising risk.

The policy ensures Council has a sound financial framework to:

- a. undertake borrowings;
- b. manage its loan book; and
- c. adhere to the provisions of the Local Government Act 2020

OBJECTIVE

The objectives of the Borrowing Policy are:

- a. To ensure Council's new borrowings are financially sustainable;
- b. Comply with legislation;
- c. Manage any new borrowings to improve cash flow; and
- d. Optimise Council's loan book and minimise borrowing costs.

SCOPE

This policy applies when Council is considering and determining the annual budget, and will be adhered to when reviewing Council's Financial Plan.

Council officers must apply this policy when:

- a. Considering new borrowings and;
- b. Refinancing existing borrowings (where the long term benefits of refinancing are greater than the cost of the existing loan).

DEFINITIONS

Reference term	Definition
Authorised Deposit-Taking Institution (ADI)	A type of financial institution that is supervised by the Australian Prudential Regulatory Authority (APRA).
Borrowing	A contract entered into with the promise to repay the principal amount plus any applicable interest.
Capital Project	A long term investment project requiring relatively large sums to acquire, construct and/or renew a capital asset (such as buildings). The project would result in a new, upgraded, expanded or renewed asset.
Defined Benefit Fund	Currently a closed plan to new members. The future liabilities of the fund relative to investment performance may necessitate future funding calls.
Financial Plan	A key document for ensuring the long term financial sustainability of Council as per section 91 of the Local Government Act 2020.
Loan Book	The total value of loans held by Council.

POLICY

1. Appropriate Use of Borrowings

- a. Borrowing funds is a legitimate and responsible financial management tool when used to finance capital projects, as it spreads the cost for constructing such assets across the generations of ratepayers who benefit.
- b. Council may borrow for the following purposes in order of preference:
 - i. To finance capital projects that result in income generating assets, where the interest costs of borrowing can be recovered through income.
 - ii. To finance large capital projects, giving consideration to the principles of intergenerational equity where it is appropriate to spread the cost across generations of ratepayers.
 - iii. To finance other capital projects where necessary to ensure Council's financial sustainability.
- c. Council may also borrow to fulfill Defined Benefit Fund calls, due to the potentially large sums required and sudden nature of these funding calls.

2. Planning and Consultation

- a. All proposed borrowings will be incorporated in the Financial Plan presented to Council, applying sound financial management principles.
- b. Council will only consider proposed new borrowings through the budget process or a formal revised budget process.
- c. Consultation with the community will occur through the budget process or a formal revised budget process.
- d. Council will monitor its financial position through the Financial Plan on a quarterly basis and through the budget process. If the financial position changes and liquidity is projected to improve or decline, Council will re-assess current and future borrowing requirements.

3. Borrowing Ratios

- a. The Local Government Performance Reporting Framework (LGPRF) provides two ratios that measure the risk associated with borrowings.
- b. Council will report on the following indicators:

Indicator	Measure	Description
Loans and borrowings compared to rates	(Interest bearing loans and borrowings / rate revenue) * 100	Assesses whether Council's level of interest-bearing loans and borrowings are appropriate compared to the size and nature of Council's activities.
Loans and borrowings repayments compared to rates	(Interest & principal repayments on interest bearing loans and borrowings / rate revenue) * 100	Assesses whether Council's level of repayments on interest-bearing loans and borrowings are appropriate compared to the size and nature of Council's activities.

4. Borrowing Term and Interest Rate Type

- a. The borrowing term (number of years) and the interest rate type (fixed or variable) will be determined when borrowings are due to be taken out.
- b. When choosing the borrowing term and interest rate type, Council will take into consideration economic conditions and projections within the Financial Plan.
- c. The borrowing term and interest rate type chosen will seek to minimise volatility in annual interest costs and minimise interest costs over the long term.

5. Lending Institution

- a. Council will seek quotes from Authorised Deposit-Taking Institutions (ADI's) when borrowings are due to be taken out.
- b. Preference will be given to lending institutions that do not fund fossil fuel projects, where the interest rate is less than, equal to or within 10 basis points (e.g. 0.1%) of other interest rates available at the time.
- c. Council may also consider funding available from the Local Government Funding Vehicle or other similar funding streams.

RELATED POLICIES AND DIRECTIVES

- Nil

RELATED LEGISLATION

- *Local Government Act 2020*

REVIEW

Finance and Rates Department will review this policy every four years from the date of adoption.

Peter Harriott
Chief Executive Officer

Date