GREATER SHEPPARTON CITY COUNCIL

BORROWING POLICY

Adopted by Council:
Next Review: 26 June 2029

GREATER SHEPPARTON

BORROWING POLICY

Code:	34.POL4
Version:	2.0
Business Unit:	Finance and Rates
Responsible Officer:	Manager Finance and Rates
Approved By:	Chief Executive Officer
Adopted By:	
Next Review:	26 June 2029

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. Provide a framework for responsible borrowing;
b. To ensure Council's new borrowings are financially sustainable;
c. Comply with legislation;
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).

Borrowings	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.
Developer Contribution Plan	A mechanism used to levy new developments for contributions to planned infrastructure. Projects arising under a Development Contribution Plan may require Council to expend funds in advance of contributions being collected.
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.
Own source revenue	Council operating revenue, excluding revenue streams that are not under the control of Council (including government grants)

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's assessment of borrowings will be performed with a focus on sustainable debt levels, guided by acceptable borrowing ratios.
   c. Council may borrow for the following purposes:
      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 capital projects arising from infrastructure requirements within a developer contribution plan, where future cash flows are expected to contribute to the project.
      iii. To finance large strategic capital projects, giving consideration to the principles of intergenerational equity where it is appropriate to spread the cost across generations of ratepayers.
      iv. To finance other capital projects where necessary to ensure Council's financial sustainability.
   d. Council will not borrow to fund operations, except where Council may 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**

    Council's assessment of borrowings will be performed with a focus on sustainable debt levels. The following indicators will be used to assess financial sustainability risks associated with borrowing:

Indicator	**Formula**	**Description**	**Target**
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.	<40%
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.	<10%*
Indebtedness (TCV)	(Interest bearing liabilities / own source revenue) * 100	Assesses Council's ability to cover interest bearing liabilities from own source revenue.	<60%

*Loans and borrowings repayment compared to rates should remain below 10%, except where an interest only loan repayment falls due that is funded by cash flows arising from the financed project, such as DCP's or land sales.

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.
d. Principle and interest (P&I) repayments are preferred to interest only payments as Council's cash flow is relatively stable and P&I result in an overall reduction in interest cost over the life of the loan, while providing for stability and reliability in Council's budgeting for borrowings, repayments and interest.
e. Interest only loans may only be drawn where future cash flows arising from the project align with the borrowing term.
f. The term of any borrowing must not exceed the economic life of the asset to which it relates.

5. Lending Institution

a. The Council will in the first instance consider borrowing from Treasury Corporation of Victoria. This allows Council to take advantage of Victoria's strong credit rating, which allows the State to borrow and lend money at cheaper rates than are commercially available.
b. Council will otherwise seek quotes from Authorised Deposit-Taking Institutions (ADI's) when borrowings are due to be taken out.

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.

DOCUMENT REVISIONS

Version #	Date Adopted	Date Effective
1.0	18 May 2021	18 May 2021
2.0		