

Loan Borrowings Policy



Policy type	Council
Adopted by	Council
Responsible General Manager	General Manager Corporate
Responsible officer	Financial Controller
Date adopted	16 December 2020
Scheduled for review	This policy will be reviewed four years from the date of adoption, or sooner if required.

PURPOSE

The purpose of the Loan 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; and
- Ensure Council operates within the relevant prudential requirements of the Victorian Government as monitored by the Victorian Auditor-General's Office.

SCOPE

The Loan Borrowings Policy applies to the consideration and management of all existing and future loan borrowings undertaken by Council.

POLICY

Policy Objectives & Principles

Loan borrowings considered as part of Council's long term financial planning using sound financial management principles.

Council will only borrow funds for capital projects that are of strategic importance and that provide intergenerational equity. The term of a loan will not exceed the lesser of the expected life of the relevant asset or 15 years.

Council will ensure the total amount of loan borrowings is sustainable in terms of its ability to meet future repayments, budgetary constraints and prudential ratios.

The nature of any loan 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.

During annual budget preparations, Council will review its loan borrowing needs and manage existing and new borrowings in the context of optimising cash flow. All loan borrowings are to be included in the budget or a revised budget and authorised by Council resolution.

All loans and borrowings recorded in Council's Loan Register.

Determining Appropriate Lending Institution

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

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Written quotations must include the:

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

This requirement is exempted if the loan borrowing is sought from a State or Commonwealth Government loans scheme designed to allow Council to invest in community infrastructure or services. Generally, these will be at a discounted rate to funds sought from commercial lending institutions.

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 products available;
- Council to maintain a repayment schedule consistent with "principal and interest" repayment calculations; and
- Loan repayments made on a regular schedule: e.g. monthly, quarterly or otherwise determined at the time of entering the loan agreement. Consideration given to the efficiency of payment schedule while minimising interest costs.

Prudential Control

The Local Government Performance Reporting Framework (LGPRF) outlines the measures Council must report in Council's Annual Report. This framework includes financial performance measures of Council, and specific to this policy, includes measures in relation to Council's obligations.

For sound financial management it is recommended that Council maintain a level of loan borrowings that ensures it stays within the LGPRF expected range as per the table below.

Obligations Indicator	Financial Performance Measure	LGPRF Expected Range
Loans and Borrowings	Loans and borrowings compared to rates (Interest bearing loans and borrowings / rate revenue)	0% to 70%
Loans and Borrowings	Loans and borrowings repayments compared to rates (Interest and principal repayments on interest bearing loans and borrowings / rate revenue)	0% to 20%
Indebtedness	Non-current liabilities compared to own source revenue (Non-current liabilities / own source revenue)	2% to 70%

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RELATED POLICIES

Risk Management Policy

RELATED LEGISLATION

Local Government Act 2020 (Vic) s.101, s.104

Local Government (Planning and Reporting) Regulations

2020 Charter of Human Rights & Responsibilities Act 2006

REFERENCES

Moirá Shire Council, Council Plan