



<b>BORROWING AND INVESTMENT POLICY</b>	Date Adopted:	
	Adopted By:	Council
	Review Due:	August 2027
	Responsible Officer:	Head of Finance
	Directorate:	People and Performance
	EDRMS No:	

## PURPOSE

The purpose of this policy is to set out the parameters and principles for Council borrowings and investments to ensure appropriate availability of funds for operational and project obligations.

Investments will be based on the S&P long term issuer credit rating with a minimum of 75% with institutions rated AA or greater and up to 25% with BBB or greater. Council is prohibited from investing in an "Enhanced Cash Fund" or similar product that falls within the definition of a Collateralised Debt of Obligation (CDO).

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 and should be used for project of strategic significance. Total borrowings should be maintained at a level that is sustainable for meeting the future repayments, budgetary constraints and established ratios.

## DEFINITIONS

<b>SGSC</b>	Southern Grampians Shire Council
<b>The Act</b>	Local Government Act 2020
<b>LGPRF</b>	Local Government Performance Reporting Framework
<b>LTFP</b>	Long Term Financial Plan
<b>Council</b>	All of the Councillors collectively
<b>TCV</b>	Treasury Corporation Victoria
<b>Standard and Poor's</b>	Standard & Poor's Ratings Services is the world's pre-eminent provider of timely, objective credit analysis and credit information.
<b>ADI</b>	Authorised Deposit-taking Institutions (ADIs) are corporations which are authorised under the Banking Act 1959.

## APPLICATION AND SCOPE

This policy applies to all Councillors, and Council employees who make decisions regarding borrowings.

The Borrowing and Investment Policy applies to all new and existing borrowings and investments of Council.

It is the aim of Council to ensure that trust funds, deposits, bequests and reserves are backed by cash investments at all times.

## GENERAL PROVISIONS

### 1. Responsibilities

#### Borrowings

Council is required to develop a LTFFP which incorporates a borrowing strategy as per the Model Financial Plan (section 91 of the Act).

Council is responsible for approving borrowings by way of inclusion of all borrowings in the Annual Budget (section 104 of The Act).

Head of Finance is responsible for ensuring policies and procedures are followed when borrowing funds.

The CEO has authority to accept loan offers, following the resolution of Council, so long as the requirements of this Policy are adhered to.

#### Investments

The Financial Services Coordinator has the responsibility for the initial investigation of options for the investment of surplus funds.

Interest rate quotes must be obtained from financial institutions for every investment. The institution offering the highest interest rate will be considered the preferred provider unless other knowledge of the provider deems it unsuitable by Council officers. The information obtained must also include their S&P Rating.

The Financial Services Coordinator will arrange for the investment of the funds with the agreed body and ensure all relevant signatures are obtained from the Chief Executive Officer, Directors or Head of Finance as stated in Council's most recent Bank Authority and is responsible for maintaining an Investment Register.

It is the responsibility of the Financial Services Coordinator to manage investments by using these products to best advantage Council:

- (i) Professional Fund — Short term Instrument. Cash funds surplus to immediate needs are invested on overnight deposit each business day with Council's main banking institution. Withdrawal of funds to be made to meet on-going cash needs.
- (ii) Term Deposit — One of the most common types of investments, term deposits are offered by all banks and are competitive.

- (iii) Government Securities. Long dated maturities with a sovereign debt rating. These are considered to be the most resilient in regards to adverse market movements. As a result of the extremely high credit ratings, these bonds have a low return in terms of yield.

Investing for speculative purposes is prohibited.

## **2. Principles**

Council will use the following principles to apply to borrowings:

- Council will not borrow to fund operating expenditure or recurrent capital works. This type of expenditure is to be funded from operating revenue streams.
- All borrowings will be considered as part of Council's long term financial planning using sound financial management principles to ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments, budgetary constraints and prudential ratios.
- Council will consider inter-generational 'user pays' principles as part of determining the most appropriate way to fund activities.

The Local Government Act 2020 (The Act) provides Councils with the power to borrow and states:

- Council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget.

Surplus funds will be invested in a manner which provides the highest investment return with the maximum security, while meeting the daily cash flow demands. This policy will conform to legislation governing the investment of local government funds.

Under section 103 of the Local Government Act 2020 Council may invest in the following:

- a) in Government securities of the Commonwealth; and
- b) in securities guaranteed by the Government of Victoria; and
- c) with an ADI; and
- d) with any financial institution guaranteed by the Government of Victoria; and
- e) on deposit with an eligible money market dealer within the meaning of the Corporations Act; and
- f) in any other manner approved by the Minister, either generally or specifically, to be an authorised manner of investment for the purposes of this section.

## **3. Borrowing Arrangements**

- The term of a loan will not be greater than the expected useful life of the asset being funded by the loan and will be managed strategically to stagger Council's debt maturity profile and reduce financial risk.
- Council intends to maintain a repayment schedule consistent with "principal and interest" repayment calculations.

- Loan repayments will be made in a regular schedule, such as monthly, quarterly, semi-annually, or otherwise determined at the time of entering the loan agreement. Consideration should be given to efficiency of payment while minimising interest costs.
- When making borrowing decisions, consideration should be given to aggregation of loans if this is financially viable.
- Council considers that a combination of fixed and variable rate borrowings will in the longer term limit interest rate risk. No greater than 70% of borrowings will be in fixed term to allow Council to mitigate interest rate risk and also provide flexibility for additional repayments.

#### 4. Borrowing Ratios and Limits

Council will ensure the total amount of borrowings is sustainable and consistent with sound financial management principles, in terms of its ability to meet future repayments and budgetary constraints

The 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.

Council considers that borrowing levels within the following thresholds to be sustainable and consistent with sound financial management principles.

Measure	LGPRF Acceptable Range
<p><b>Debt Commitment Ratio</b> Interest and principal repayments on interest bearing loans and borrowings / rate revenue.</p>	<p><b>0% to 20%</b></p>
<p><b>Borrowing Rates Ratio</b> Interest bearing loans and borrowings / rate revenue</p>	<p><b>0% to 70%</b></p>
<p><b>Indebtedness Ratio</b> Non-current liabilities / Own Source Revenue</p>	<p><b>LGPRF 0% to 50%</b> <b>VAGO &lt; 60%</b> <b>(Low to medium risk)</b></p>

Council will seek to align with the LGPRF acceptable range and it is understood that over time there may be short periods of time these thresholds are exceeded in managing Council's financial position, but consistent results above these limits is not sustainable. This will be subject to Council approval.

## 5. Determining Appropriate Lending Institutions

Council will use bank debt, TCV or any other aggregated funding streams as sources of debt funding. If bank debt is chosen as the appropriate source of funding, requests to appropriate lending institutions will be made in accordance with Council's Procurement Policy inviting written quotations on Council's borrowing requirements.

Written quotations must include the:

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

### CHARTER OF HUMAN RIGHTS COMPLIANCE

It is considered that this policy is compatible with the relevant human rights identified in the *Charter of Human Rights and Responsibilities Act 2006 (Vic)*.

### GENDER EQUALITY COMPLIANCE

It is considered that this policy is compatible with the relevant gender equality principles identified in the *Gender Equality Act 2020*.

Is a Gender Impact Assessment required?

- Yes (*legally required for all policies that have a direct and significant impact on the public*)
- No (*please provide an explanation why a Gender Impact Assessment is not required*)

### ASSOCIATED DOCUMENTS

Local Government Act 2020

LGV's Local Government Performance Reporting Framework (LGPRF)

LGV's framework guidelines for TCV loans

Southern Grampians Shire Council Long Term Financial Plan

Southern Grampians Shire Council Annual Budget

### REVIEW

This Policy must be reviewed a minimum of every four years or in-line with legislative change.

### AUTHORISED

CEO Tony Doyle

Signature

Date

OR

Adopted at Council Meeting on 11 September 2024.

END