

STRATEGIC POLICY

2014/15 DEBT POLICY

Corporate Plan Reference:	Corporate Plan Theme: <i>Great Governance</i> Emerging Priority: 8.1 Ethical, accountable and transparent decision-making Emerging Priority 8.3 Strong financial management
Endorsed by Council on:	
Policy Owner and Department:	Director Corporate Services, Corporate Services Department
Reference Number:	

POLICY PURPOSE

The purpose of this policy is to ensure the sound management of council's existing and future debt.

POLICY OUTCOME

The policy will provide clear guidance for staff in the management of council's debt portfolio and maintenance of appropriate debt and debt service levels.

POLICY SCOPE

This policy applies to all Councillors and council staff and extends to all borrowing activities of council and any controlled entities.

POLICY STATEMENT

New borrowings will only be made to fund capital expenditure, for a period less than or equal to the estimated useful life of the asset(s) and for no more than 20 years.

New borrowings will be undertaken in accordance with the Queensland Treasury Corporation Guidelines, the *Statutory Bodies Financial Arrangements Act 1982* and Section 192 of the *Local Government Regulation 2012*.

Borrowing Purposes

- Council will not utilise loan funding to finance operating activities or recurrent expenditure.
- Council undertakes full analysis of all funding options as outlined in the Long Term Financial Forecast, including a forward program of capital works, to determine loan funding requirements.
- Council recognises that infrastructure demands placed upon council can often only be met through borrowings, but will always be mindful of the additional cost incurred by the community when assets are acquired through borrowings which increases the cost of providing capital infrastructure.
- Council will endeavour to fund all capital renewal projects from operating cash flows and borrow only for new or upgrade capital projects, having regard to sound financial management principles

and giving consideration to inter-generational equity for the funding of long term infrastructure projects.

- Where capital expenditure is deferred from one year to the next, the drawdown of approved loan funds will be reviewed to minimise interest expenses.
- Borrowings for infrastructure that provides a return on assets will take priority over borrowing for other assets.

Debt Term

Where capital projects are financed through borrowings, council will repay the loans within a term not exceeding the life of those assets, and over a term that optimises cash flow efficiency. Current loans are planned to be repaid within a twelve (12) year term. This is notwithstanding any new strategic projects that may require a longer debt term.

- Council currently re-balances the portfolio back to a 12-year term following each transaction and with any draw down of new loan funds.
- If surplus funds become available, and where it is advantageous to council, one-off loan repayments will be made to reduce the term of existing loans.
- In an environment of fluctuating interest rates, and where there is a distinct economic advantage to council, consideration will be given to renegotiating any outstanding loans to obtain the best long-term benefit to council.

Repayment Ability

Council will maintain close scrutiny of debt levels to ensure that relative sustainability indicators will not exceed target parameters recommended by Queensland Treasury Corporation and *Local Government Regulation 2012*.

Borrowing Sources

Council will raise all external borrowings at the most competitive rates available and from sources available as defined by legislation. Consideration will be given to provision of loans to business units from surplus cash reserves held by council by way on an internal loan.

Proposed Borrowings

Proposed Borrowings planned for the current financial year and the next nine financial years are outlined in Appendix A, in accordance with section 192 *Local Government Regulation 2012*.

Internal Loans

The provision and approval of an internal loan will depend on the availability of surplus funds at the time of application and the capacity of the business unit or operational activity to repay the loan.

- All applications for internal loans will be made by reference to the Finance Branch for consideration in accordance with the Long Term Financial Forecast.
- The term of the loan will be appropriate to the life of the asset being financed.
- In all cases, where business units are subject to the provisions of the National Competition Policy, the cost to the business unit will be no less than what would apply to an equivalent private sector business. The interest rate will be the sum of:
 - (a) the equivalent QTC borrowing rate for the proposed term;
 - (b) the QTC administration charge; and
 - (c) an additional margin above the QTC borrowing rate.
- The interest rate applicable to internal loans relating to operational activities of council will be the actual borrowing cost from QTC including administrative charges.
- Council may, upon reasonable notice being given, require repayment of part or all of the balance of the loan at any time, which would require the business unit to convert the outstanding balance of the loan to an external facility.

- Provision for the repayment of the loan will be included in the annual budget for the business unit.

GUIDING PRINCIPLES

The purpose of establishing this policy is to:

- Provide a comprehensive view of council's long term debt position and the capacity to fund infrastructure growth for the Region;
- Increase awareness of issues concerning debt management;
- Enhance the understanding between Councillors, community groups and council staff by documenting policies and guidelines;
- Demonstrate to government and lending institutions that council has a disciplined approach to borrowing.

ROLES AND RESPONSIBILITIES

Pursuant to Section 192 *Local Government Regulation 2012*, council must prepare a debt policy each year that states the new borrowings planned for the current financial year and the next nine financial years.

The Finance Branch will review the cash flow requirements prior to loan proceeds being drawn down to minimise interest expenses.

MEASUREMENT OF SUCCESS

Financial sustainability indicators remain within target ranges and the provision of necessary infrastructure is not constrained through the lack of capital funding.

Details of outstanding loans will be reported annually in council's Financial Statements and Annual Report.

DEFINITIONS

Business unit – A business activity within council structure subject to the application of full cost pricing principles as defined under the National Competition Policy.

Inter-generational equity – This relates to the fairness of the distribution of the costs and benefits of a policy when costs and benefits are borne by different generations. (i.e. The principle whereby those who derive a direct benefit from the service or infrastructure provided actually pay for that service).

QTC – Queensland Treasury Corporation.

RELATED POLICIES AND LEGISLATION

- *Local Government Act 2009*
- *Local Government Regulation 2012*
- *Statutory Bodies Financial Arrangements Act 1982*
- *Statutory Bodies Financial Arrangements Regulation 2007*

Version control:

Version	Reason/ Trigger	Change (Y/N)	Endorsed/ Reviewed by	Date
1.0	Create new	N	Coordinator Treasury & Rates	14/4/2014

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	Review	N	Manager Finance	22/4/2014
	Endorsement		Council May 2014 OM	

Appendix A

Schedule of proposed external borrowings:

	2014/15 \$,000	2015/16 \$,000	2016/17 \$,000	2017/18 \$,000	2018/19 \$,000	2019/20 \$,000	2020/21 \$,000	2021/22 \$,000	2023/24 \$,000	2024/25 \$,000
Proposed Borrowings	53,700	24,200	12,100	20,200	18,100	22,400	13,800	18,500	15,200	19,200
Capital works projects as outlined in the adopted budget schedule										

Note that council operates a central treasury model and as such does not generally provide debt funding for specific projects or assets but rather uses debt funding to finance council's balance sheet, with the exception being for strategic projects.