

STRATEGIC POLICY

2012/2013 DEBT POLICY

Corporate Plan Reference:	8.1 Ethical, accountable and transparent decision-making 8.3 Strong financial management
Endorsed by Council on:	
Policy Owner and Department:	Executive Director Finance and Business, Greg Laverty,
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

Sunshine Coast Regional Council will utilise a debt management strategy based on sound financial management principles.

Borrowing Purposes

1. Council will not utilise loan funding to finance operating activities or recurrent expenditure.
2. Council undertakes full analysis of all funding options as outlined in the Long Term Financial Model, including a forward program of capital works, to determine loan funding requirements.
3. 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.
4. 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.
5. Borrowings for infrastructure that provides a return on assets will take priority over borrowing for other assets.

Debt Term

6. 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.

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- 6.1 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.
- 6.2 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

7. 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 (Finance, Plans and Reporting) Regulation 2010.

- 7.1 Debt service ratio – target of < 20%

$$\frac{\text{Debt Service Cost (Interest \& Redemption)}}{\text{Total Operating Revenue}}$$

- 7.2 Interest coverage ratio – target range is 0% – 10%

$$\frac{\text{Net Interest Expense}}{\text{Total Operating Revenue}}$$

- 7.3 Net financial liabilities ratio – target range is < 60%

$$\frac{\text{Total Liabilities less Current Assets}}{\text{Total Operating Revenue}}$$

Borrowing Sources

8. 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

9. Pursuant to section 133 *Local Government (Finance, Plans and Reporting) Regulation 2010*, Council must prepare a debt policy each year that states the new borrowings planned for the current financial year and the next 9 financial years.
 - 9.1 Proposed Borrowings are outlined in Appendix A (detail to be provided along with the adoption of budget estimates)

Internal Loans

10. 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.
 - 10.1 All applications for internal loans will be made by reference to the Finance Branch for consideration in accordance with the Long Term Financial Forecast.
 - 10.2 The term of the loan will be appropriate to the life of the asset being financed.
 - 10.3 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. 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.
 - 10.4 The interest rate applicable to internal loans relating to operational activities of Council will be the actual borrowing cost from QTC including administrative charges.
 - 10.5 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.
 - 10.6 The balance of the outstanding loan will be recorded as a liability in the balance sheet of the business unit and an asset in the balance sheet of Council.
 - 10.7 Provision for the repayment of the loan will be included in the annual budget for the business unit.

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GUIDING PRINCIPLES

The purpose of establishing a Borrowing 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 133 of the *Local Government (Finance, Plans and Reporting) Regulation 2010* detail of the proposed borrowing for the current year and the future 9 years will be prepared annually as part of the budget process.

Applications outlining proposed borrowings will be forwarded to the Minister for Local Government for approval.

Credit Reviews will be undertaken periodically by the QTC on behalf of the Minister for Local Government.

Loan proceeds will be drawn down subject to cash flow requirements annually so as 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.

Debt service ratio – This is an indicator of the extent to which council's operating revenue is committed to servicing both interest and the repayment of principal on existing loans.

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

Interest coverage ratio – This ratio indicates the extent to which a council's operating revenue is committed to the repayment of interest expenses from loans.

Net financial liabilities ratio – This is an indicator of the extent to which the net financial liabilities of Council can be serviced by its operating revenues. A ratio greater than zero (positive) indicates that total liabilities exceed current assets, whereas a ratio of less than zero (negative) indicates that current assets exceed total liabilities and therefore Council would appear to have the capacity to increase loan borrowings.

QTC – Queensland Treasury Corporation.

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RELATED POLICIES AND LEGISLATION

- *Local Government Act 2009*
- *Local Government (Finance, Plans and Reporting) Regulation 2010*
- *Local Government (Beneficial Enterprises and Business Activities) Regulation 2010*
- *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		Wayne Jensen	21/05/2012
	Review		Michael Costello	28/5/2012
	Review		Greg Laverty	

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Appendix A

Schedule of Proposed Borrowing:

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
	\$,000	\$,000	\$,000	\$,000	\$,000
Proposed Borrowings	44,150	41,939	44,420	33,333	23,980
Borrowing Purpose	Capital works projects as outlined in the adopted budget schedule.				
<u>Financial Ratios:</u>					
Debt Service Ratio	6.4%	7.3%	7.9%	8.6%	8.9%
Interest Coverage Ratio	(7.3%)	(6.4%)	(5.6%)	(5.0%)	(4.7%)
Net Financial Liabilities Ratio	30%	35%	40%	41%	38%

	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
	\$,000	\$,000	\$,000	\$,000	\$,000
Proposed Borrowings	36,393	24,116	29,971	34,634	21,516
Borrowing Purpose	Capital works projects as outlined in the adopted budget schedule.				
<u>Financial Ratios:</u>					
Debt Service Ratio	9.0%	9.4%	9.4%	9.6%	9.8%
Interest Coverage Ratio	(4.4%)	(4.3%)	(4.2%)	(4.1%)	(4.0%)
Net Financial Liabilities Ratio	38%	34%	32%	30%	25%

Budget adoption meeting held 27 June 2012

Note that Council operates a central treasury model and as such does not provide debt funding for specific projects or assets but rather uses debt funding to finance Council's balance sheet.