STRATEGIC POLICY

2013/2014 DEBT POLICY

Corporate Plan Reference:	8.1 Ethical, accountable and transparent decision-making 8.3 Strong financial management
Endorsed by Council on:	23 May 2013
Policy Owner and Department:	Executive Director Finance and Business
Reference number:	OM13/92

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 and ensure net debt (net financial liabilities) remains within published sustainability targets.

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

Debt Term

7 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.

7.1 Council currently re-balances the portfolio back to a 12-year term following each transaction and with any draw down of new loan funds.

7.2 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.

7.3 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

8 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*.

8.1 Debt service ratio – target of < 20%

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

8.2 Interest coverage ratio – target range is 0% – 10%

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

8.3 Net financial liabilities ratio – target range is < 60%

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

8.4 Performance against targets will be reported annually in the Annual Report.

Borrowing Sources

9. 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

10 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 9 financial years.

10.1 Proposed Borrowings are outlined in Appendix A (detail to be provided along with the adoption of budget estimates)

Leases

11. Financing alternatives for asset acquisition includes the option of leases. Leases are defined as being either operating leases or finance leases.

11.1. Operating leases are undertaken for office equipment, computer equipment and vehicles under master lease facilities subject to periodic review.

11.2. Finance leases are essentially loans and require prior approval by Treasury under the *Statutory bodies Financial Arrangements Act 1982*.

Internal Loans

12. 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.

12.1. All applications for internal loans will be made by reference to the Finance Branch for consideration in accordance with the Long Term Financial Forecast.

12.2. The term of the loan will be appropriate to the life of the asset being financed.

12.3. 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.

12.4. The interest rate applicable to internal loans relating to operational activities of Council will be the actual borrowing cost from QTC including administrative charges.

12.5. 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.

12.6. 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.

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

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 192 of the *Local Government Regulation 2012* 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.

All lease proposals will be referred to Financial Planning & Performance for evaluation against the QTC Asset Financing Model to assess alternatives for asset acquisition and to ensure statutory compliance.

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 – 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).

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.

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		Wayne Jensen	*21/05/2012*
2.0	Annual Review	Y	Wayne Jensen	*05/06/2013*
	Review		Greg Laverty	

Appendix A

Schedule of Proposed Borrowing:

	2013/2014 $,000	2014/2015 $,000	2015/2016 $,000	2016/2017 $,000	2017/2018 $,000
Proposed Borrowings	15,000	24,302	16,060	18,954	16,836
Borrowing Purpose	Capital works projects as outlined in the adopted budget schedule.				
Financial Ratios:					
Debt Service Ratio	7.0%	7.4%	7.8%	8.0%	8.2%
Interest Coverage Ratio	(5.3%)	(5.2%)	(5.0%)	(5.0%)	(4.9%)
Net Financial Liabilities Ratio	24%	27%	26%	24%	22%

	2018/2019 $,000	2019/2020 $,000	2020/2021 $,000	2021/2022 $,000	2022/2023 $,000
Proposed Borrowings	10,322	14,264	12,645	16,578	16,743
Borrowing Purpose	Capital works projects as outlined in the adopted budget schedule.				
Financial Ratios:					
Debt Service Ratio	8.7%	8.8%	8.8%	8.8%	9.0%
Interest Coverage Ratio	(4.4%)	(4.3%)	(4.2%)	(4.1%)	(4.0%)
Net Financial Liabilities Ratio	18%	14%	11%	7%	4%

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.

Schedule of proposed borrowing endorsed by Council at the Special Budget Meeting held 25 June 2013.