



## Council Policy DEBT POLICY

<b>Corporate Plan Reference:</b>	<i>Long term planning for Noosa Shire</i>
<b>Endorsed by Council:</b>	28 June 2019
<b>Policy Author:</b>	Director Corporate Services

### POLICY BACKGROUND

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

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.

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

### COUNCIL POLICY

Council will utilise a debt management strategy based on sound financial management principles and ensure net debt (net financial liabilities) remains within financial 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 positive rate of return on investment 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.
  - 7.1. 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.
  - 7.2. 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**

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 the *Local Government Regulation 2012*

### **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 activities 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

### **Leases**

11. Funding alternatives for asset acquisition includes leasing. Leases are defined as being either *operating* leases or *finance* leases. Lease vs. Buy analysis will be undertaken prior to entering into any contract for leasing.
  - 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 either the business or operational activity to repay the loan.
  - 12.1. All applications for internal loans will be made by reference to the Financial Services 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 activities are subject to the provisions of the National Competition Policy, the cost to the business 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 activity 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 activity 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 activity.

## GUIDING PRINCIPLES

The purpose of establishing a Debt Policy is to:

- Provide a comprehensive view of Council's long term debt position and the capacity to fund infrastructure growth for the Shire;
- 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 Services for evaluation against the QTC Asset Financing Model to assess alternatives for funding 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 Activity** – A Council activity subject to the application of full cost pricing principles as defined in the *Local Government Act 2009* and *Local Government Regulation 2012*.

**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).

**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.

**RELEVANT 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		Manager Financial Services	23/12/2013
2.0	Annual Review		Manager Financial Services	02/06/2014
3.0	Annual Review	Y	Manager Financial Services	02/06/2015
4.0	Annual Review	N	Manager Financial Services	20/05/2016
5.0	Annual Review	Y	Director Corporate Services	19/05/2017
6.0	Annual Review	Y	Council	29/06/2018
7.0	Annual Review	Y	Council	06/07/2018
8.0	Annual Review	N	Council	28/06/2019

Appendix A

Schedule of Proposed Borrowing:

	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Proposed Borrowings	0	0	0	0	0	0	0	0	0	0
Borrowing Purpose	Capital projects as outlined in the adopted 10 year capital program									