



Council Policy DEBT POLICY

Corporate Plan Reference:	<i>Long term planning for Noosa Shire</i>
Endorsed by Council:	30 June 2021
Policy Author:	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. Legislation prevents Council from accessing loan financing to fund operating deficits.
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 any borrowing 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.
4. Council will consider loan funding for capital renewal projects on a case by case basis, but predominately borrow only for new, expansion or upgrade capital projects, giving consideration to inter-generational equity particularly 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 loan over a term which takes into consideration the expected 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 relevant sustainability indicators will not exceed target parameters recommended by Queensland Treasury Corporation (QTC) and the *Local Government Regulation 2012*

Borrowing Sources

9. Council will raise all external borrowings from the QTC. Consideration will be given to the provision of loans to business activities and other specifically identified projects and activities from surplus cash reserves held by Council by way on an internal loan.

Proposed New 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 also includes leasing. Leases are defined under accounting standard AASB 16 as a contract for the right of use over an asset for a temporary period of time.
 - 11.1 Any low value (under \$10,000) or short term (under 12 months) leases are considered an operating expense.
 - 11.2 However, all other lease arrangements under AASB 16 are reported as a right-of-use asset with a corresponding liability in the balance sheet recognised with all other debt and loan borrowing instruments.
 - 11.3 Any lease arrangement greater than \$2 million (other than any lease for office premises) are considered borrowings under the *Statutory Bodies Financial Arrangement Act 1982* and will require prior approval by the Queensland Government before they are committed.
 - 11.4 Council will also undertake a lease vs. buy analysis before entering into any lease contract.

Internal Loans

- 12 The provision and approval of an internal loan will depend on the availability of surplus cash at the time of consideration and the capacity of either the business activity or operational activity to repay the loan.
 - 12.1 All decisions regarding internal loans will be made by Council as part of the annual budget process. The approval to establish an internal loan will only occur following confirmation that Council's relevant sustainability indicators in the 10 year financial forecast will not be compromised.
 - 12.2 The term of any internal loan will be appropriate to the life of the infrastructure / 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 Provision for the repayment of an internal loan will be included in the annual budget for the business or operational 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.

Periodic Credit Reviews will be undertaken by the QTC on behalf of the State 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 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.

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
9.0	Annual Review	Y	Council	10/07/2020
10.0	Refinancing Review	Y	Council	17/02/2021
11.0	Annual Review	Y	Council	30/06/2021

Appendix A

Schedule of Proposed Borrowings:

	2021/22 \$,000	2022/23 \$,000	2023/24 \$,000	2024/25 \$,000	2025/26 \$,000	2026/27 \$,000	2027/28 \$,000	2028/29 \$,000	2029/30 \$,000	2030/31 \$,000
Proposed Borrowings	2,360,000	6,170,000	0	0	0	2,100,000	3,000,000	0	0	0
Borrowing Purpose	Waste management, bridge and lock and weir infrastructure works included in the adopted 10-year capital plan.									