

20150625 Item 5.2 Report Debt Policy 2015-2016

Objective Reference: **A189901**
Reports and Attachments (Archives)

Attachment: **Debt Policy 2015-2016**

Authorising/Responsible Officer:

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PURPOSE

The purpose of this report is to adopt a debt policy for the 2015-2016 financial year in accordance with section 192 of the *Local Government Regulation 2012*. The attached policy outlines the strategic intent of Council with respect to borrowings for the 2015-2016 financial year and an indication of new borrowings.

BACKGROUND

Council reviews its long-term financial strategy annually between October and December and then finalises the annual financial management policies as part of the budget development process. On 17 December 2014, Council adopted the long-term financial strategy which outlined that borrowings were not required for the ten year forecast. Council will utilise constrained cash reserves and surplus cash holdings before increasing community debt.

ISSUES

The attached policy is as a result of a 2015-2016 budget development workshop. Council reviews its long-term borrowings with respect to new loans at least twice a year, during the development of the annual financial strategy and also during the annual budget development process. The long-term debt schedule is subject to change as per previous years.

STRATEGIC IMPLICATIONS**Legislative Requirements**

Section 192 of the *Local Government Regulation 2012* requires a local government to prepare and adopt a debt policy for a financial year. The debt policy also forms part of the financial management system alongside other key financial policies, in particular Revenue and Investment.

Risk Management

Council ensures its borrowings are financially sustainable and officers regularly review book rates, debt service payments and prepayment terms to effectively manage the cost to the community of servicing the debt. Debt is reviewed on a monthly basis and Council officers work closely with Queensland Treasury Corporation to manage the debt and only propose to borrow monies when the funds are required in addition to surplus cash holdings and the interest and repayment amounts are affordable over the life of the loan, based on the forecasts contained in Council's Long-Term Financial Strategy.

Financial

The financial implications contained within the attached policy have been discussed as part of the budget development process and the Key Performance Indicators (KPIs) contained within Council's Financial Strategy demonstrated the proposed borrowings are financially sustainable.

People

Nil impact expected as the purpose of the report is to present a Debt Policy in accordance with section 192 of the *Local Government Regulation 2012*.

Environmental

Nil impact expected as the purpose of the report is to present a Debt Policy in accordance with section 192 of the *Local Government Regulation 2012*.

Social

Nil impact expected as the purpose of the report is to present a Debt Policy in accordance with section 192 of the *Local Government Regulation 2012*.

Alignment with Council's Policy and Plans

This report has a relationship with the following items of the 2015-2020 Corporate Plan:

8. Inclusive and Ethical Governance: Deep engagement, quality leadership at all levels, transparent and accountable democratic processes and a spirit of partnership between the community and Council will enrich residents' participation in local decision-making to achieve the community's Redlands 2030 vision and goals.

8.2 Council produces and delivers against sustainable financial forecasts as a result of best practice Capital and Asset Management Plans that guide project planning and service delivery across the city.

CONSULTATION

The annual review of Council's long term financial strategy was held between October and December 2014 when the policy intent was reviewed and confirmed. Councillors, the Executive Leadership Team and finance officers considered the 2015-2016 Debt Policy as part of Council's annual budget development process.

OPTIONS

1. Council resolves to adopt the attached Debt Policy for 2015-2016.
2. Council resolves to amend the attached Debt Policy prior to its adoption.

OFFICER'S RECOMMENDATION

Council resolves to adopt the attached Debt Policy for 2015-2016.

Debt Policy

[Version Information](#)

Head of Power

Section 104 of the *Local Government Act 2009 (Qld)* (the Act) requires a Local Government to produce a Debt Policy as part of its financial management system. *The Act* also defines Council as a statutory body and subsequently Council's borrowing activities continue to be governed by the *Statutory Bodies Financial Arrangements Act 1982 (Qld)*.

Policy Objective

To ensure the sound management of Council's existing and future debt after assessing and minimising all associated risks in accordance with the annually revised and adopted Long-Term Financial Strategy (Financial Strategy).

Policy Statement

Council is committed to:

1. Only using long-term borrowings (between 2 and 20 years) to finance capital works that will provide services now and into the future. No long-term borrowings will be used to finance recurrent expenditure and the operational activities of the Council;
2. Utilising its existing constrained cash reserves when seeking funding for capital works. The use of any existing cash reserves will be subject to the purpose of the reserve in addition to maintaining all relevant financial ratios and measures of sustainability within adopted Financial Strategy targets;
3. Undertaking long-term borrowings for capital works only if the interest and debt principal repayments can be serviced and relevant financial ratios and measures are maintained within approved Financial Strategy targets;
4. Aligning borrowings to specific projects and/or asset classes rather than being pooled to ensure transparency and accountability is maintained. Borrowings will be nominated through the priority needs of the capital program and will be determined through the normal budgetary and approval process of Council;
5. Prepaying debt service payments annually in advance in order to minimise Council's interest expense, providing sufficient cash resources are available to Council. The annual payments will be made in July in accordance with the weighted terms of each debt pool;
6. Reviewing its debt regularly and seeking to repay or restructure its debt to ensure repayment in the shortest possible time or resulting in a reduction in interest payments subject to maintenance of key performance indicators in the Financial Strategy;

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7. Considering new loans only if existing cash balances cannot fund the desired works and the subsequent increase in debt servicing payments allows the total debt servicing ratio to remain within Financial Strategy targets;
8. Ensuring the term of any new loans will be a maximum of twenty years for Water, Waste and General requirements. The debt term shall not exceed the finite life of the related asset/s; and
9. Recovering costs of new loans taken out on behalf of commercial businesses, commercial opportunities, joint ventures, associates or subordinates through the administration of a management fee in line with current market rates.

Proposed Borrowings

New borrowings are restricted to work that falls into one of the following three categories:

- **Risk Management** – Council’s Financial Strategy outlines risks and opportunities in key areas in addition to Council’s risk management register;
- **Asset Management** – Council’s long-term asset and service management plans will outline capital spending that may need debt funding; or
- **Inter-Generational Projects** – Projects are defined to be inter-generational if the associated assets have estimated useful lives of 25 years or more.

Version Information (bookmark)

Version number	Date	Key Changes
14	June 2014	<ul style="list-style-type: none">• Updated loan schedule following completion of 2014/2015 Budget Workshops and adoption of ten year capital program 2014/2024• Inserted schedule of weighted average remaining loan terms for new and existing loans
15	January 2015 May 2015	<ul style="list-style-type: none">• Updated for Budget 2015/2016 process• Included management fee for loans taken out on behalf of Council owned commercial business activities, commercial opportunities or subordinates• Added in final debt schedules following completion of ten year financial modeling for budget publication

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Corporate POL-1838

Schedule of forecasted debt 2016-2025: *Local Government Regulation 2012 section 192(2)(a)*

	Budget Year 1 2015/16 \$'000	Forecast Year 2 2016/17 \$'000	Forecast Year 3 2017/18 \$'000	Forecast Year 4 2018/19 \$'000	Forecast Year 5 2019/20 \$'000	Forecast Year 6 2020/21 \$'000	Forecast Year 7 2021/22 \$'000	Forecast Year 8 2022/23 \$'000	Forecast Year 9 2023/24 \$'000	Forecast Year 10 2024/25 \$'000
Opening Balance	54,455	49,760	44,709	39,297	33,497	27,287	20,625	13,484	7,697	5,126
New Loans	-	-	-	-	-	-	-	-	-	-
Interest	3,257	2,902	2,540	2,153	1,742	1,291	812	429	281	134
Redemption	4,696	5,051	5,412	5,800	6,211	6,662	7,141	5,787	2,571	2,719
Closing Balance	49,760	44,709	39,297	33,497	27,287	20,625	13,484	7,697	5,126	2,407

Schedule of forecasted remaining repayment terms in years 2016-2025: *Local Government Regulation 2012 section 192(2)(b)*

	Budget Year 1 30/06/2016	Forecast Year 2 30/06/2017	Forecast Year 3 30/06/2018	Forecast Year 4 30/06/2019	Forecast Year 5 30/06/2020	Forecast Year 6 30/06/2021	Forecast Year 7 30/06/2022	Forecast Year 8 30/06/2023	Forecast Year 9 30/06/2024	Forecast Year 10 30/06/2025
Weighted Average (existing loans)	8.10	7.14	6.20	5.29	4.43	3.67	3.21	3.11	2.14	1.24
Weighted Average (incl. new loans)	8.10	7.14	6.20	5.29	4.43	3.67	3.21	3.11	2.14	1.24

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