

POLICY



Date adopted: 24/06/2019
File no: 1005516-1
Minute number: 127/2019

Policy title: DEBT POLICY 2019/2020
Directorate: ORGANISATIONAL SERVICES
Branch: FINANCE
Policy objective: To ensure borrowing decisions are financially sustainable.

Policy scope:

This policy has been developed in accordance with section 192 (Debt policy) of the Local Government Regulation 2012. The Act requires Council, as part of its annual budgetary process, to identify the borrowings planned for the 2019/2020 financial year and the next nine (9) financial years and the time over which Council plans to repay new and existing borrowings.

This policy applies to all forms of borrowings undertaken by Council.

Policy statement:

1. When considering the funding of future capital works, Council's objective is to minimise the cost of its financing activities. Where other, more cost effective sources of funding are available, these should be utilised in preference to the drawing down of additional debt.
2. Council will not utilise loan funding to finance operating activities or recurrent expenditure.
3. Borrowings should be directed towards new or upgrade capital projects with funding for capital renewals to be sourced from general revenue where possible.
4. Preference will be given to borrowings for projects that provide a return to Council.
5. All external borrowings shall be obtained through the Queensland Treasury Corporation (QTC) using its full range of fund management services.
6. The term for new borrowings shall not exceed the estimated useful life of the asset. Due to the long lives of most infrastructure assets, Council will typically borrow at a maximum term of 20 years.
7. Where capital expenditure is deferred from one year to the next, the drawdown of approved loan funds will be reviewed to minimise interest costs.
8. Where cash balances are sufficient, Council will draw down its loan borrowings at the end of the financial year.
9. Cash balances are monitored on a daily basis. If a cash flow shortfall is identified, Council may bring forward the timing of its loan draw down to ensure that the delivery of the capital program is not compromised.
10. The current cash balances of Council are key in determining the most appropriate financing decisions. Where surplus cash funds are identified, consideration will be given to the use of internal loans to Council business units. Internal loans will be managed in accordance with the following guidelines:

- (a) The interest rate applicable to internal Council loans will be the actual borrowing costs from QTC including administration charges.
- (b) Business units subject to the provisions of the National Competition Policy shall also pay an additional margin above the QTC borrowing rate.
- (c) The term of the loan shall not exceed the estimated useful life of the asset.
- (d) Council may, upon reasonable notice being given, require repayment of part or all of the balance of the internal loan. This would require the business unit to convert the outstanding balance of the loan to an external facility.
- (e) Principal and interest repayments on internal loans are to be met from the Council's normal operational budgets in the same manner that external debt is financed by the Council.
11. Borrowing decisions should be based upon careful consideration of the impact on Council's financial sustainability ratios. In particular the following ratios should be analysed based on Council's preferred target range:

Ratio	QTC Range	LCC Target Range
Cash expense	Lower Bound - 3 Months	4-7 months
Current (working capital)	Above 4 times	Above 2 times
Debt service cover	Lower Bound - 2 times	Above 3.5 times
Operating surplus	0-10%	2-5%
Net financial liabilities	Upper Bound - 60%	Below 60%

12. The decision on Council's ultimate levels of debt will require a balance between the levels of service provided, affordability for the community and Council's long term financial sustainability.
13. The extent of new borrowings, their purpose and term has been resolved by the Council, and has been projected outwards for nine (9) financial years from the planned 2019/2020 borrowing requirements. The proposed borrowing schedule for both external and internal loans are outlined below.

EXTERNAL BORROWINGS

	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
	\$	\$	\$	\$	\$
Roads and drainage	750,000	5,700,000	3,550,000	1,377,225	6,462,274
Community Facilities	2,294,000	6,598,305	6,064,210	3,258,400	489,898
Parks	2,138,074	-	-	-	185,031
Trunk Infrastructure Network	13,712,600	19,401,427	21,084,652	15,000,000	25,000,000
Water and Sewerage	91,757,980	132,500,000	95,000,000	25,000,000	35,000,000
TOTAL	110,652,654	164,199,732	125,698,862	44,635,625	67,137,203

	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029
	\$	\$	\$	\$	\$
Roads and Drainage	5,580,185	5,784,676	5,929,293	6,077,530	6,229,400
Community Facilities	-	-	-	-	-
Parks	1,570,003	-	-	-	-

	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029
	\$	\$	\$	\$	\$
Trunk Infrastructure Network	35,000,000	70,000,000	20,000,000	45,000,000	25,000,000
Water and Sewerage	45,000,000	75,000,000	15,000,000	20,000,000	15,000,000
TOTAL	87,150,188	150,784,676	40,929,293	71,077,530	46,229,400

Unless otherwise noted all borrowings are to be repaid over a twenty (20) year term. Council's existing borrowings expected repayment terms vary from twenty (20) years to three (3) years.

INTERNAL BORROWINGS

	2019/2020	2020/2021	2021/2022	2022/2023	2023/2014
	\$	\$	\$	\$	\$
Water and Sewerage	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000

	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029
	\$	\$	\$	\$	\$
Water and Sewerage	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000

The quantum of internal borrowings will be dependent upon actual cash balances.

14. In accordance with the above policy strategy and criteria, the Council will borrow \$110,652,654 from the Queensland Treasury Corporation during the 2019/2020 financial year. Whilst market conditions and any other principles agreed to between Queensland Treasury Corporation and Logan City Council may change the term or quantum of repayments over time, the term over which new borrowings will be undertaken will be such that loan debt will be managed in accordance with the effective life of the class of assets acquired.
15. This policy will be reviewed annually and amended as and when required, to meet the prevailing circumstances of the Council at that time.

Related policies/legislation/other documents:

DOC ID	DOCUMENT TYPE	DOCUMENT NAME
Not applicable		