

---

Policy Title:	<b>Debt Policy</b>
Policy No:	106
Policy Subject:	Financial Operations
Directorate:	Corporate Services
Department:	Financial Operations
Responsible Officer:	Director of Corporate Services
Authorised by:	North Burnett Regional Council
Adopted Date:	Policy & Planning Meeting – 16/07/2013
Review Date:	16/07/2014
Authorities:	<i>Local Government Act 2009</i> <i>Local Government Regulation 2012 (LGR)</i>

---

### **INTRODUCTION:**

#### **Scope**

This policy outlines the Debt Strategy of the North Burnett Regional Council and provides for the responsible management of borrowings made by council from external sources.

### **OBJECTIVES:**

#### **Application of the Policy**

This policy will apply whenever Council is considering borrowing funds externally. It does not apply to leasing or hire purchase arrangements.

#### **Background and Considerations**

Council recognises the desirability of establishing reserves sufficient to fund future developments, particularly for water and sewerage, and to use these funds when appropriate to avoid external borrowings for relatively minor acquisitions and developments. Council may, however, determine to borrow funds on the basis of immediate need, as well as for strategic reasons and/or because it is economically advantageous to do so.

## **OBJECTIVES (CONTINUED):**

### **Background and Considerations (continued)**

The level of debt in individual programs and in total is a matter for Council to decide from time to time. Due recognition will be given to:

- the type and extent of benefits to be obtained from borrowing – including the length of time the benefits will be received
- The beneficiaries of the acquisition or development
- The impact of interest and redemption payments on both current and forecast rates revenue
- The current and future capacity of the rate base to pay for borrowings and the rate of growth of the rate base
- Likely movements in interest rates for variable rate borrowings
- Other current and projected sources of funds such as headworks
- Competing demands for funds

It is recognised that, as infrastructure such as water and sewerage are usually funded in advance of community requirements and borrowings are repaid by future users, it is appropriate to utilise debt to fund future infrastructure capacity. The appropriate mix of sources of funds will depend on the factors mentioned above.

Capital expenditure on general community facilities is usually funded from such revenue sources as general rates, special rates, grants, subsidies and borrowings. Borrowings from these developments should be limited to what can be repaid by the existing rate base and, in general, should be over a shorter period so that current users substantially contribute to the debt servicing and redemption. Debt on existing facilities should not become a burden on future generations who may not receive benefits from these facilities. Again, the appropriate combination of debt and revenue will depend upon the type of development and the Council's circumstances at a time.

### **PRINCIPLES – Legislative Requirement:**

Council is required to produce a Debt Policy under section 104 (5c) of the Local Government Act and section 192 of *the Local Government Regulations*

#### **Debt Policy**

- (1) A local Government must prepare and adopt a debt policy each financial year.
- (2) The debt policy must state –
  - (a) The new borrowings planned for the current financial year and the next 9 financial years; and
  - (b) The period over which the local government plans to repay existing and new borrowings.

Council will only borrow funds for the purpose of acquiring assets, improving facilities or infrastructure and/or substantially extending their useful life.

Council may borrow to meet strategic needs or to take advantage of opportunities for development providing there is a demonstrably extending their useful life. If necessary

council may borrow funds to finance special projects where funding has been approved but the money is not yet received and council's current cash will not cover the project.

**PRINCIPLES (CONTINUED):**

Redemption and interest charges on borrowings, including those relating to water, sewerage and plant are to be repaid from revenue generated in those areas and the full costs are to be taken to account in these areas.

Where borrowings are to be repaid by special rates, the revenue and repayments will be matched as far as is practical. Borrowings may be repaid early should revenue exceed scheduled repayments. Repayments will not exceed twenty per cent of general rates revenue.

Borrowings will only be made in accordance with the adopted budget.

Borrowings from the Queensland Treasury Corporation (QTC) or, if from another organisation, with the approval of the Queensland Treasurer and Department of Local Government, Community Recovery and Resilience.

Borrowings will normally be for a maximum of twenty years. Shorter borrowing periods and earlier repayments will be taken where possible and appropriate. If a longer term is appropriate, and this may be the case for some infrastructure assets such as water and sewerage, the term will not exceed the life of the asset, or twenty years, whichever is the shorter period.

**SCHEDULE OF DEBT**

2009-2010 Actual Borrowings	\$1,089,698
2010-2011 Actual Borrowings	\$2,960,000
2011-2012 Actual Borrowings	\$
2012-2013 Actual Borrowings	\$ 960,000
2013-2014 Proposed Borrowings	\$

For the 2013-2014 financial year Council will be seeking an overdraft of \$10,000,000. This overdraft is to cover any timing differences between contractor payments and claims to be received from the NDRRA (Queensland Reconstruction Authority). At this point in time Councils Flood Damage is estimated to be \$100,000,000, therefore monthly payments of around \$9,000,000 can be expected. This is only an overdraft facility and Council expects will cease the facility at the end of the 2013 Flood Damage Restoration process in 2014-15 Financial Year. No further Borrowings have been planned in the following 9 financial years at this stage.