

Policy Title: Debt
Policy No: 106
Policy Subject: Financial Operations

Department: Community & Corporate Services
Section: Finance

Responsible Officer: Manager Finance
Authorised by: North Burnett Regional Council

Adopted Date: Budget Meeting – 8/07/2014
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Version	Decision Number/Council meeting or CEO Approval	Decision Date	History
1	Policy & Strategy Meeting	06/05/2008	Created for 2008/2009
2	Budget Meeting	23/06/2009	Revised for 2009/2010
3	Budget Meeting	28/07/2010	Revised for 2010/2011
4	Budget Meeting	23/06/2011	Revised for 2011/2012
5	Budget Meeting	07/08/2012	Revised for 2012/2013
6	Policy & Strategy Meeting	16/07/2013	Revised for 2013/2014
7	Budget Meeting	08/07/2014	Revised for 2014/2015

Authorities: *Local Government Act 2009*
Local Government Regulation 2012 (LGR)

INTRODUCTION:

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.

Debt Policy

Council is required to produce a Debt Policy under section 104 (5) (c) of the *Local Government Act* and section 192 of the *Local Government Regulation 2012*.

- (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.*

OBJECTIVES:

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

PRINCIPLES:

The purpose of the policy is to identify the planning framework within which Council operates and set out the principles used by Council in determining borrowing schedules.

Background and Considerations

Council recognises the desirability of establishing reserves sufficient to fund future capital, 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.

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.

Scope for 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 working capital cash will not cover the project.

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 be for a maximum term of twenty years. Shorter borrowing periods will be taken where possible and appropriate. The term of any loan will not exceed the life of the asset.

Summary of Outstanding Balances

Total Outstanding QTC Loans 30th June 2014 (QTC Projection) \$3,573,467

Budgeted Loan Movements

Loan Detail	Opening Balance	Movement in the Year		Closing Balance	Repayments (% Gen Rates)
	Jul-14	Redemption	Interest		
					8.60%
Administration	46,278	16,977	31,792	29,301	0.68%
Roads	95,161	28,529	<i>Incl above</i>	66,632	0.40%
Bridges	928,893	30,839	42,603	898,054	1.03%
Plant	1,134,450	161,548	60,915	972,902	3.12%
Water	998,263	124,873	36,742	873,390	2.27%
Sewerage	370,421	61,735	16,824	308,686	1.10%

New Loans

14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0