

**STRATEGIC POLICY
BORROWING POLICY**

Corporate Plan Reference:	8.3 Strong financial management
Endorsed by Council on:	<Insert Ordinary Meeting Date>
Policy Owner and Department:	Greg Laverty, Executive Director Finance and Business
Reference number:	(To be inserted by Policy Team after Policy is endorsed)

POLICY PURPOSE

The purpose of this policy is to ensure the sound management of Council’s existing and future debt.

POLICY OUTCOME

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.

POLICY SCOPE

This policy applies to all Councillors and Council staff and extends to all borrowing activities of Council and any controlled entities.

POLICY STATEMENT

Sunshine Coast Regional Council will utilise a debt management strategy based on sound financial management principles.

Borrowing Purposes

1. Council will not utilise loan funding to finance operating activities or recurrent expenditure.
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 loan funding 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 which increases the cost of providing capital infrastructure.
4. Council will endeavour to fund all capital renewal projects from operating cash flows and borrow only for new or upgrade capital projects, having regard to sound financial management principles and giving consideration to inter-generational equity for the funding of long term infrastructure projects.
5. Borrowings for infrastructure that provides a return on assets will take priority over borrowing for other assets.

Debt Term

6. Where capital projects are financed through borrowings, Council will repay the loans within a term not exceeding the life of those assets, and over a term that optimises cash flow efficiency. Current loans are planned to be repaid within a twelve (12) year term.
 - 6.1. 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.
 - 6.2. 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

7. Council will maintain close scrutiny of debt levels to ensure that relative sustainability indicators will not exceed target parameters recommended by Queensland Treasury Corporation and Local Government Finance Regulations.

- 7.1. Debt service ratio – target of < 20%

$$\frac{\text{Debt Service Cost (Interest \& Redemption)}}{\text{Total Operating Revenue}}$$

- 7.2. Interest coverage ratio – target range is 0% – 10%

$$\frac{\text{Net Interest Expense}}{\text{Total Operating Revenue}}$$

- 7.3. Net financial liabilities ratio – target range is < 60%

$$\frac{\text{Total Liabilities less Current Assets}}{\text{Total Operating Revenue}}$$

Borrowing Sources

8. Council will raise all external borrowings at the most competitive rates available and from sources available as defined by legislation. Consideration will be given to provision of loans to business units from surplus cash reserves held by Council by way on an internal loan.

Proposed Borrowings

9. Pursuant to section 7 of the Local Government Finance Standard 2005, details of planned borrowings for the budget year and the following four (4) financial years will be presented to Council at the annual budget adoption meeting.

- 9.1. Proposed Borrowings are outlined in Appendix A

Internal Loans

10. The provision and approval of an internal loan will depend on the availability of surplus funds at the time of application and the capacity of the business unit to repay the loan.
 - 10.1. The term of the loan will be appropriate to the life of the asset being financed.
 - 10.2. 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 of no less than 1.00% above the QTC borrowing rate.
 - 10.3. Council may, upon reasonable notice being given, require repayment of part or all of the balance of the loan at any time, which would require the business unit to convert the outstanding balance of the loan to an external facility.
 - 10.4. The balance of the outstanding loan will be recorded as a liability in the balance sheet of the business unit and an asset in the balance sheet of Council.

- 10.5. Provision for the repayment of the loan will be included in the annual budget for the business unit.

GUIDING PRINCIPLES

The purpose of establishing a Borrowing Policy is to:

- Provide a comprehensive view of Council's long term debt position and the capacity to fund infrastructure growth for the Region;
- 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 8 of the Local Government Finance Standard 2005 detail of the proposed borrowing for the current year and the future four (4) years will be presented at Council's annual budget meeting.

Applications outlining proposed borrowings will be forwarded to the Minister for Local Government for approval.

Annual credit reviews will be undertaken by the QTC on behalf of the Minister for Local Government.

Loan proceeds will be drawn down subject to cash flow requirements annually so as to minimise interest expenses.

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 unit – A business activity within Council structure subject to the application of full cost pricing principles as defined under the National Competition Policy.

Debt service ratio – This is an indicator of the extent to which council's operating revenue is committed to servicing both interest and the repayment of principal on existing loans.

Inter-generational equity – The fairness of the distribution of the costs and benefits of a policy when costs and benefits are borne by different generations. (The principle whereby those who derive a direct benefit from the service or infrastructure provided actually pay for that service).

Interest coverage ratio – This ratio indicates the extent to which a council's operating revenue is committed to the repayment of interest expenses from loans.

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.

QTC – Queensland Treasury Corporation.

RELATED POLICIES AND LEGISLATION

Local Government Act 1993
Local Government Finance Standard 2005
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		Wayne Jensen	01/04/2010
	Review		Greg Laverty	
	Review		Michael Costello	

Appendix A

Schedule of Proposed Borrowing:

	2010/2011 \$,000	2011/2012 \$,000	2012/2013 \$,000	2013/2014 \$,000	2014/2015 \$,000
Proposed Borrowings	23,143	23,523	27,829	20,942	17,691
Borrowing Purpose	Capital works projects as outlined in the adopted budget schedule.				
<u>Financial Ratios:</u>					
Debt Service Ratio	5.6%	6.0%	6.3%	6.7%	6.8%
Interest Coverage Ratio	-0.2%	-0.7%	-0.7%	-0.6%	-0.7%
Net Financial Liabilities Ratio	22.7%	29.8%	31.6%	30.2%	24.2%

Budget adoption meeting held 29 June 2010