

Document Control	
Policy Title	<i>2020-21 Debt (Borrowing) Policy</i>
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Responsible Directorate	Corporate Services/CFO
Responsible Position	Coordinator – Financial Accounting
Date Review Due	1 June 2021

Version	Council Meeting Date (Date of Adoption/Review)	Minute Number

1. Purpose

As a general principle, Council recognises that loan borrowings for capital works are an important funding source for Local Government and that the full cost of infrastructure should not be borne entirely by present-day ratepayers, but be contributed to by future ratepayers who will also derive benefits (i.e. intergenerational equity).

The purpose of establishing a Debt Policy is to:

- Provide a comprehensive view of the Gympie Regional Council's (Council) 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
- Ensure there will be no borrowings used to finance recurrent expenditure
- Identify new borrowings
- Comply with the requirements of Local Government Regulations (2012), Chapter 5, Part 4, Section 192.

This policy must be reviewed and amended annually to ensure that the information contained in the policy remains current and relevant.

2. Scope

Council is required to prepare and adopt a debt policy in accordance with Part 4, Section 192 of the *Local Government Regulation 2012*.

The debt policy must outline:

- the new borrowings planned for the current financial year and the next nine (9) financial years
- the period over which the local government plans to repay existing and new borrowings.

Council's borrowing activities are governed by the *Statutory Bodies Financial Arrangements Act 1982 (SBFA) Part 5, Division 2*. Council is required to obtain Treasurer approval to undertake borrowings.

Under a General Approval dated 23 May 2003, issued by Queensland Treasurer under the SBFA, the Department of Local Government, Racing and Multicultural Affairs may grant approval for Local Governments to borrow from Queensland Treasury Corporation (QTC).

3. Related Legislation

Local Government Act 2009 (the Act)

Local Government Regulation 2012 (the Regulation)

Statutory Bodies Financial Arrangement Act 1982

Statutory Bodies Financial Arrangement Regulation 2007

Department of Local Government, Racing and Multicultural Affairs

4. Related Documents

Council's Annual Budget 20/21

5. Definitions

To assist in interpretation of this policy the following definitions apply:

- **Borrowings** - Funds Council obtains from external sources by loans, overdraft or other financial arrangements that impose on Council an obligation for repayment.
- **Council** – Gympie Regional Council
- **Debt Service Ratio** – Ability to repay loan funds
- **GRC**-Gympie Regional Council

- **Intergenerational Equity**-concept of fairness between generations
- **QTC** - Queensland Treasury Corporation
- **SBFAA** – Statutory Bodies Financial Arrangements Act 1982
- **The Act** – Local Government Act 2009
- **The Regulation** – Local Government Regulation 2012

6. Policy Statement

6.1 Borrowings from QTC

Borrowing will be considered as an appropriate funding source by Council as part of its cash management strategy in the following circumstances:

- In the context of the strategic objectives of Council
- In the context of long term financial forecasts and objectives
- As an alternative funding source for asset additions
- As a method of spreading the cost of long life (intergenerational) assets
- As a mechanism to fund temporary cash shortfalls.

6.1.1 Procedures

All borrowings will be subject to Council approval on the recommendation of the Director of Corporate and Community Services/Chief Financial Officer. The nature of any borrowings (short or long term) and the interest rate (fixed or variable) will take into account the purpose of the borrowings and seek to minimise interest rate exposure. All borrowings will be considered in line with Council's Forward Financial Estimates.

As a guide, the following borrowing terms shall be applied:

Borrowings Amount	Term
Less than \$500,000	1 – 5 years
\$500,000 - \$1,000,000	10 years
Greater than \$1,000,000	15 years

Council policy is to borrow new loans for a period that maximises efficiency. It is planned to repay existing borrowings within 10 years.

If surplus funds become available and it is deemed to be financially beneficial to do so, one off loan repayments may be made to reduce the term of existing loans, or loan repayments may be made in advance to minimise interest charges.

Loan draw-downs will be timed so as to optimise cash flow and minimise interest expenses.

6.1.2 Borrowing Principles

1. Council will not utilise loan funding to finance operating activities or recurrent expenditure
2. Council will undertake a 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 understands that when assets are acquired through borrowings, the cost of providing capital infrastructure, is increased
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. Where capital expenditure is deferred from one year to the next, the drawdown of approved loan funds will be reviewed to minimise interest expenses
6. Borrowings for infrastructure that provides a positive rate of return on investment will take priority over borrowing for other assets
7. For short-term working capital, funds will be repaid within the same financial year.

6.1.3 Repayment Ability

Council has adopted the debt service ratio as the key indicator of council's ability to sustain its level of debt. Council will consider the appropriate debt service ratio as part of its annual budget deliberations.

6.1.4 Borrowing Sources

Council shall raise all external borrowings from Queensland Treasury Corporation after approval has been granted by the Department of Local Government, Racing and Multicultural Affairs.

6.1.5 Internal Controls

Annual borrowings must be approved by Council as part of its budget process.

6.2 Overdrafts

Council does not hold any bank overdraft facility; however, in June 2020 Council lodged an application and sought approval from DLGRMA for a \$10 million working capital facility from QTC. This facility is shown in the table of proposed borrowings shown in Section 7.

7. Proposed Borrowings

Pursuant to Section 192 of the *Local Government Regulation 2012*, proposed borrowings as outlined in the adopted 2020-21 Budget and subsequent nine (9) financial years are as follows:

Financial Year	\$'000s
2020-21	
Working Capital	10,000
Other	8,998
2021-22	9,770
2022-23	2,500
2023-24	3,000
2024-25	3,100
2025-26	3,300
2026-27	3,300
2027-28	3,300
2028-29	3,300
2029-30	3,300

8. Internal Loans

The provision of internal loans will depend upon the availability of excess Council funds and the capacity of the internal business unit to repay the loan.

The term of the loan will not exceed the asset being financed.

The interest rate of the internal loan will be the sum of the equivalent QTC borrowing rate, the QTC administrative charge for a similar loan and an additional risk margin of no less than 1%. Provisions for the interest and redemption payments for internal loans will be included in the annual budget for the relevant business unit.

9. Review Triggers

This policy will be reviewed when any of the following occur:

1. The related legislation/documents are amended or replaced
2. Other circumstances as determined from time to time by a resolution of Council
3. As initiated by the CEO or Executive Team
4. Periodic Review – Annually.