

Debt Policy 2023/24

Statutory

Council

Administrative

Policy Owner:	Director – Organisational Services
Effective Date:	24 January 2024
Strategic Alignment:	Section 192 <i>Local Government Regulation 2012</i>

1. Purpose

The purpose of this policy is to identify, as part of its annual budgetary process, the borrowings planned for the 2023/24 financial year and the next 9 financial years and the time over which Council plans to repay new and existing borrowings in accordance with the requirements of the *Local Government Act 2009*.

2. Scope

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

This policy applies to all councillors, employees and contractors working for Council regardless of whether they are permanent, temporary, full-time, part-time or casual. For the purposes of this policy, the term contractor includes on-hired temporary labour services (agency staff) and sub-contractors.

3. Policy Statement

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.

4. Principles

- 4.1. Council will not utilise loan funding to finance operating activities or recurrent expenditure.
- 4.2. Borrowings should be directed towards new or upgrade capital projects with funding for capital renewals to be sourced from general revenue where possible.
- 4.3. Preference will be given to borrowings for projects that provide a return to Council.
- 4.4. All external borrowings shall be obtained through the Queensland Treasury Corporation (QTC) using its full range of fund management services.
- 4.5. 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.

- 4.6. Where capital expenditure is deferred from one year to the next, the drawdown of approved loan funds will be reviewed to minimise interest costs.
- 4.7. Where cash balances are sufficient, Council will draw down its loan borrowings at the end of the financial year.
- 4.8. 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.
- 4.9. 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. Internal loans will be managed in accordance with the following guidelines:
- 4.9.1. The interest rate applicable to internal Council loans will be the actual borrowing costs from QTC including administration charges.
- 4.9.2. Business units subject to the provisions of the National Competition Policy shall also pay an additional margin above the QTC borrowing rate.
- 4.9.3. The term of the loan shall not exceed the estimated useful life of the asset.
- 4.9.4. 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.
- 4.10. 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.
- 4.11. 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%

4.12. 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.

4.13. 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 2023/24 borrowing requirements. The proposed borrowing schedule for both external and internal loans is outlined below.

External Borrowings

	2023/24	2024/25	2025/26	2026/27	2027/28
	\$	\$	\$	\$	\$
Roads and Drainage	3,000,000	1,771,575	1,771,575	0	0
Buildings	31,746,379	0	0	0	0
Parks	1,998,400	13,930,337	0	0	0
Sport and Community Infrastructure	16,246,478	28,297,046	22,871,366	29,485,199	32,413,875
Trunk Infrastructure Network	1,498,454	11,237,539	42,671,029	61,035,944	64,765,825
Water and Sewerage	117,047,950	123,000,000	89,000,000	56,000,000	19,000,000
TOTAL	171,537,661	178,236,497	156,313,970	146,521,143	116,179,700

	2028/29	2029/30	2030/31	2031/32	2032/33
	\$	\$	\$	\$	\$
Roads and Drainage	0	0	0	0	0
Buildings	0	0	0	0	0
Parks	0	0	0	0	0
Sport and Community Infrastructure	33,338,102	33,219,541	37,743,139	25,062,049	25,484,231

	2028/29	2029/30	2030/31	2031/32	2032/33
	\$	\$	\$	\$	\$
Trunk Infrastructure Network	62,505,477	63,224,053	63,951,321	58,111,799	54,457,886
Water and Sewerage	25,000,000	30,000,000	15,000,000	25,000,000	3,000,000
TOTAL	120,843,579	126,443,594	116,694,460	108,173,848	82,942,117

4.14. Council will assess borrowing strategies for Trunk Infrastructure with the expectation that a flexible loan arrangement will be established. Unless otherwise noted all other borrowings are to be repaid over a 20 year term. Council's existing borrowings expected repayment terms vary from 2 years to 20 years.

Internal Borrowings

	2023/24	2024/25	2025/26	2026/27	2027/28
	\$	\$	\$	\$	\$
Water and Sewerage	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000

	2028/29	2029/30	2030/31	2031/32	2032/33
	\$	\$	\$	\$	\$
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.

4.15. In accordance with the above policy strategy and criteria, the Council will borrow \$171,537,661 from the Queensland Treasury Corporation during the 2023/24 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.

5. Roles and Responsibilities

The Chief Executive Officer, Directors and the Finance Manager are responsible for ensuring that this policy is adhered to.

6. Reporting

Council's Long Term Financial Forecast as adopted with the Annual Budget will reflect a sustainable long term outlook.

7. Human rights

Under the Human Rights Act 2019 (Qld), Council must not make a decision without considering and assessing the potential impact to human rights, and giving consideration to any impacts. Council does not consider that any human rights are impacted by this policy.

8. Document Control

Version Number	Description of Change	Author / Branch	Effective Date
1.0	Original version	Finance	21 June 2021
2.0	Updated (budget 2022/2023)	Finance	20 June 2022
3.0	Updated (budget 2023/2024)	Finance	19 June 2023
4.0	Administrative amendment	Finance	26 July 2023
5.0	Updated (amended budget 2023/2024)	Finance	6 December 2023
6.0	Updated (purchase of commercial property)	Finance	24 January 2024