

DEBT (BORROWINGS) POLICY

STATUTORY POLICY



1 Scope

This policy applies to the use of loan borrowings to fund Rockhampton Regional Council infrastructure and other important capital works projects.

2 Purpose

The purpose of this policy is to provide Council with a contemporary Debt (Borrowings) Policy for responsible financial management on the loan funding of infrastructure and capital works projects by ensuring the level of Council indebtedness is within acceptable limits to Council, its ratepayers and interested external parties.

3 Related Documents

3.1 Primary

Local Government Act 2009

Local Government Regulation 2012

3.2 Secondary

Statutory Bodies Financial Arrangements Act 1982

4 Definitions

To assist in interpretation, the following definitions apply:

| | |
|------------|---|
| Council | Rockhampton Regional Council |
| QTC | Queensland Treasury Corporation |
| Ratepayers | As defined in the <i>Local Government Regulation 2012</i> , a person who is liable to pay rates or charges. |

5 Policy Statement

As a general principle, Council recognises that loan borrowings for capital works projects 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 benefit. Whilst recognising the importance of loan borrowings, Council should not place undue reliance upon loans as a source of funding.

Council restricts all long term borrowings to expenditure on identified capital works projects that are considered by Council to be of the highest priority and which cannot be funded from revenue, as identified by the adopted budget.

Council does not use long term debt to finance operating activities or recurrent expenditure. A working capital facility or overdraft may be utilised to help fund short term cash flow requirements that may arise from time to time.

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The basis for determination of the utilisation of loan funds is as follows:

- (a) Where a capital works project for a service that is funded by utility or user charges, for example water, sewer, waste, is determined to be funded by way of loans, the user charge should reflect the cost of providing the service including the loan servicing costs.
- (b) Other specific capital works projects, not funded by user charges, should only be considered for loan funding where the project is considered by Council to be of long term benefit to the majority of ratepayers.
- (c) The term of any loan should not exceed the expected life of the asset being funded.

5.1 10 Year Loan Programme Forecast

Council utilises loan borrowings to fund capital and infrastructure works when required. Repayments are usually spread over a period of 15 to 20 years or shorter depending on the life of the asset being created. The Debt (Borrowings) Policy includes the following information:

- (a) New borrowings for the current and the next nine financial years; and
- (b) Repayment schedule for new and existing borrowings.

The following 10 year program is proposed by Council, although allocations are revised on an annual basis in conjunction with the review of its short and long term budgets:

Table 1
10 Year Borrowing and Repayment Schedule

| Financial Year | New Borrowing Amount (\$) | Loan Redemption Amount (\$) | Repayment Period (years) |
|----------------|---------------------------|-----------------------------|--------------------------|
| Existing Loans | N/A | N/A | 1-14 |
| 2022/23 | 30,000,000 | 29,208,760 | 15-20 |
| 2023/24 | 44,000,000 | 11,439,530 | 15-20 |
| 2024/25 | 14,000,000 | 13,058,610 | 15-20 |
| 2025/26 | 25,000,000 | 14,001,580 | 15-20 |
| 2026/27 | 36,000,000 | 15,682,390 | 15-20 |
| 2027/28 | 28,000,000 | 17,979,170 | 15-20 |
| 2028/29 | 13,000,000 | 19,974,040 | 15-20 |
| 2029/30 | 15,000,000 | 21,250,770 | 15-20 |
| 2030/31 | 20,000,000 | 22,716,450 | 15-20 |
| 2031/32 | - | 23,489,150 | 15-20 |

5.2 Repayment Schedule

The loan portfolio of Council is raised solely with QTC primarily utilising QTC's fixed rate loan product. A fixed rate loan is a loan where the interest rate does not fluctuate for the term of the fixed period. A fixed rate loan provides rate certainty; however, an early repayment adjustment applies for any unscheduled repayments.

The amount required to extinguish a fixed rate loan at any point in time is the market value of the loan. The market value reflects the remaining cash flows required to repay the debt, valued at the current market rates of interest. An early repayment adjustment reflects the difference between the loan balance and the market value of a fixed rate loan. The adjustment can be a loss or a gain depending on whether market rates for the remaining term are lower or higher than the original fixed rate.

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Council intends maintaining principal and interest repayment schedules consistent with the fixed rate terms of individual loans so exposures to early repayment adjustment losses are minimised. However, in circumstances where the early repayment adjustment results in a gain to Council, consideration is given to early repayment of the relevant loan facilities, subject to evaluation of Council's financial position at the time.

The budgeted loan portfolio of Council for 2022/23 is as follows:

Table 2
Budget Interest and Redemption by Fund/Function for the Year to 30 June 2023

| | A | B | C | D | E (A – C + D = E) |
|-----------------------------|---|-------------------------------|-----------------------|---------------------|---|
| Function Description | EST Book Debt Balance 01/07/2022 | QTC Admin and Interest | QTC Redemption | New Advances | EST Book Debt Balance 30/06/2023 |
| Water and Sewerage | 9,188,470 | 283,680 | 6,200,690 | 15,000,000 | 17,987,780 |
| Waste and Recycling | 8,859,470 | 206,900 | 1,380,300 | - | 7,479,170 |
| Airport | 15,877,190 | 307,380 | 1,046,850 | - | 14,830,340 |
| Other/ General Functions | 124,318,850 | 3,569,450 | 20,580,920 | 15,000,000 | 118,737,930 |
| TOTAL ALL FUNDS | 158,243,980 | 4,367,410 | 29,208,760 | 30,000,000 | 159,035,220 |

6 Review Timelines

This policy is reviewed when any of the following occur:

- (a) As required by legislation – no later than 30 June 2023 in conjunction with the budget;
- (b) The related information is amended or replaced; or
- (c) Other circumstances as determined from time to time by the Council.

7 Document Management

| | |
|------------------------|--------------------------------|
| Sponsor | Chief Executive Officer |
| Business Owner | Deputy Chief Executive Officer |
| Policy Owner | Chief Financial Officer |
| Policy Quality Control | Legal and Governance |

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