DEBT POLICY

Program:	Financial Services
Date of Adoption:	21 June 2023
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Review Date:	21 June 2024

Scope

This policy applies to the use of loan borrowings by Council to fund infrastructure and other capital projects.

Objective

To ensure that appropriate forward financial planning is undertaken, and the level of Council debt is within acceptable limits to Council, its ratepayers, and other interested external parties.

Policy Statement

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 benefit.

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This process to remain in force until otherwise determined

by Mackay Regional Council

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1.0 Principles

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 benefit. Whilst recognising the importance of loan borrowings, Council should not treat loans as a source of income.

Council will maintain a Long-Term Financial Forecast (LTFF) to demonstrate its long-term financial viability and ability to service loan repayments.

This forecast includes future revenue and expenditure levels including loan borrowing and servicing costs. This forecast will be reviewed annually during the budget process to ensure MRC remains financially viable in the long term.

New borrowings will only be made to fund capital expenditure, for a period less than or equal to the estimated useful life of the asset(s) and not exceeding 20 years.

New borrowings will be undertaken in accordance with the Queensland Treasury Corporation Guidelines, the *Statutory Bodies Financial Arrangements Act 1982* and section 192 of the Regulation.

1.1 Purpose of the Borrowings

Loan funds can be raised to finance a range of infrastructure assets over the maximum timeframes stated. MRC will not utilise loan funding to finance operating activities or recurrent expenditure.

The types of projects that are funded by loan borrowings are those that will have a financial impact over a number of years. This method ensures that the region's ratepayers are not burdened by unrealistic expenditure levels. The funding for these capital works, which creates an asset for Council and / or the community, can then be repaid over the years relating to the life of the asset, as appropriate.

Council recognises that infrastructure demands placed upon MRC 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. MRC may meet long term debt requirements by first using any surplus cash and investments currently available (even if these are surplus only for a short time) before undertaking new borrowing. This is the case even if existing funds only defers the need to borrow for a short period of time.

MRC undertakes a full analysis of all funding options in preparing its LTFF, including a forward program of capital works to determine loan funding requirements. MRC will maintain close scrutiny of its level of debt to ensure its relevant financial sustainability indicators will not exceed the maximum limits recommended by QTC.

Where capital expenditure is deferred from one year to the next, the drawdown of approved loan funds will be reviewed to minimise interest expenses.

1.2 Repayment Term

Unless otherwise noted, the repayment term of new borrowings is projected at 20 years, noting that market conditions and any other principles agreed to with QTC may change over time.

The loan portfolio of MRC is mainly with QTC, via their 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.

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

The repayment term of existing loans varies between 2 and 11 years.

Details of outstanding loans will be reported annually in MRC's Financial Statements and Annual Report.

Council will raise all external borrowings at the most competitive rates available and from sources available as defined by legislation.

1.3 Proposed New Borrowings

New borrowings planned for 2023/24 and the subsequent nine years are as follows:

Year and Purpose of Borrowing	**Amount $'000**
2023/24 – new and upgrade infrastructure assets	$21,200
2024/25 – new and upgrade infrastructure assets	$20,000
2025/26 – new and upgrade infrastructure assets	$23,800
2026/27	Nil
2027/28 – new and upgrade infrastructure assets	$10,000
2028/29 – new and upgrade infrastructure assets	$20,000
2029/30 – new and upgrade infrastructure assets	$39,500
2030/31 – new and upgrade infrastructure assets	$61,500
2031/32 – new and upgrade infrastructure assets	$50,000
2032/33 – new and upgrade infrastructure assets	$50,500

The default repayment term of new loans is 20 years, however, will be set on a case-by-case basis to ensure best use of Council's surplus funds.

1.4 Loan Drawdowns

The Queensland Treasury Corporation (QTC) and the Department of State Development, Infrastructure, Local Government and Planning (DSDILGP) approve proposed borrowings for a particular financial year.

In order to minimise finance costs, loan drawdowns should be deferred as long as possible after taking into consideration MRC's overall cash flow requirements.

Should the completion of capital works be delayed during the financial year, the loan drawdown amount will be adjusted to avoid drawing down funds not required until the following financial year.

2.0 Definitions

To assist in interpretation the following definitions shall apply:

Council shall mean *the Mayor and Councillors of Mackay Regional Council.*

MRC shall mean *Mackay Regional Council.*

QTC shall mean *Queensland Treasury Corporation.*

The Act shall mean *the Local Government Act 2009.*

The Regulation shall mean *the Local Government Regulation 2012*

3.0 Review of Policy

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

- The related documents are amended or replaced.
- Other circumstances as determined from time to time by a resolution of Council

Notwithstanding the above, this policy is to be reviewed at intervals of no more than three (3) years.

4.0 Reference

- *Local Government Act 2009*
- *Local Government Regulation 2012*
- *Statutory Bodies Financial Arrangements Act 1982*
- Queensland Treasury Corporation Guidelines

5.0 Attachments