

1.0 Policy Purpose

The purpose of this policy is to ensure compliance with section 104(5)(c) of the LG Act and 192 of the LG Regulation, which require council to prepare and adopt a debt policy for each financial year. This debt policy was adopted by council for the 2023-24 financial year and:

- a) states the new borrowings planned for the current financial year and the next 9 financial years;
- b) states the period over which council plans to repay existing and new borrowings; and
- c) provides guidance to ensure sound and prudent debt management.

2.0 Policy Statement

2.1 Borrowing Purposes

Council recognises borrowings (debt) as an important funding source for capital works and that the full cost associated with the acquisition of long-life assets or significant renewal and upgrade of existing assets should not necessarily be borne entirely by present day ratepayers. Rather, to ensure intergenerational equity, funding of these activities should also be contributed to by future ratepayers who have access to the services.

The mix of debt to internal funding is intended to provide a balance between minimising long-term costs while providing adequate flexibility of funding in the short-term.

Council will generally seek to minimise its dependence on borrowings to reduce the need to commit future revenue to debt servicing and redemption. Council will also try to align borrowings to specific capital projects, to ensure transparency and accountability is maintained.

The specific principles Council will apply in determining whether borrowings should be accessed are:

- to finance the portion of the cost of new long-life assets or significant renewal and upgrade of existing assets as part of council's capital program which are not funded by grants and subsidies, and where surplus funds from normal council operating revenues such as rates, fees and charges are not available
- for strategic needs identified in the Operational Plan or to take advantage of opportunities for development providing there is a demonstrable return in economic and/or social benefits to the community
- for short-term working capital that may be required for a genuine emergency or other hardship, and which is to be repaid within the same or following financial year, or
- to establish a commercial debt structure for a commercial Business Entity established by council.

A Business Entity which is conducting a Significant Business Activity should be capable of funding its own debt commitments.

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Council will not use long-term borrowings to finance recurrent expenditure and the operational activities.

2.2 Borrowing Process

Part 5 of the Queensland *Statutory Bodies Financial Arrangements Act 1982* (SBFA Act) permits local government entities to borrow with the Treasurer's approval. Under a general approval dated 23 May 2003 and issued by the Treasurer under the SBFA Act, the Department may grant approval for local governments to borrow from QTC.

The Department will generally only allow borrowings from QTC for capital purposes with separate approval of the Treasurer being required for borrowings and facilities not sourced from QTC.

Council is not able to negotiate interest rates with QTC as these rates are calculated using market interest rates at the time of pricing the borrowing.

Council may also apply for a Working Capital Facility (the Facility) from QTC to be used for short-term liquidity management purposes as an alternative to holding excess surplus cash and to accommodate fluctuations experienced in the ordinary course of business. The application and approval process for the Facility is similar to that of capital borrowings.

2.3 Proposed and Current Borrowings

Council regularly monitors debt levels to ensure that the net financial liabilities key sustainability ratio remains within the acceptable target range of less than 60%, and the debt continues to be serviceable.

As per section 192 of the LG Regulation, council's debt policy must detail its proposed borrowings and repayments for the current financial year and for the next nine financial years. Council intends to borrow funds of \$10.00m in 2023-24 and \$10.00m in 2026-27. Council does not intend to borrow any funds for the remaining years of the long-term financial forecast.

Details of council's proposed borrowing and repayment program over the period from 1 July 2023 to 30 June 2033 are proposed in Table 1.

Table 1:

| 10 Year Borrowing and Repayment Program | | | | |
|---|---|--|--|------------------|
| Financial year | Existing borrowing amount - start of financial year \$000 | New borrowing amount - start of financial year \$000 | Redemption amount - to be paid during financial year \$000 | Repayment period |
| 2023-24 | 75,838 | 10,000 | 6,853 | 4 - 20 years |
| 2024-25 | 78,985 | - | 7,476 | 3 - 19 years |
| 2025-26 | 71,509 | - | 7,820 | 2 - 18 years |
| 2026-27 | 63,689 | 10,000 | 8,184 | 1 - 20 years |
| 2027-28 | 65,505 | - | 8,866 | 1 - 19 years |
| 2028-29 | 56,639 | - | 8,109 | 1 - 18 years |
| 2029-30 | 48,530 | - | 7,666 | 1 - 17 years |
| 2030-31 | 40,864 | - | 6,228 | 1 - 16 years |
| 2031-32 | 34,636 | - | 5,588 | 1 - 15 years |
| 2032-33 | 29,048 | - | 4,695 | 1 - 14 years |

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Council's budgeted borrowings portfolio for 2023-24 is identified in Table 2.

Table 2:

| | Estimated closing balance | 2023-24 Movements | | | Budgeted closing balance |
|-----------------------------|---------------------------|-------------------|-----------------|---------------------|--------------------------|
| | 30 June 2023 | Interest | Less Redemption | Plus New Borrowings | 30 June 2024 |
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| General | 32,674 | 1,415 | (2,689) | 4,000 | 33,985 |
| Business Activities: | | | | | |
| Airport | 20,074 | 671 | (1,976) | - | 18,098 |
| Waste | 2,591 | 127 | (297) | - | 2,294 |
| Water | 14,937 | 650 | (1,479) | 2,600 | 16,058 |
| Sewerage | 5,562 | 236 | (412) | 3,400 | 8,550 |
| | | | | | - |
| Total | 75,838 | 3,099 | (6,853) | 10,000 | 78,985 |

2.4 Repayment Term

QTC offers maximum borrowing terms of up to 20 years with no minimum borrowing threshold. Terms of any borrowing must not exceed the planned life of the asset for which the funds have been borrowed.

All of council's current borrowings are fixed interest rate facilities and are therefore not subject to interest rate sensitivity. While a fixed rate borrowing provides rate certainty, an early repayment adjustment applies for any unscheduled payments or early repayment of the borrowing.

The decision to repay borrowings early if cash surplus to council's requirements becomes available will only be made in accordance with a debt repayment analysis conducted by QTC. Council intends to hold all current borrowings and proposed borrowings to term.

2.5 Borrowing Drawdowns

To minimise finance costs, drawdowns of borrowings should be deferred as long as possible to the end of the relevant financial year, taking into consideration council's overall cash flow requirements. QTC requires that new borrowings which have been approved for each financial year are drawn down prior to 30 June as approval does not carry forward to subsequent financial years.

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3.0 Definitions

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| Business Entity | Has the same meaning as defined in the <i>Local Government Regulation 2012</i> (Qld). |
| Council | Means Central Highlands Regional Council. |
| Department | Means the Department of State Development, Infrastructure, Local Government and Planning. |
| LG Act | Means the <i>Local Government Act 2009</i> (Qld). |
| LG Regulation | Means the <i>Local Government Regulation 2012</i> (Qld). |
| Local Government Area | Has the same meaning as defined in the <i>Local Government Act 2009</i> (Qld). |
| Operational Plan | Means Council's annual operational plan which is published online at https://www.chrc.qld.gov.au/about-council/news-reports-and-advocacy/strategic-reports/ . |
| QTC | Means the Queensland Treasury Corporation. |
| SBFA Act | Means the <i>Statutory Bodies Financial Arrangements Act 1982</i> (Qld). |
| Significant Business Activity | Has the same meaning as defined in the <i>Local Government Regulation 2012</i> (Qld). |

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| Strategic Link | <i>Local Government Act 2009</i> <i>Local Government Regulation 2012</i> <i>Statutory Bodies Financial Arrangements Act 1982</i> |
| Category | Debt Policy |
| Lead Business Unit | CFO Office |
| Public Consultation | No |
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| Related Documents | Long-Term Financial Plan Application of Competition Policy Annual Budget |

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