
DEBT POLICY

INTENT

To outline parameters for borrowing and debt levels within the context of Cook Shire Council's Long Term Financial Forecast (LTFF) and annual budget.

To comply with the *Local Government Act 2009* by ensuring that Council:

- a) specifies new borrowings planned for the financial year and the next nine (9) financial years;
- b) identifies the purpose of the new borrowings;
- c) specifies the time over which it is planned to repay existing and proposed borrowings.

SCOPE

Borrowings are those funds which Council obtains from external sources by loans, overdraft or other financial arrangements that impose an obligation for repayment.

POLICY STATEMENT

Criteria for Borrowings

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 will restrict all 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,

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| Authorised By: | Director Organisational Business Services | | |
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as identified by the adopted budget. Under no circumstances should Council borrow funds for recurrent expenditure.

Council regularly assesses the long term financial sustainability of all financial decisions by undertaking 10 year financial modelling. Council’s borrowing program will be based on a sustainable financial outlook and will only be undertaken where Council can demonstrate that repayments can comfortably be met.

When borrowing for infrastructure, the term of the loan shall not exceed the finite life of the related asset.

Existing Borrowings:

| Purpose | Term (years) | Book Value Estimated 30/6/2022 |
|--------------------------|--------------|--------------------------------|
| Working Capital Facility | Overdraft | Fluctuates |
| Consolidated Loans | 12 years | \$1,713,716.84 |
| Housing Project | 15 years | \$946,927.59 |
| Child Care Facility | 15 years | \$565,313.56 |

Proposed Borrowings:

At this stage, Council’s 10 year financial forecast does not include any planned borrowings, however this will be reviewed on an annual basis. The repayment term of existing and new borrowings will be in accordance with the repayment schedule relevant to each loan.

Market Value and Refinancing

The loan portfolio of Council is raised solely with Queensland Treasury Corporation (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 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.

KEY RESPONSIBILITIES

| RESPONSIBLE OFFICER | RESPONSIBILITY |
|---|--|
| Council | Approval of the Debt Policy each year as part of the budgeting process for the next financial year. Approval of the Long Term Financial Forecast each year. |
| Director Organisational Business Services | Development of the Long Term Financial Forecast and the Annual Operational budget in conjunction with the Chief Financial Officer, Executive Team and Council. |
| Chief Financial Officer | Development of the Long Term Financial Forecast and the Annual Operational budget in conjunction with the Director Organisational Business Services, Executive Team and Council. |
| Coordinator Projects and Management Accounting | Review and reconciliation of loan funding on a monthly basis. |

REFERENCES, LEGISLATION AND GUIDELINES

Local government Act 2009

Local Government Regulation 2012

IMPLEMENTATION/COMMUNICATION

This policy will be communicated as part of the budget adoption process as well as being placed on Council's website.

APPROVED BY

Adoption annually by Council.

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REVIEW

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|--|---|
| SPONSOR: | Director Organisational Business Services |
| OFFICER RESPONSIBLE FOR REVIEW: | Chief Financial Officer |
| ADOPTION DATE: | 24 May 2022 |
| REVIEW DATE: | As required by legislation - no later than 30 June 2023 in conjunction with the budget. |

THIS POLICY IS TO REMAIN IN FORCE UNTIL OTHERWISE DETERMINED BY COUNCIL

AMENDMENT HISTORY

| VERSION | AMENDMENT DETAILS | AMENDMENT DATE | APPROVAL |
|---------|-------------------------------|----------------|-----------------------------|
| 2.0 | Minor Amendments | 20/05/2019 | |
| 3.0 | Minor Amendments | 25/05/2020 | |
| 12.0 | Minor Amendments | 08/06/2021 | Council Resolution 2021/125 |
| 13.0 | Adopted by Council Resolution | 24/05/2022 | 2022/107 |

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