

Debt Policy

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Version:	22

Head of Power

Local Government Act 2009 (Act)

Section 104 requires a Local Government to establish a system of financial management that includes various financial policies, including a debt policy.

Local Government Regulation 2012

Section 192(1) requires a Local Government to prepare and adopt a debt policy for a financial year. *The Act* also defines Council as a statutory body and subsequently Council's borrowing activities continue to be governed by the *Statutory Bodies Financial Arrangements Act 1982*.

Policy Objective

To ensure the sound management of Council's existing and future debt after assessing and minimising all associated risks in accordance with the annually revised and adopted Long-Term Financial Strategy (Financial Strategy). Further, to comply with section 192 of the *Local Government Regulation 2012*, this policy states the new borrowings planned for the 2021-2022 financial year, and the next nine financial years, and the period over which Council plans to repay existing and new borrowings.

This policy applies to all of Redland City Council business areas. Redland Investment Corporation (RIC), being a wholly owned separate legal entity, and any of its subsidiaries may utilise the provisions of this policy but are not bound to the Redland City Council policy statements as outlined in this document.

Policy Statement

The Debt Policy is aligned to the objectives of Council's Corporate Plan and is achieved through Council's commitment to:

- Only using long-term borrowings (between 2 and 20 years) to finance capital works that will provide services now and into the future. No long-term borrowings will be used to finance recurrent expenditure and the operational activities of the Council.
- Utilising its existing constrained cash reserves when seeking funding for capital works. The use of any existing cash reserves will be subject to the purpose of the reserve in addition to maintaining all relevant financial ratios and measures of sustainability within adopted Financial Strategy targets.
- Undertaking long-term borrowings for capital works only if the interest and debt principal repayments can be serviced and relevant financial ratios and measures are maintained within approved Financial Strategy targets.

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- Aligning borrowings to specific projects and/or asset classes rather than being pooled to ensure transparency and accountability is maintained. Borrowings will be nominated through the priority needs of the capital program and will be determined through the normal budgetary and approval process of Council.
- Paying debt service payments annually in July in order to minimise Council’s interest expense.
- Reviewing its debt regularly and seeking to repay or restructure its debt to ensure repayment in the shortest possible time or resulting in a reduction in interest payments subject to maintenance of key performance indicators in the Financial Strategy.
- Considering new loans only if the subsequent increase in debt servicing payments allows the total debt servicing ratio to remain within Financial Strategy targets.
- Ensuring the term of any new loans will be a maximum of twenty years for Water, Waste and General requirements. The debt term shall not exceed the finite life of the related asset/s.
- Recovering costs of new loans taken out on behalf of commercial businesses, commercial opportunities, joint ventures, associates or subordinates through the administration of a management fee in line with current market rates.
- Restricting new borrowings to work that falls into specific categories such as:
 - Risk Management
 - Asset Management
 - Inter-Generational Projects

Definitions

Nil

Associated Documents

Financial Strategy 2021-2031
Strategic Asset Management Plan

Document Control

Only Council can approve amendments to this document by resolution of a Council Meeting, with the exception of administrative amendments which can be approved by the relevant ELT member. Refer to *Policy Instrument Development Manual* for an explanation on administrative amendments ([A4063988](#)).

Any requests to change the content of this document must be forwarded to relevant Service Manager(s). Approved documents must be submitted to the Corporate Meetings and Registers Team for registration.

Version Control

Version number	Date	Key Changes
17	May 2017	<ul style="list-style-type: none"> • Updated for Budget 2017-18 process • Item 7 changed from previously only considering new loans where cash balances were insufficient • Added in proposed debt schedule
18	March 2018	<ul style="list-style-type: none"> • Updated for 2018-19 process • Added in Policy Scope to clarify RIC is a separate legal entity • Clarified Head of Power to show requirements of the <i>Local Government</i>

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Version number	Date	Key Changes
		<i>Act 2009</i> <ul style="list-style-type: none"> Policy Objective amended to confirm policy objectives and compliance with <i>Local Government Regulation 2012</i>
19	May 2019	<ul style="list-style-type: none"> Updated for the 2019-20 Budget process Inclusion of Document Control Section
20	June 2020	<ul style="list-style-type: none"> Administrative updates resulting from policy framework review
21	June 2020	<ul style="list-style-type: none"> Updated for the 2020-21 Budget process
22	June 2021	<ul style="list-style-type: none"> Updated for the 2021-22 Budget process Inclusion of tables with New and Existing Loans

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Schedule of forecasted debt 2021-2031: Local Government Regulation 2012 section 192(2)(a)										
	Budget Year 1 2021-22 \$000	Forecast Year 2 2022-23 \$000	Forecast Year 3 2023-24 \$000	Forecast Year 4 2024-25 \$000	Forecast Year 5 2025-26 \$000	Forecast Year 6 2026-27 \$000	Forecast Year 7 2027-28 \$000	Forecast Year 8 2028-29 \$000	Forecast Year 9 2029-30 \$000	Forecast Year 10 2030-31 \$000
Opening Balance	44,228	46,985	53,440	63,314	72,747	80,567	92,376	101,341	107,601	118,251
New Loans	10,324	14,700	13,877	14,123	13,265	15,991	12,917	10,890	15,890	15,000
Accrued Interest on Loans	1,438	1,156	1,366	1,546	1,710	1,944	2,290	2,526	2,697	2,987
Debt Service Payment (principal and interest)	(9,005)	(9,401)	(5,369)	(6,236)	(7,156)	(6,126)	(6,241)	(7,156)	(7,937)	(8,818)
Closing Balance	46,985	53,440	63,314	72,747	80,567	92,376	101,341	107,601	118,251	127,420

Schedule of forecasted remaining repayment terms in years 2021-2031: Local Government Regulation 2012 section 192(2)(b)										
	Budget Year 1 2021-22	Forecast Year 2 2022-23	Forecast Year 3 2023-24	Forecast Year 4 2024-25	Forecast Year 5 2025-26	Forecast Year 6 2026-27	Forecast Year 7 2027-28	Forecast Year 8 2028-29	Forecast Year 9 2029-30	Forecast Year 10 2030-31
Weighted Average in Years (existing loans)	11.45	12.84	12.70	12.91	13.73	13.39	12.40	11.40	10.40	9.41
Weighted Average in Years (incl. new loans)	13.34	16.00	16.57	16.96	17.20	17.04	16.59	16.08	15.80	15.48

In accordance with section 192(2)(b):

- Council plans to repay its existing borrowings over their remaining terms, with all existing debt planned to be repaid by 2041.
- With respect to new debt, Council will consider the repayment period at the time of the application based on factors including the size of loan and nature of the asset to be funded. Of note, the maximum repayment term will be 20 years for all new borrowings.

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Financial Year Ending 30 June	Amount \$000	Purpose	Repayment Period ^
2022	10,324	Major Capital Works and Acquisitions	20 years
2023	14,700	Major Capital Works and Acquisitions	20 years
2024	13,877	Major Capital Works and Acquisitions	20 years
2025	14,123	Major Capital Works and Acquisitions	20 years
2026	13,265	Major Capital Works and Acquisitions	20 years
2027	15,991	Major Capital Works and Acquisitions	20 years
2028	12,917	Major Capital Works and Acquisitions	20 years
2029	10,890	Major Capital Works and Acquisitions	20 years
2030	15,890	Major Capital Works and Acquisitions	20 years
2031	15,000	Major Capital Works and Acquisitions	20 years

^Assumed 20 years for forecasting purposes, will be in line with the lives of the assets funded by the loan

Year Borrowed*	Amount Borrowed \$000	Purpose	Repayment Period	Year to be Repaid	Principal Outstanding 30/6/2021 \$000
2016	632	Community Buildings	9 years	2025	374
2016	7,649	Land Acquisitions	9 years	2025	4,530
2016	1,754	Other Infrastructure	10 years	2026	1,109
2016	1,085	Paths and Trails	10 years	2026	683
2016	3,925	Road Infrastructure	10 years	2026	2,465
2016	6,859	Tidal Works	9 years	2025	3,964
2016	26,470	General Account	6 years	2022	9,462
2016	559	Waste Management Account	5 years	2021	117
2019	2,500	Infrastructure-Transport Weinam	20 years	2039	2,349
2020	9,800	Infrastructure Works Program	20 years	2040	9,562
2021	9,612	Major Capital Works and Acquisitions	20 years	2041	9,615

**The existing loan accounts were converted to fixed rate loans on 1 April 2016 following a QTC restructure of loans and policies.*