

SPECIAL BUDGET MEETING

1 JULY 2020

4**DEBT POLICY**

K Robertson | 63/8/32-01 | #6291880

RECOMMENDATION:**That Council adopts the 2020/21 Debt Policy.****EXECUTIVE SUMMARY:**

This report provides an update of the Debt Policy for adoption with the annual budget.

The Debt Policy was last adopted in June 2019 and this revision includes the following updates:

- Revised planned borrowings as per the 2020/21 Budget
- Reference to Councils Working Capital Facility (WCF)

BACKGROUND:

Council's debt policy sets out borrowings planned for the next ten financial years.

Each year as part of the budget process, long-term financial forecasting is completed to determine required levels of long-term debt to fund Council's capital works program as well as the WCF limit required by Council for the upcoming financial year to manage short term cash flows.

COMMENT:

Council's approved WCF limit for 2020/21 is \$120M. Council's WCF was increased from \$60M to \$120M in May 2020 in response to the short term cash flow impacts anticipated through delayed payment of rates by ratepayers adversely impacted by COVID-19.

New long term borrowings planned for the next ten financial years are as follows:

Year and Purpose of Borrowing	Amount	Term
2020/21 Capital Works Program	\$65M	15 years
2021/22 Capital Works Program	\$30M	15 years
2022/23 Capital Works Program	\$15M	15 years
2023/24 Capital Works Program	-	-
2024/25 Capital Works Program	\$80M	15 years
2025/26 Capital Works Program	\$80M	15 years
2026/27 Capital Works Program	\$12M	15 years
2027/28 Capital Works Program	-	-
2028/29 Capital Works Program	-	-
2029/30 Capital Works Program	-	-

The planned repayment of existing long term borrowings is as follows:

Year and Purpose of Borrowing	Current Balance	Term Remaining
2018/19 Borrowings	\$23M	9 years
2017/18 Borrowings	\$26M	8 years
2015/16 Consolidated Debt	\$60M	6 years
Holloways Beach Rock Wall Stage1	\$63k	3 years
Holloways Beach Rock Wall Stage 2A	\$57k	4 years
Holloways Beach Rock Wall Stage 2B	\$107k	4 years

OPTIONS:

Option 1: (Recommended)

It is recommended that Council adopts the 2020/21 Debt Policy.

Option 2:

Council does not endorse the 2020/21 Debt Policy and puts forward proposed amendments to the policy and corresponding changes to be made to Council's capital works programme.

CONSIDERATIONS:

Risk Management:

Council's long term financial forecasting model is used to determine required and sustainable debt levels, keeping within key financial sustainability metrics.

Statutory:

Chapter 5, part 4, and section 192 of *Local Government Regulation 2012* requires Council to set a Debt Policy annually showing borrowings planned for the next ten financial years.

ATTACHMENTS:

Debt Policy



Jason Ritchie
Manager Finance



Lisa Whitton
Chief Financial Officer

DEBT POLICY

Intent: To provide Council with a debt management strategy based on sound financial management guidelines.

Scope: This policy applies to all borrowings of Cairns Regional Council including all of the commercialised business units of Council.

PROVISIONS

The following sets out the Debt Policy for the year ending 30 June 2021 as required by chapter 5, part 4, and section 192 of *Local Government Regulation 2012*.

Borrowings are obtained from Queensland Treasury Corporation (QTC). Council maintains both long and short term borrowings. Borrowing approvals are subject to an annual approval process facilitated by the Department Local Government, Racing and Multicultural Affairs (DLGMRA).

Short Term Borrowings

Short term borrowings are provided through a Working Capital Facility (WCF). Council maintains a WCF to effectively manage cash balances throughout the year in order to delay the drawdown of long term debt. Any drawdowns from the facility are typically fully repaid within one year.

Council's WCF limit for 2020/21 is \$120 Million.

Long Term Borrowings

Long term borrowings are utilised to fund the construction of long-term infrastructure assets that provide essential services and ongoing benefits to the community. Borrowings are repaid on a monthly basis in accordance with the terms and conditions set by QTC.

Planned long term borrowing requirements are set out below:

Year and Purpose of Borrowing	Amount	Term
2020/21 Capital Works Program	\$65M	15 years
2021/22 Capital Works Program	\$30M	15 years
2022/23 Capital Works Program	\$15M	15 years
2023/24 Capital Works Program	-	-
2024/25 Capital Works Program	\$80M	15 years
2025/26 Capital Works Program	\$80M	15 years
2026/27 Capital Works Program	\$12M	15 years
2027/28 Capital Works Program	-	-
2028/29 Capital Works Program	-	-
2029/30 Capital Works Program	-	-

The default repayment term of new loans is 15 years however will be set on a case by case basis (up to a maximum of 20 years) to ensure best use of Council's surplus funds.

The planned repayment of existing long term borrowings is as follows:

Year and Purpose of Borrowing	Current Balance	Term Remaining
2018/19 Borrowings	\$23M	9 years
2017/18 Borrowings	\$26M	8 years
2015/16 Consolidated Debt	\$60M	6 years
Holloways Beach Rock Wall Stage 1	\$63k	3 years
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Principles

- Council aims to finance capital works and new assets to the greatest extent possible from revenue, grants and subsidies.
- Financing of major infrastructure assets requires a strategic approach to evaluate the risk exposure of Council.
- Council should continually evaluate its financing options to ensure it assesses the relative risks and benefits, including the performance of its finances.
- Council will not use long-term debt to finance operating activities or re-current expenditure of Council.
- Council maintains a WCF to effectively manage cash balances throughout the year in order to delay the drawdown of long term debt.
- Council's long term financial model will provide the basis for determination of funding options.
- Council will only enter into finance lease agreements in line with the provisions contained in the *Statutory Bodies Financial Arrangements Act 1982* and the *Local Government Act 2012*.

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This policy is to remain in force until otherwise determined by Council.

General Manager Responsible for Review:

Chief Financial Officer

ORIGINALLY ADOPTED: 21/06/2002

CURRENT ADOPTION: 01/07/2020

DUE FOR REVISION: 30/06/2021

REVOKED/SUPERSEDED:

John Andrejic
Chief Executive Officer