



Borrowing Policy 2008/2009





ISAAC REGIONAL COUNCIL

BORROWING POLICY 2008/2009

1. BACKGROUND AND CONTEXT

OBJECTIVE:

To adopt a policy on borrowings that provides for responsible financial management on the loan funding of infrastructure capital projects by ensuring the level of Council indebtedness is within acceptable limits to Council, its ratepayers and interested external parties. This policy is in accordance with Section 8 of the Local Government Finance Standard 2005, as amended.

POLICY:

As a general principle, 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 place undue reliance upon loans as a source of income.

Council restrict all borrowings to expenditure on identified capital projects that are considered by Council to be of the highest priority, and which cannot be funded from revenue, as identified by the adopted budget. In no circumstances should council borrow funds for recurrent expenditure.

The basis for determination of the utilisation of loan funds will be as follows:

- Analysis of existing debt levels with a loan servicing cost target of less than 25% in any one year.
- Where a capital project for a service that is funded by utility or user charges eg. water, sewer, waste, is determined to be funded by way of loans, the user charge should reflect the cost of providing the service including the loan servicing costs.
- Other specific capital projects, not funded by user charges, should only be considered for loan funding where the project is considered by Council to be beneficial to the majority of ratepayers.

- The term of any loan should not exceed the expected life of the asset being funded.

FIVE YEAR LOAN PROGRAMME FORECAST

Council utilises loan borrowing to fund major capital and infrastructure works so that repayments are spread over the years to which the Capital Works will be utilised by ratepayers. The Borrowing Policy deals with the following areas:

- 1) Five Year Loan Programme Forecast
- 2) Repayment Schedule

The following five year programme is proposed by Council, although allocations in future years are revised on an annual basis in conjunction with the review of the Capital/Works Loan Program:

TABLE (1)

PROJECT	2008/2009		2009/10	2010/11	2011/12	2012/13
	TERM (YEARS)	LOAN '000's	LOAN '000's	LOAN '000's	LOAN '000's	LOAN '000's
LOANS						
AFFORDABLE HOUSING	20	3,500	-	-	-	-
SEWERAGE PROJECTS	20	5,600	-	-	-	-
OTHER PROJECTS (GENERAL – LAND DEVELOPMENT)	1-2	8,400	8,400	-	-	-
TOTAL		17,500	8,400	-	-	-

REPAYMENT SCHEDULE

The loan portfolio of Council is raised solely with the Queensland Treasury Corporation. The Queensland Treasury Corporation maintains Council debt as the Book Debt plus a market provision, to market value the total liability outstanding. The provision is principally a result of past movements in the Market Value of the liabilities within each Debt Pool. If the Council was to liquidate this debt it would be required to pay the Market Value of the loan portfolio. The portfolio has been dissected so that loan borrowings in relation to Water and Sewerage Infrastructure are maintained in separate accounts to more accurately reflect the cost of the provision of this

infrastructure. This approach is needed otherwise the loan term is amalgamated and the average term for repayments lengthens. It is proposed that Council consider maintaining a repayment schedule consistent with an interest and principal repayment calculation so that the exposure to interest rate fluctuations is minimised. This basis of repayment will continue to be assessed even though separate accounts have been established for Sewerage and Water Supply Infrastructure. The Budgeted Loan Portfolio of Council for 2008/2009 is as follows:

TABLE (2)

**ISAAC REGIONAL COUNCIL
BUDGET INTEREST AND REDEMPTION BY FUND AND FUNCTION**

FOR THE YEAR TO 30 JUNE 2009

	A	B	C	D	C(1)	D (A - D + C (1))
FUNCTION DESCRIPTION	EST BOOK DEBT BALANCE 30/06/2008	QTC INTEREST	QTC ADMIN	QTC REDEMPTION	NEW ADVANCES	EST BOOK DEBT BALANCE 30/06/2009
GENERAL FUNCTIONS	6,792,667	495,864	8,400	15,192,667	8,400,000	0
HOUSING FUNCTIONS	0	240,269	3,500	95,362	3,500,000	3,404,638
SEWERAGE FUNCTIONS	0	384,408	5,600	153,561	5,600,000	5,446,438
TOTAL ALL FUNDS	6,792,667	1,120,541	17,500	15,441,590	17,500,000	8,851,076

The current repayment terms to the individual loan accounts are as follows:

	<u>Debt Pool</u>	<u>Approx. Remaining Term</u>
General Functions:		
General Functions No.1	Floating Rate	0.5 years
General Functions No.2	Floating Rate	1.5 years
Sewerage Functions:		
Moranbah	20 years	20 years
Nebo	20 years	20 years
Housing Function	20 years	20 years

The existing term of the Portfolio varies between separate accounts and will fluctuate in proportion to the Market Value provision applied. New borrowings will lengthen the term of each Debt Pool unless taken as a separate loan account. This will allow the term of the loan to better match the repayment structure of the asset being funded. The estimated total repayment amounts for the 2008/2009 financial year are indicated in Table (2).

NOTE: This Policy will be reviewed each year with the Adoption of the Budget.

7. APPROVAL TABLE

Approved by Council		Meeting number and date	
		Budget Meeting Dated 26 August 2008	
		Resolution number	
Approval by CEO / Director / Manager		CEO / Coordinator Corporate Services	
Effective date		Review date	
26 August 2008			
Policy Author			
David Munro			
Current incumbent			
David Munro			
Implementation Officer			
Coordinator Corporate Services			
Current incumbent		Contact number	Official file no.
David Munro			