

5.9. EARLY REPAYMENT OF QUEENSLAND TREASURY CORPORATION LOANS

REPORT AUTHOR(S) DEPARTMENT

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RECOMMENDATION

That Council

- **fully repays its loans held with the Queensland Treasury Corporation prior to the end of this financial year; and**
- **delegates authority to the Chief Executive Officer under Section 257 of the Queensland Local Government Act 2009 to determine and finalise all associated matters with this loan payout.**

EXECUTIVE SUMMARY

Given the current financial market conditions compared to those conditions that existed at the time that Council's loan borrowings with Queensland Treasury Corporation (QTC) were arranged, Council staff have sought information from QTC on the possible benefits of an early repayment of the loans. Figures provided by QTC indicate that early repayment will result in net interest savings to Council of \$391,120 (compared to the scheduled repayment period of the loans), coupled with other advantages outlined in this report. On repayment of the loans Council will be debt free.

BACKGROUND

During the process of de-amalgamating from Cairns Regional Council (CRC), a Financial Due Diligence Working Group was established to undertake a comprehensive analysis of transactions over the amalgamated years to determine a final split of assets and liabilities between both councils.

As part of the calculation of liabilities transferred to Douglas Shire Council it was determined that during the amalgamated period, CRC had obtained loans to fund capital works within the geographical area of the Douglas Shire and that the balance of these loans to be transferred to Council as at 1 January 2014 was \$2,282,493. Accordingly, Council has been responsible for making the scheduled repayments on the loans since de-amalgamation.

COMMENT

The Executive Leadership Team continually reviews expenditure and considers options available to be presented to Council which underpin a long term financial sustainability strategy. An option that is now available to Council is to make a lump sum payment to fully repay the loans Council has with the Queensland Treasury Corporation (QTC).

The QTC has provided the data contained in the following table which details Council's loans and the net interest savings achievable if Council fully repays the loans this financial year.

Account	Market Value	Book Value	Book Rate	Expected Loan Term Years	Indicative Book Interest Savings	Early Payout Adjustment	Net Interest Savings Full Payout
Waste Services	\$383,691	\$315,252	7.13%	10.93	\$140,490	(\$68,440)	\$72,050
Water Services	\$1,211,562	\$1,008,129	7.00%	10.35	\$414,407	(\$203,432)	\$210,975
Water Services	\$712,995	\$602,594	6.91%	9.35	\$218,497	(\$110,402)	\$108,095
Total	\$2,308,248	\$1,925,975			\$773,394	(\$382,274)	\$391,120

An explanation of the column headings in the above table are:

Market Value: - Book Value plus early repayment adjustment

Book Value: - Value of principal outstanding on existing loans

Book Rate: - Fixed interest rate for the existing loans

Expected Loan Term: - Remaining term of the existing loans

Indicative Book Interest Savings: -Interest payments foregone due to early repayment

Early Payout Adjustment: - The difference between the fixed rate when the loans were entered into and the prevailing market interest rates at the time of early repayment

Net Interest Savings: - Saving to Council as a result of early repayment of the loans

The 2016/17 Annual Budget was developed on the basis that Council would only make the scheduled repayments. In doing so, \$126,755 was allocated to cover the interest component of these loan repayments in the Operational Budget. Should the QTC borrowings be repaid early as proposed, this would incur a "one off" early payout adjustment of \$382,274 for this financial year however the benefits would be:

- Council would be debt free, complementing Council's long term strategy to be financially sustainable by the end of the 2019/20 financial year.
- The loans inherited through the de-amalgamation process would be repaid approximately ten (10) years early which would secure an indicative book interest savings of \$773,394. These savings are offset by an early payment adjustment of \$382,274 resulting in a long term net savings of \$391,120 to Council.
- Return on investment funds held by Council are substantially lower than the interest rates applied to these loans therefore it is considered a prudent use of investment funds to pay out the loans as opposed to investing.
- The funds that would need to be allocated to meet the interest component of loan repayments, if the loans were not repaid early, could now be utilised towards meeting increasing costs in other operational areas of Council.

PROPOSAL

Considering the above circumstances it is recommended that Council fully repays all QTC loan borrowings prior to the end of this financial year.

FINANCIAL/RESOURCE IMPLICATIONS

Repaying the QTC borrowings in full this financial year will incur an additional "one off" interest expense of \$382,274 that has not been included in this year's budget however there

are also tangible benefits (including a \$391,120 saving in interest over the original life of the loans) which have been outlined earlier in this report.

RISK MANAGEMENT IMPLICATIONS

To be able to achieve a debt free status in its third full financial year since de-amalgamation enhances Council's reputation as it complements the commitment to the long term strategy of financial sustainability by the end of the 2019/20 financial year.

SUSTAINABILITY IMPLICATIONS

Economic: This reduction in operational expenses provides a significant economic benefit to Council.

Environmental: Nil

Social: Nil

CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE

This report has been prepared in accordance with the following:

Corporate Plan 2014-2019 Initiatives:

Theme 5 - Governance

5.1.1 - Establish and develop long term financial, resource and infrastructure planning to ensure ongoing capacity to fund operations and capital works programs

5.2.1 - Provide Councillors and community with accurate, unbiased and factual reporting to enable accountable and transparent decision-making.

COUNCIL'S ROLE

Council can play a number of different roles in certain circumstances and it is important to be clear about which role is appropriate for a specific purpose or circumstance. The implementation of actions will be a collective effort and Council's involvement will vary from information only through to full responsibility for delivery.

The following areas outline where Council has a clear responsibility to act:

Fully-Responsible Funding the full cost of a program or activity

CONSULTATION

Internal: Executive Leadership Team

External: Queensland Treasury Corporation

ATTACHMENTS

Nil