



WARRNAMBOOL
CITY COUNCIL

Community Group Loan Guarantee Policy

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1. INTRODUCTION

1.1. Purpose

The purpose of this policy is to clarify the rules and methodology which Warrnambool City Council (“Council”) will apply when considering whether it should act as bank guarantor for loans taken out by community organisations;

1.2. Scope

This policy applies to the evaluation of all requests to Council for it to act as guarantor for loans by community organisations.

1.3. Definitions

Term	Definition
Organisation	An incorporated organisation, community group or sporting club
S&P	Standard and Poor’s credit rating agency
Staff	City employees, Councillors, volunteers, or contractors engaged by Council
Significant	Means direct financial (cash or otherwise) support greater than \$50,000, or which may present a high or extreme risk to Council

1.4. References

Nil

2. POLICY

Council is, at times, approached to provide significant support to local community organisations to assist with funding projects. The support requested can be in the form of funding, supply of goods and services, labour and expertise support, or acting as guarantor for a loan facility.

If provided in the form of a loan guarantor, that support may expose Council to risk. If the organisation who applied for the loan defaults on repayment, responsibility for the repayment falls to Council.

A thorough assessment of any proposal is essential to ensure risks to Council are minimised through financial and policy analysis.

All requests for Council loan guarantee support or joint funding arrangements must be completed on the Loan Guarantee Application Form in consultation with Council officers. Any other requests will not be considered.

2.1. Policy Statement

The Loan Guarantee Policy will provide clear direction to management, staff and Council in relation to considering and evaluating the support it provides to community Organisations.

Loan Guarantee principles:

- The organisation must be able to demonstrate that the reason for the loan is to upgrade or enhance facilities or amenities which will provide appropriate benefit to the local community as a whole (not just the organisation who is applying for Council support). Council will not provide support for loans used for operating costs or refinancing activities.

- The community Organisation must be able to demonstrate their financial viability to repay the loan.
- Entering into the Loan Guarantee must not compromise or have negative impact on Council's financial sustainability or ability to borrow funds for its own purposes.

2.2. Policy Criteria

Assistance will only be considered when all the following essential criteria have been met by the applicant:

- a. Where it is demonstrated that the project will provide essential services or a clear benefit to the wider community.
- b. The applicant will be required to demonstrate their capacity to contribute to the capital cost of the project excluding government grants (if applicable).
- c. The guarantee term is within Council's agreed benchmark terms (Section 2.4).
- d. The applicant has completed and agreed to all items in the Loan Guarantee Compliance Statement.
- e. The project asset will be owned by either the applicant or Council.
- f. The Organisation's role (and proposal) is consistent with the Council Plan objectives and values.
- g. The Organisation can demonstrate that social, economic or environmental impacts which may arise from the project have been assessed.
- h. Alternative funding avenues, including where relevant the applicant Organisation's own assets or guarantee options, have been investigated.
- i. The applicant Organisation has a history of timely payments and no current outstanding debt to Council.

Council Limits

A loan guarantee will only be approved by the Council if the risk to Council is minimal.

The following criteria must be taken into account when considering Council's response to the request:

- The maximum amount to be guaranteed by Council in any single instance will not exceed \$1,000,000.
- Council reserves the right to take security over the applicant's equity, including land and buildings. The level of security Council requires will be assessed on each application.
- The guarantee will not exceed fifty percent of the total project cost.
- The maximum period of a loan subject to guarantee should be ten years.
- Council will only agree to act as a guarantor providing all other possible sources of funding for a project have been exhausted.
- The guarantee should be in place before any contract is entered into for construction.
- The application must not result in the total value of loans whereby Council is acting as guarantor to exceed 10% of rates.

Council Records

Any Bank Guarantees are recorded in the Annual Financial Statements as Contingent Liabilities.

The Finance Department shall be responsible for maintaining a record of all guarantees and monitoring compliance with the relevant financial ratios.

Prior to any guarantee being approved Council must be provided with a schedule of current guarantees to determine its risk exposure.

Additional items for consideration:

- Does the applicant have sound governance practice in place?
- What is the percentage of revenue committed to debt repayments (Debt Commitment Ratio)?
- Have appropriate plans and costings been prepared?
- Have ongoing maintenance costs for new assets been factored into forecast budgets provided by the applicant?

2.3. Review Panel

Each application will be assigned to the Director Corporate Strategies (the “Responsible Director”). The Responsible Director is charged with the duty of forming the review panel. The Review Panel shall comprise of a minimum of at least three Council officers being:

- The Responsible Director;
- Manager Financial Services; and
- Director or a Manager (from the Directorate from which the application relates to)
- An independent member of Council’s Audit and Risk Committee (for applications over \$500,000)

The assessment of an application will require a considerable amount of professional judgment by Council officers. Should the relevant officers believe they do not have sufficient skills and experience to form an opinion, they should seek third party expert assistance. Before any third party assistance is sought, approval must be first received from the applicant in writing.

2.4. Benchmark terms and documents

The Benchmark Terms in which a Guarantee will be approved by Council are as follows:

Guarantee Amount	Maximum term of guarantee
Up to \$50,000	5 years
\$50,000 - \$500,000	10 years
\$500,000 - \$1,000,000	10 years

- For a Bank Guarantee under \$50,000 the Organisation must provide audited Financial Statements for the past two years, a Business Plan and Projected Cash Flow Statement for the next 5 years.
- For a Bank Guarantee over \$50,000 - \$500,000 the Organisation must provide Financial Statements for the past three years as presented at the Organisation’s Annual General Meeting, a Business Plan and Projected Cash Flow Statement for the next 10 years.
- For a Bank Guarantee over \$500,000 to \$1,000,000 the Organisation must provide Financial Statements for the past three years as presented at the Organisation’s Annual General Meeting, a Business Plan and Projected Cash Flow Statement for the next 10 years.
- If the particular Organisation utilises Council owned or controlled land or land owned by the Crown and the group has a lease of the land or the buildings thereon, the Organisation must have the written approval of the land owner for the works proposed.
- The loan must be from a recognised financial institution with an S&P long term credit rating greater or equal to BBB+.

If Council deems an application for a loan guarantee over \$1,000,000 as a compelling argument that meets a significant community need, it may refer the application to the review panel for a recommendation. If eventually approved by Council, the same rules that apply to the \$500,000 - \$1,000,000 Loan Guarantee will apply at a minimum, with additional requirements placed on the applicant if deemed necessary.

2.5. Council Report

Applications for Loan Guarantees which meet all the essential requirements of the policy will be referred to Council for approval of the support provided.

2.6. Formalising the relationship (including arrangements in cases of default)

Support given to an Organisation should be evidenced in a formal agreement that clearly identifies the nature of the support provided, the mutual obligations and responsibilities of the parties and the expected governance framework underpinning the support, including risk management, audit and reporting requirements.

A comprehensive agreement shall be enacted between the applicant and Council that adds clarity to the professional relationship and therefore assists in minimising risk and possible misunderstanding between the parties. It is also an effective tool for compliance, monitoring and review.

The agreement will cover the steps and arrangements applicable in the situation where the organisation defaults on payments. This agreement should also note and define review points and an 'end' of the support arrangements.

2.7. Post Support Review / Ongoing Relationship

If support is provided to a community Organisation, the City needs to consider and implement the appropriate monitoring system between parties.

As a guide, the items which should be considered are as follows:

- Evidence that the loan funds have been expended/utilised in accordance with the intent/purpose.
- Future financial records (profit and loss, cash flow and balance sheets) periodically where support is ongoing for a period exceeding six months.
- If support is toward an asset which is to be constructed/installed on Council property, appropriate measures are to be implemented to ensure compliance with OH&S legislations and relevant details are to be provided to the Financial Services and Property Units so that asset registers can be updated.
- Representation on the Organisation's Board.
- Evidence that appropriate risk management, including insurance is in place
- Any other decisions Council may consider pertinent to a particular case

2.8. Fees and Charges on Loan Guarantees

Any fees and charges applicable to a loan guarantee shall be paid by the applicant.

3. GOVERNANCE

3.1. Owner

Manager Financial Services

3.2. Review

The Manager Financial Services will review the policy for any necessary amendments no later than 3 years after its formulation or after the last review.

3.3. Compliance Responsibility

Council - To approve or deny applications in line with this policy.

Director Corporate Strategies - Responsible for applications, forming the review panel and assessing applications.

Manager Financial Services - Member of the review panel and assessing applications, including providing secretariat if required.

Directors/Managers - Member of the review panel if the application relates to their directorate.

3.4. Charter of Human Rights Compliance

It is considered that this policy does not impact negatively on any rights identified in the Charter of Human Rights Act (2007). This policy focuses primarily on the financial capacity of the organisations requesting support. Social justice, gender equity and access goals are considered through additional support and is contained in other specific supporting Council policies.

4. APPENDICES