

Community Group Loan Guarantee Policy

Corangamite Shire

March 2023



**CORANGAMITE
SHIRE**

Council Policy



Community Group Loan Guarantee Policy

Introduction

This policy sets out the guidelines and principles that need to be followed by Council officers when evaluating whether Council should act as guarantor for loans for community organisations.

Purpose

To establish criteria to be used in evaluating whether Council should act as guarantor for loans for community organisations.

Scope

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

References

Associations Incorporation Reform Act 2012

Policy Detail

The following guidelines should be used to assist Council in considering requests to act as a guarantor for loans to local clubs and organisations:

Purpose of the loan

- The purpose of the loan must be one which provides an asset of community importance and which would be worthy of financial support were funds to be available.
- The project must be of a capital nature for new or improved facilities. Refinancing of existing commitments will not be accepted.

Types of Eligible Projects

Projects substantially satisfying the following criteria would have higher priority for loan guarantee candidacy:

- “Core” community recreation works or facilities ie. those which are directly associated with, proposed recreation participation/experience.
- Where there is a demonstrated need for the new works/facility having regard to effective and efficient provision for various sports throughout the Shire.
- Where the proposed new works/facility is in accordance with the relevant Council strategies.
- Council, in its capacity as owner/manager of Council land, planner/provider of recreation service and facilities and as planning authority must be initially satisfied that the proposed project to be financed by the loan is compatible with Council’s

adopted recreation, planning and other relevant policies, the development plan for the relevant Council property, town planning considerations and the occupancy arrangement for the relevant group.

- The applicant for the guarantee must be a bona-fide non-profit community body and must be incorporated under the *Associations Incorporation Reform Act 2012* or other appropriate legislation.
- The objects, constitution and activities/programs of the relevant group must be to Council's satisfaction.

The above includes preservation or refurbishment of existing "core" recreation assets, subject to the order of expenditure placing such projects beyond those of major/cyclic maintenance nature.

The following types of projects would not necessarily be excluded but would have lower eligibility:

- New or significant refurbishment of ancillary facilities of appropriate scale, such facilities being conventional and appropriate to support the dominant recreation/community purpose.
- Where the project is of a relatively minor scale, for which it could be expected that the relevant group would raise the funds required prior to works being undertaken (i.e. to avoid borrowing).

In addition, a previous history of sound financial management, leadership, stability and general credentials within the community group will also be considered.

Council Limits

A loan guarantee will only be approved by the Council if the risk to Council is minimal. The following criteria will be considered:

- The maximum amount to be guaranteed by Council in any single instance will not exceed \$200,000.
- 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.

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.

Information to be submitted by applicant

The applicant must submit the following information where applicable:-

- Prior 3 years audited financial statement;
- Current Operating Budget;

- Complete cash flow projections of operations, with the inclusion of debt servicing and redemption of the proposed loan, for the guarantee period;
- Interest rate and any other assumptions made, particularly in relation to other source income;
- Detailed cash flow and total costing of project costs;
- Floor plans of any building works;
- Costs as to fit out and external costs such as landscaping etc.;
- Start Up costs envisaged;
- Details of management plans for both the construction phase and the operating of the facility after completion;
- Levels of equity in the project provided by the applicant and any liabilities attached to any funds contributed;
- Business Plans of the applicant if in existence. It should be noted that in respect of larger projects, this will be a compulsory requirement.
- Other information as deemed appropriate.

Terms of Guarantee arrangements entered into by Council

Each guarantee arrangement relates solely to a specific project and cannot be extended to cover additional facilities without Council's consent in writing.

Repayment instalments by the relevant group should be for both principal and interest. Council's guarantor status should be only in relation to the reducing balance of principal owing.

The guarantee agreement should relate solely to Council standing in the position of the debtor in the event of default and not indemnifying the debt due to other reasons.

The Council guarantee will be for a set time period following which Council is to be released from the guarantee. Any commitment to renew the guarantee will be based on a new assessment at that point in time.

An agreement between Council and the lending authority will be sought regarding procedural steps to be followed in the event of a loan default. Such issues include:-

- Communication between bank/financial institution and Council of any non-payment of loan instalments;
- The right for Council to continue with the loan repayment schedule rather than lump sum payment;
- The procedure used by the Bank/Financial institution prior to calling upon the guarantee, including the giving of initial notification of intent and the provision of an agreed time period of rectification.
- The lender will be required to exhaust its legal rights against the borrower and other guarantors prior to calling on the Council guarantee.
- An agreement between Council and the applicant to be reached regarding administration of the community body and its assets in the event of loan payments not being made and/or the loan guarantee being called upon.

Monitoring of Financial Position of groups for which Council acts as Guarantor

Written agreement to be entered into between Council and the relevant group as a condition of Council accepting guarantor status, this agreement requiring full compliance in relation to the following monitoring arrangements:-

- Submission by the group of financial reports, annual operating budgets and half yearly management accounts to the nominated Council Officer within thirty (30) working days of the end of the specified reporting period (i.e. quarterly, half yearly, yearly) in an acceptable format.

- Council guaranteed debt must be repaid prior to other loan liabilities.
- Group advising Council as soon as possible in the event there is a possibility of facing difficulties in meeting loan repayments.
- Any other material information which may have a bearing on the financial position of the organisation and its position to meet all debts when they are due, including loan repayments.

In the event of one or more of the above occurring, the group must agree for Council to obtain independent appraisal of the group's position, also to closely consider and act upon recommendations from such assessment following detailed consultation with Council.

Council's specific permission is required for any change in relation to loan repayment arrangements, including terms and period of repayment. In the event of any restructure of the loan arrangement, which is beneficial and appropriate, any fees, charges and costs involved shall be met by the group.

Default of Loan

If the community group defaults on the loan repayments Council will negotiate to recover costs associated with the loss. This may include:

- An agreed repayment plan with the community group
- Taken possession of the asset to potentially sell.

Review Date

The next review of this document is scheduled for completion by the Manager Finance on or before 31 March 2026. The policy will be reviewed earlier where there is any legislative change.

Gender Impact Assessment

The Policy has been developed in accordance with the *Gender Equality Act 2020*.

A gender impact assessment has been completed and it is deemed the Policy does not adversely impact community members of different genders.

It is considered that this Policy does not impact negatively on any rights identified in the *Charter of Human Rights and Responsibilities Act 2006*.