

<b>POLICY LOCATION</b>	Corporate Services	<b>POLICY TITLE</b>	Loan Guarantee Policy
<b>POLICY NUMBER</b>	CA31	<b>DATE ADOPTED</b>	June 2020
<b>REVISION NUMBER</b>	1	<b>REVISION DATE</b>	June 2024

## Purpose

This Policy provides a means of supporting community organisations to self-fund capital asset projects by providing:

- A mechanism to fund community assets on land owned or controlled by Council
- A funding solution enabling community organisations to manage the resultant loan agreement directly with the financial lending institution.

This Policy also outlines the criteria for Council’s assessment and decision making for loan guarantees to a community organisation by a financial institution.

## Scope

This Policy is applicable to community organisations within the Buloke municipality who are seeking Council to be guarantor on a loan secured to self-fund capital asset projects on land which is owned, or controlled, by Council.

Guarantees will be considered only for new infrastructure or for projects which will upgrade existing facilities.

Council will not consider being a guarantor on loans for:

- Refinancing of existing capital projects, or
- Operational expenses

Council does not provide loans to community organisations.

## Definitions

Within this Policy:

“**Community Organisation**” refers to an organisation that is:

- Operating in line with accepted not for profit activities under Australian taxation legislation
- Registered under the *Corporations Act 2001* or the *Associations Incorporation Reform Act 2012*
- Registered or eligible for registration with the Australian Charities and Not-for-Profits Commission
- A non-political organisation
- Predominantly provides services and/or facilities to the Buloke Shire community

**“Debt Commitment”** is the calculation of finance costs and loan repayments as a percentage of rate revenue

**“Debt Management”** is the calculation of total debt as a percentage of rate revenue

**“Indebtedness”** is the calculation of non-current liabilities to own source revenue

**“Lease Agreement”** refers to the agreement between Council as landlord and the community organisation.

**“Liquidity”** is the calculation of current assets/current liabilities

## Policy Statement

Council will, in limited circumstances as outlined in this Policy, consider acting as a guarantor in the form of a bank guarantee for a bank loan sought by a community organisation.

Council’s exposure to loan guarantee commitment is restricted to \$300,000. Council’s total loan guarantee commitment is measured based on the outstanding balance of loans guaranteed by Council.

The total loan guarantee commitments will be considered upon each new application received to ensure the total loan guarantee commitments and Council’s external borrowings do not exceed the following Victorian Auditor General Office sustainability guidelines and Borrowing Prudential indicator thresholds:

- Liquidity: VAGO > 1.5
- Indebtedness: VAGO < 40%
- Debt management: VAGO < 25%
- Debt commitment: VAGO < 5%

The loan guarantee is to be included in Council’s annual financial statements as a contingent liability. In the event of a default, Council would be required to report the loan amount as an expenditure item and as a liability, and this would increase Council’s debt level.

Loan guarantees will only be considered when all of the criteria set out within this Policy have been met.

## Guidelines

1. Loan guarantee applications (applications) can only be approved by Council resolution.
2. Council has the right to refuse an application even when the application meets the policy and evaluation criteria.
3. Applications must be assessed and considered by Council during the business case development stage of the project and prior to the commencement of the project procurement and tender process.
4. Applications to Council to act as guarantor must clearly demonstrate the intended project will provide essential services or a demonstrable benefit to the wider community. Consideration will also be given to matters including but not limited to:
  - Alignment of the project’s aim with the Council Plan and other relevant Council strategies

- Skills and experience of the Applicant to ensure their ability to deliver the project and minimise Council’s financial exposure
  - Provision of independently audited financial statements for the previous three years, and cash flow projections for the guarantee term
  - Demonstration that all other avenues for funding have been sought prior to the application
  - Nature of the project
  - Plans and costings (including obtaining a minimum of three quotes)
  - Responsibility for ongoing maintenance of the asset
5. The Applicant must provide a minimum of one third of the capital cost of the project, including government grants and other external funding.
  6. The Applicant is responsible for payment of any fees and charges applicable to a Council loan guarantee.
  7. The Guarantee term will only be considered within the following benchmark terms:

Guarantee Amount (\$)	Maximum Term of Guarantee
Up to 49,999	5 years
50,000 – 99,999	10 years
100,000 and above	15 years

8. Applicants must complete and agree to the terms and conditions set out by Council.
9. Borrowings may only be used for the construction and/or acquisition of capital assets on Council owned or controlled land that will be vested in and ultimately controlled by Council.
10. The Applicant must be a “not for profit” organisation and have an incorporated status.
11. The life of the asset must exceed the life of the loan guarantee.
12. The term of the loan shall not exceed the term of the existing lease agreement.
13. The Applicant must provide biannual reports detailing financial operations of the applicant.
14. The loan must not include a redraw facility.

## References

- *Local Government Act 2020*
- *Local Government Financial and Reporting Regulations*
- *Corporations Act 2001*
- *Associations Incorporation Reform Act 2012*