

Guarantee of Community Loans Policy

(A3737256)

1. Policy statement

Frankston City Council values and recognises the role of community and sporting groups within the Council municipality and endeavours to support them in a variety of ways. The objective of this policy is to provide a loan funding mechanism to support community projects.

This policy was developed to provide a framework within which Council may consider agreeing to act as a Guarantor for loans taken out by community groups to improve/redevelop facilities. The policy is intended to guide Council's decision in assessing whether Council will agree to guarantee a loan provided to a community organisation by a financial institution.

It should be noted that compliance with the provisions of this policy does not imply Council approval of the application. All applications will be decided upon by Council on the recommendation of the Director Corporate Development.

2. Reason for Policy

This policy is intended to guide Council's decision in assessing whether Council will agree to guarantee a loan provided to a community organisation by a financial institution.

Its objective is to provide a mechanism whereby Council may provide material (but not direct financial) support for local communities and sporting organisations to fund capital asset projects that will ultimately vest in or be controlled by Council and will provide measurable community benefit.

3. Scope

This policy will apply to all Council and Council officers. This policy will also apply to community and sporting organisations within the municipality seeking Council to act as a guarantor on a loan secured to self-fund capital asset projects on land that is owned or controlled by Council.

4. Authorisation

This Policy is managed by the Financial and Corporate Planning Department, and is approved by Frankston City's Mayor and Council's Chief Executive Officer (CEO):



Mayor, Frankston City

CEO, Frankston City Council

in accordance with Frankston City Council resolution at its Ordinary Council meeting of 23 September 2019.

5. Revision date

This Policy will be reviewed and presented to Council no later than 2023 or earlier as deemed necessary by Council, and therefore once within each subsequent Council term.

6. Principles

6.1 General Principles

As a guiding principal, Council will not undertake to provide guarantees for loans or other borrowings taken out by community or sporting groups within the municipality of Frankston City Council unless there are demonstrated exceptional reasons and benefits to the broader Frankston community in doing so. In all circumstances, Council will only consider provision of a guarantee where Council has and will retain ownership and / or control of the asset subject to the arrangement.

Council's total exposure to loan and loan guarantee commitments shall be capped at an amount no greater than one percent of Council's annual rate revenue. Council's loan guarantee commitment is measured based on the outstanding balance of loans guaranteed by Council, plus the balance due from loans Council may make to local bodies.

The offering of loan guarantees to community and sporting groups will only be considered as a last resort, once all other funding options have been fully exhausted, and compliance with the requirements of the policy have been met. Other funding options may include:

- The provision of assistance from Council staff in the preparation of funding applications
- Government grants
- Sponsorship
- Fundraising

Guarantees will not be provided where works have already commenced, unless Council resolves that extenuating circumstances exist.

The community or sporting group will be responsible for interest and principal repayments.

Consideration must be given to Council's commitment to responsible gambling. In principle, loan guarantees will not be provided to support the establishment or enhancement of gaming facilities.

Where an asset is to be constructed on Council owned or controlled land, Council Officers must oversee the construction to ensure adherence to all relevant standards and policies.

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 as an expenditure item and as a liability, and this would increase Council's debt level.

Council may seek to be listed as a "secured creditor" against the Applicant to assist in the mitigation of Council's risk exposure.

6.2 Criteria

Loan guarantees will only be considered when all of the following policy criteria have been met:

1. The proposed project must be supported by Council's Council Plan or other strategic planning documents endorsed by Council.
2. It is demonstrated that the project will provide essential services or a clear benefit to the wider community.
3. The loan guarantee shall not exceed fifty per cent of the final value of the asset.
4. Applications will only be considered by groups who reside in the Frankston Council municipality or provide a significant benefit to the Frankston City Council community.
5. Borrowings are only to 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.
6. Requests associated with meeting ongoing salary, rent, day to day operating costs or commercial undertakings **will not** be considered.
7. The organisation should have at least twenty percent of the funds required already on hand, which have been raised through its own sources.
8. The term of the loan shall not exceed the life of the asset or the term of the existing lease agreement and will generally not be greater than 10 years.
9. The community group must be a 'not for profit' organisation and have an incorporated status.
10. Demonstrate that suitably qualified and experienced people are involved in the proposal to ensure compliance with all governance requirements.
11. Demonstrate the capacity to service the loan repayments. This would include, at a minimum, submission to Council of the last three prior years audited financial reports and future cashflow statements that demonstrate ongoing financial viability. Where the requested guarantee is in excess of \$200,000 Council will require independent review and assessment of the organisation's capacity to meet the loan repayments.
12. Demonstrate that they will obtain better loan terms by having Council as a guarantor for the land (for example: lower interest rates).
13. The applicant has no outstanding debts to the Council.
14. The loan must be from a bank, building society or credit union.
15. The loan must not include a redraw facility.
16. The loan must not be an interest only loan.

6.3 Conditions of application and offer

Should Council resolve to act as Guarantor of the Loan, the community organisation will be required to:

1. Notify Council of any legal action they enter or are joined to, and any intention to take out further borrowings.
2. Support any necessary amendments to the loan guarantee documentation to the satisfaction of Council. Council reserves the right to review and amend the loan guarantee documentation in order to minimise exposure to "generic" loan guarantee documents issued by lending institutions.
3. Enter into an agreement with Council that should the loan guarantee be called upon by the lending institution, that the community group relinquishes all usage right/access to the asset. It should be noted that this agreement will supersede any previous ground allocations made.
4. Provide Council with bi-annual loan statements that demonstrate the status of loan repayments.

5. Immediately notify Council in the event of any default in loan repayments.
6. Provide Council with minutes of the annual general meeting plus annual audited financial statements, and any other information the Council may reasonably require to assure itself of the status of the loan.

7. Roles and responsibilities

Responsibility for this Policy rests with the Chief Executive Officer and Council staff involved with the management of this policy.

Community groups seeking and receiving a loan guarantee from Council have a responsibility to ensure that all representations made to Council are in the best interest of the wider Frankston City Council community, and that all information provided to Council in support of the request or on an annual basis once a guarantee has been provided fairly represent the activities of the community group.

All applications for loan guarantees will be reported to and be determined by Council. Council has the right to refuse an application even when the application meets the policy and evaluation criteria.

Monitoring and reporting of loan borrowings rests with the Financial and Corporate Planning Department to ensure that the balances are accurately recorded, and that the transfer of funds in the finance system is in accordance with Section 6.

A report on the community loans guaranteed by Council will be included in the Quarterly Financial Report and Annual Report. The Financial and Corporate Planning department will conduct an annual review of all approved loan guarantees to ensure ongoing compliance with policy and loan terms.

8. Policy non-compliance

In the event that the organisation does not meet its financial obligations, and the Council is called to account for the loan guarantee, then the tenancy of the organisation of the Council's property will be reviewed.

9. Related documents

Local Government Act 1989

Local Government Financial and Reporting Regulations

10. Implementation of the Policy

To be implemented immediately following the Council resolution to adopt this policy.

11. Definitions

Not Applicable