

Council Policy

Council policy title:	Loan Guarantee Policy 2022
Council policy owner:	Director Corporate Services
Adopted by:	Bayside City Council - 2018
Date Reviewed: No recommended changes	November 2022
Scheduled review:	November 2026
Document Reference:	DOC/22/349429

(Council Policy is a high level public statement formally resolved by Council, which clearly states Council's requirements, intent or position with regard to a particular matter or issue. It is not intended to be procedural in nature.)

1. Policy intent

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.

2. Policy purpose

The purpose of the policy is to provide a means of supporting community organisations to self-fund capital asset projects by providing:

- A mechanism to fund community assets on land that is owned or controlled by Council
- A funding solution that enables the community organisation to manage the resultant loan agreement directly with the lending institution.

3. Scope

This policy is applicable to community organisations within the Bayside municipality applying for Council to be guarantor on a loan secured to self-fund capital asset projects on land that is owned or controlled by Council.

4. Policy statement

Council's exposure to loan guarantee commitments is restricted to one and a half percent (1.5%) of the annual revenue from Rates & Charges. 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. Council may at its discretion approve Loan Guarantees which exceeds the 1.5% rates threshold where the individual project delivers substantial benefit to the wider Bayside Community.

Where Council approves for the threshold to be exceeded the total of loan guarantee commitments determined by the outstanding loan balance of loans guaranteed and Council's external borrowings must not exceed the following Victorian Auditor General Office sustainability guidelines and Borrowing Prudential indicator thresholds

- Liquidity. Current Assets/Current Liabilities (VAGO > 1.5)

- Indebtedness. Non-current liabilities to own source revenue (VAGO < 40%)
- Debt Management. Total debt as a percentage of rate revenue (VAGO < 25%),
- Debt Commitment. Finance costs and loan repayments as a percentage of Rate Revenue (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 following policy criteria have been met.

- Where it is demonstrated that the project will provide essential services or a clear benefit to the wider community.
- The Applicant will provide a minimum of 20% of the capital cost of the project excluding government grants and other external funding.
- The guarantee term is within the following benchmark terms

Guarantee Amount \$'s	Maximum Term of Guarantee
Up to \$50,000	5 years
\$50,000 - \$99,999	10 years
\$100,000 and above	15 years

- The Applicant has completed and agreed to all items in the *Loan Guarantee Compliance Statement*.
- 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.
- The Applicant is a “not for profit” organisation and has an incorporated status
- The life of the asset exceeds the life of the loan guarantee
- The term of the loan shall not exceed the term of the existing lease agreement. The lease agreement refers to the agreement between Council as landlord and the community organisation.
- The loan must not include a redraw facility

All applications for loan guarantees are to be considered in accordance with Council’s Loan Guarantee Application Procedure.

Loan guarantee 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.

5. Monitoring, evaluation & review

This policy shall be reviewed by the Manager Finance in accordance with the scheduled review date. Bayside City Council's Finance team will conduct an annual review of all approved loan guarantees to ensure ongoing compliance with the policy and loan terms.

6. Roles & Responsibilities

The Manager Finance shall be the responsible officer for ensuring applications for Loan Guarantees

- meet the requirements of this policy,
- are processed in accordance with Council's Loan Guarantee Application Procedure, and
- the evaluation process results in a risk assessment of the organisations capacity to repay the loan and is reported to Council.

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.

7. Related documents

Legislation	Local Government Act 2020, Local Government Financial and Reporting Regulations
Policies	Nil
Strategies/Plans	Nil
Procedures/Processes	Council's Loan Guarantee Application Procedure
Other	Nil

Please note: This policy is current as at the date of approval. Refer to Council's website (www.bayside.vic.gov.au) to ensure this is the latest version.