



Policy Title:	Loan Guarantee and Community Contributions Policy	
Date of Adoption:		
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CEO Signature:		Date:
Responsible Officer and Unit:		
Nominated Review Period:	<input type="checkbox"/> Annually <input checked="" type="checkbox"/> Other: Every 4 years	
Last Review Date:	August 2018	
Next Review Date:	August 2024	
Purpose / Objective:	<p>To outline policy in regard to contributions by Community groups to Council capital works projects and to establish criteria to be used in evaluating whether Council should act as guarantor for a loan by a Community group.</p> <p>The policy sets out the process and expectations in regard to payment of contributions by Community groups to assist financial planning for Community groups and to reduce the likelihood of delays in proceeding with a project.</p> <p>The loan criteria will balance the benefits of assisting community groups to fund a project against the risk associated with Council's potential exposure to additional debts.</p>	
Background / Reasons for Policy:	<p>Community groups often make valuable financial and in-kind contributions to Council led capital works projects, generally related to the facility managed or leased by the community group. In some cases community groups may also raise funds in relation to a facility that that do not manage or lease, eg a kindergarten committee.</p> <p>The policy needs to clearly set our expectations in regard to managing the contributions process and how to deal with a request if it is received from a community group to act as guarantor for a loan such that there is clear guidance in place against which the request can be fairly assessed.</p>	
Definitions:	<p>Council endorsed project – is a project that has been endorsed by Council through inclusion in the annual budget or Strategic Resource Plan, an approved Council strategy or masterplan or via a specific resolution of Council.</p> <p>Capital project - Projects that improve existing facilities or which build new facilities on Council owned or controlled land. It excludes maintenance works</p> <p>Community group – is a not for profit organisation that is run by volunteers to provide benefits to the community. This includes clubs and not for profit community groups that use or predominantly use the premises to provide cultural, sporting and recreational activities and services to their members who</p>	

	<p>pay subscriptions, registration fees or usage fees and charges and so have some capacity to generate revenue from use of the premises or other activities.</p> <p>The Club may make a small financial surplus each year but do not exist to make a profit and any surplus that they do make must be used solely for the purpose of developing, advancing and improving the organisation or promoting their objectives. Examples of these types of community groups includes tennis clubs, bowling clubs, golf clubs, racing clubs, pony clubs, vehicle clubs, aero clubs, service clubs and shooting clubs as well as theatre groups, playgroups senior citizens, historical societies, CFA and SES.</p> <p>For the purpose of this Policy, community group also includes not-for-profit community based health and wellbeing organisations. They have the capacity and opportunity to derive income from the use of the premises and the service they provide. For example, the service provider may derive income such as fees for service, course fees, class fees, sponsorship and rent from sub tenancy arrangements. They may make a financial surplus each year but do not exist to make a profit and any surplus that they do make must be used solely for the purpose of developing, advancing and improving the organisation or promoting their objectives. An example of these groups includes neighbourhood houses, community radio stations, community health centres, business incubators and further education centres.</p> <p>Not for profit – is an organisation that is not operating for the financial profit or personal gain of its members or associates. Not for profits can raise money but money raised is spent to benefit the public or further the cause of its intended purpose.</p> <p>Incorporated association – is a process whereby a not-for- profit community group or club becomes its own legal entity. This means that members of the group have legal protection against personal liability for the organisation. When a group becomes incorporated it becomes a legal person – that is a legal entity that stays the same even if its members change. This protects the individual members of the association from legal liabilities. The group can also enter into contracts, sign a lease or acquire and deal with property. Council will only enter into a loan guarantee with a community group that is incorporated.</p> <p>Loan guarantee – is a contractual agreement with a financial institution whereby the guarantor will service the loan ie pay interest and principle in the event that the person/group responsible for the loan is not able to service the loan.</p> <p>In-kind support – is in place of monetary support, and comprises non-cash contributions from a group including any free services, time from volunteers, supplies or help the project receives.</p>
References:	Nil
Related Policies:	Leasing and Licensing Policy
Related Legislation:	Nil

1. INTRODUCTION

Community groups make valuable financial and in-kind contributions to Council capital works projects, generally to projects related to facilities that the community groups occupy. These groups may need to raise funds in order to undertake capital projects to improve existing facilities or to build new facilities.

One source of funding is through borrowings. Financial institutions such as banks may make it easier for a Community group to obtain approval for loans if the loan is guaranteed by Council. If Council acts as loan guarantor, Council may be required to service the loan if the Community Group defaults on its repayments. Acting as Guarantor for multiple loans and multiple Community Groups may potentially impact Council's ability to raise loan funds for its capital projects.

2. SCOPE

This Policy only applies to capital project contributions by Community groups using their own funds and Council acting as guarantor for loans for Community groups.

Council will not act as guarantor to loans for:

- Individuals, businesses or any other entities or groups.
- The purchase of new equipment or facility maintenance.

Council will not directly lend money to Community groups or provide short term credit for contributions.

3. POLICY PRINCIPLES

Community groups must ensure that they have the capacity to make financial contributions to projects before a commitment is made. Council will not proceed with issuing a tender to undertake a capital project until financial contributions have been paid in full.

Where in-kind contributions are not provided by community groups as originally agreed, Council will reassess the original scope of the project and will reserve the right to reduce the scope of the project, to one that fits within the available budget.

Council will only consider acting as guarantor for loans for works that:

1. Align with Council goals and strategies
2. Are undertaken on Council owned or controlled land
3. Are a Council endorsed project

Council will limit its exposure to loan guarantees at any one time to a maximum of \$500,000 across all loans to community groups.

4. POLICY CONDITIONS

4.1 Financial Contributions

It is expected that Community Groups will consider making a financial contribution to projects to upgrade current facilities or build new facilities that will be leased, used or managed primarily by that group (eg tennis courts, football training lights, cricket pitches, cricket training facilities, etc).

No contribution is expected to be considered for required renewal works to existing facilities and where a facility is used by multiple groups and/or the general community, e.g. oval surfaces, football/cricket change rooms) unless it is to value add to that facility (e.g. a commercial kitchen in a pavilion facility). However, in some cases Community groups may offer a contribution to progress works that are desired by the group.

Contributions may vary depending on the Community group and/or the nature of the project but as a guide the contribution will be around 10% of the total cost of the project up to a maximum of \$50,000. Groups in a strong financial position may wish to contribute funds in excess of \$50,000 to provide additional facilities.

The conditions in relation to a financial contribution are as follows:

- The Community group should undertake an assessment as to any impacts the contribution may have on the financial sustainability of their group. Any fund raising required should be realistic and well planned.
- A formal agreement between the Community group and Council must be signed off well before the project commences or a grant application is submitted. As part of this process the group must provide most recent financial statements or other financial information and any planned fundraising to demonstrate capacity to pay the contribution.
- If the Community group is a tenant on Council owned or managed land then a current lease agreement must be in place before the project is tendered.
- Agreed financial contributions must be paid in full before works commence or goods/materials are purchased by Council. Project planning work may be undertaken but Council will not tender a contract for construction works commence until full payment is received.
- Any related grant funding sourced by the community group/club must be paid directly to Council.

In-kind Contributions

Community groups may choose to make in-kind contributions to projects. These contributions may be combined with financial contributions to encompass an overall contribution from a Community Group but are in addition to the cash contribution outlined above. The conditions in relation to an in-kind contribution are as follows:

- Community groups should not put forward specialised trade in-kind works unless they will be provided by up-to-date qualified trade persons e.g. for electrical works.
- In-kind works that are put forward by a community group will need to meet the standards of the company whom is awarded and will manage the project.
- A formal agreement between the community group and Council for the in-kind works must be signed off before the project commences and must clearly outline the scope of the in-kind works including the provider of the services.
- Any agreed in-kind works must also be provided in accordance with the formal agreement. Non delivery of the in-kind works will result in a review of the original scope of the project and may result in a reduced scope that fits within the budget (excluding the in-kind contribution).

There will be some projects in which using community in-kind contributions will cause significant challenges and may result in less tenders being received (ie a building construction where the builder does not wish to use nor guarantee say in-kind trades). Each offer of in-kind assistance will be considered on a case by case basis as applicable to the particular project.

4.2 Loan Guarantees

If a Community group has insufficient funds and is unable to raise their contribution for a project, Council may guarantee a loan for the club. The following conditions will be applied by Council Officers when assessing a request, from a Community Group, for Council to act as guarantor.

General conditions are;

- Prior to requesting Council to act as guarantor, the Community group must have explored its ability to obtain loan funding without Council acting as guarantor.
- Council will require the Community group to repay the guaranteed debt prior to other loan liabilities the Group may have.
- Council may act as guarantor up to a maximum of \$50,000 for any one Community group and will not exceed the amount of the clubs contribution to the project.
- Council will not act as guarantor for another loan to that Community Group until the existing guaranteed loan has been repaid.
- Council will not delegate its authority to act as a guarantor.
- A financial assessment of the Community group's capacity to pay will be undertaken prior to committing to any loan guarantee agreement. If Councils view is that the Community group does not have the capacity to re-pay the proposed loan then Council will not guarantee the loan.
- If Council resolves to act as a guarantor then the corresponding loan documentation may be signed on behalf of Council by any two of the Chief Executive Officer, the Director Corporate and Community and the Manager Finance and Reporting.
- The project will be in accordance with Statutory Planning and Building requirements.

4.2 a. Community Group and Project Eligibility

In order for a Community Group and Project to be eligible for Council to act as loan guarantor the following criteria will be met:

- The Community Group will be active and well established with a stable Committee. It would be expected that the Group would be in operation for the term of the loan guarantee and be operating and/or meeting on a regular basis.
- The Community Group will be incorporated under the Associations Incorporation Reform Act 2012 or other appropriate legislation.
- The guarantee will not exceed 50% of the total project costs.
- If required, the Community Group will provide detailed information about the project such as floor plans, landscape designs and project management plans.

4.2 b. Financial Assessment

A financial assessment of the Community Groups ability to repay the loan will be undertaken by the Manager Finance and Reporting.

The Community Group will be required to provide financial information and loan details to the Manager Finance and Reporting for the financial assessment to be undertaken. The information to be provided will include:

- Financial statements for the current year and the previous two financial years.

- The budget for the current financial year.
- Detailed project costing (if the project is not being led by Council)
- Details of any monies owing currently owed by the club, ie other loans, creditors, etc
- If the club does not prepare a balance sheet, details of club assets, ie cash, debtors, fixed assets, etc.
- Details of the proposed loan, ie period/term and amount to be borrowed.

The financial assessment will provide clear evidence that the Community Group has been and is capable of continuing to generate sufficient operating surpluses to service the loan. Some of the key indicators that will be considered are:

- A history of operating surplus that is sufficient to cover the annual loan repayments and interest
- Liquidity – current assets are higher than current liabilities

Where a financial assessment is not satisfactory, the Manager Finance and Reporting will inform Executive of the reasons for recommending refusal and Councillors will be confidentially briefed given the sensitive nature of the information.

4.2 c. Loan Terms and Periods

- The maximum period of a loan subject to a guarantee will not exceed 10 years
- Council reserves the right to take security over the assets of the Community group.
- Council's Manager Finance and Reporting will review the lenders procedures in relation to calling upon a guarantee and will be satisfied with these procedures.
- Council expects that the loan procedures will show that the lender will exhaust all legal rights against the borrower before calling on the Council guarantee.

4.2 d. Monitoring the Financial Position of groups for which Council acts as Guarantor

Written agreement will be entered into between Council and the Community group as a condition of Council accepting guarantor status.

The agreement will require full compliance of the following monitoring arrangements:

- Submission by the group of annual financial reports and annual operating budgets within 30 days of their completion to Councils Manager Finance and Reporting and other relevant managers such as Manager Open Space & Recreation.
- An annual loan statement from the financial institution outlining the balance of the loan to Councils Manager Finance and Reporting.
- The Group advising Councils Manager Finance and Reporting and other relevant managers as soon as possible in the event there is a possibility of facing difficulties meeting loan repayments.
- The Group must advise Councils Manager Finance and Reporting and other relevant managers of any other events that may impact the Groups ability to service the loan or any other debts.
- The Group will not dissolve and re-form in another guise to avoid repayment of the loan

In the event of any issues arising that may impact on the ability of the Group to repay the loan, the Group agrees that they will review their financial operations with Council's Manager Finance and Reporting with the aim of improving the Groups financial performance and situation.

4.2 e. Default of Loan

If the Community Group defaults on the loan repayments Council may recover the remaining balance of the loan and any associated costs.

Recovery of the loan balance may include:

- An agreed repayment plan with the Community Group
- Taking possession of the Community Group assets to potentially sell to repay the loan.

Following the first instance of a default of a loan, Council will review the provision of future loan guarantees.

4.2 f. Council Financial Disclosures and Record Keeping

Council's Manager Finance and Reporting will record all loans guaranteed and report material guarantees as a Contingent Liability in its Annual Financial Statements.

5. APPROVAL PROCESS

Contributions

Project contributions are generally endorsed by Council as part of the annual budget process or the mid-year budget review.

Contribution agreements must be signed off by two office bearers of the Community group, generally this will be the president, treasurer or secretary (or equivalents). The Council signatories will be the Director Corporate and Community or the Manager Finance and Reporting.

Loan Guarantees

Following the assessments outlined in section 4.2a and 4.2 b, a report will be presented to Council for approval outlining the details of the request and the outcome of assessments undertaken. The report will be prepared by the Department with management responsibility for the project with assistance from the Finance Department.

If Council resolves to act as a guarantor then the corresponding loan documentation and any other related written agreements with community groups may be signed on behalf of Council by any two of the Chief Executive Officer, the Director Corporate and Community and the Manager Finance and Reporting.