

# LOANS/LOAN GUARANTEES TO COMMUNITY ORGANISATIONS POLICY

## COMMUNITY POLICY



### 1 Scope

This policy applies to all requests from community organisations seeking assistance from Rockhampton Regional Council by way of direct loan and/or loan guarantee.

### 2 Purpose

The purpose of this policy is to establish a framework within which loans and/or loan guarantees to community organisations can be applied for, approved and administered.

### 3 Related Documents

#### 3.1 Primary

Nil

#### 3.2 Secondary

*Local Government Act 2009*

*Local Government Regulation 2012*

*Statutory Bodies Financial Arrangements Act 1982*

*Statutory Bodies Financial Arrangements Regulation 2019*

### 4 Definitions

To assist in interpretation, the following definitions apply:

Community Organisation	As defined in the <i>Local Government Regulation 2012</i> : (a) An entity that carries on activities for a public purpose; or (b) Another entity whose primary object is not directed at making a profit.
Council	Rockhampton Regional Council
DSDILGP	Department of State Development, Infrastructure, Local Government and Planning
Facility	A loan or loan guarantee
Region	Rockhampton Regional Area defined by the Local Government Areas of Queensland.
SBFAA	<i>Statutory Bodies Financial Arrangements Act 1982</i>
Treasurer	State Government Treasurer

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## 5 Policy Statement

Council is requested from time to time to provide loans and/or loan guarantees to community organisations in order to fund augmentations/extensions to their facilities. This policy provides a framework within which these arrangements can be applied for, approved and administered, whilst giving consideration to the following:

- (a) Social Objectives – Council encourages the development of sustainable, new and innovative facilities, both sporting and cultural, for the community at minimal cost to ratepayers. Council is looking to empower community organisations to take a lead role in developing and funding these developments where possible.
- (b) Financial Management Objectives – Assessment of requests must be made within a structured framework and proper consideration given to minimising Council's exposure to loss. This can be achieved by a thorough assessment of the applicant's capacity to service the debt, the availability of security and the impact of the facility on Council's borrowing capacity.

### 5.1 Policy Intent

The broad intent of this policy is:

- (a) Council will generally not provide self-funded loans (i.e. loans from Council funds) to community organisations. Community organisations should utilise the services of financial institutions licensed to provide the appropriate funding on commercial terms.
- (b) Loan guarantees are only provided to community organisations that have facilities constructed on Council owned freehold land or on reserve land administered by Council and for the latter if the proposed facility is consistent with the purpose of the reserve.
- (c) Loan guarantees are only provided to fund the augmentation, extension or improvement of facilities.
- (d) Loan guarantees are only available where such improvements, in the opinion of Council, provide a community benefit.
- (e) The community organisation satisfies Council that they have the capacity to service the debt and there is a minimum risk of default.
- (f) Loan guarantees are only provided on the basis that the amount of the guarantee reduces in line with the balance of the debt as the debt is repaid and/or with agreement at loan commencement.

Council does not have an “as of right” power to provide loan guarantees under the *Local Government Act 2009*. A broader power to provide loan guarantees (specifically for community organisations) exists under the SBFAA where Treasurer approval is required. If Council wishes to provide loan guarantees to community organisations it must do so under the SBFAA.

### 5.2 Administrative Process

There are two distinct administrative processes that must be followed for Council to provide a loan guarantee to a community organisation:

- (a) Council must determine that it is appropriate to provide the loan guarantee giving due consideration to such factors as the community organisation's capacity to service the debt, the relative security position of Council should the community organisation default on the debt and the impact the facility will have on Council's global borrowing limit and its capacity to draw loans to fund its own needs.
- (b) Council needs to satisfy State Government requirements and obtain the Treasurer's approval for the facility.

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### 5.3 Council Approval

The Council approval process should follow four steps:

#### 5.3.1 Step 1 – Community Benefit

Council should provide “in principle” consent to offer a facility on receipt of the community organisation’s request subject to it satisfying Council’s following criteria.

Upon receipt of a request it should be reported to the next appropriate Council Committee meeting with an appropriate recommendation based on the following criteria:

- (a) Council considers the project as reasonable with regards to impacts on the community and other like organisations within the immediate and surrounding area.
- (b) Whether the project funded by the loan will provide a community benefit.
- (c) The community organisation has exhausted all other avenues to secure a loan guarantee from other sources.

If the project satisfies the above criteria then “in principle” consent should be provided subject to the community organisation being able to satisfy Council that it can service the debt, that it has adequate security, and that Council can accommodate the guarantee in its total borrowing limit.

#### 5.3.2 Step 2 – Capacity to Service the Debt and Membership

Council should satisfy itself that the community organisation has the capacity to service the debt. The following information must be provided as a minimum and there will be no exception to this requirement (i.e. no documentation will mean automatic refusal):

- (a) Three years audited financial statements (with the latest statements no more than 12 months old);
- (b) Detailed 10 year cash flow projection; and
- (c) Current membership details and member numbers for the prior three years.

Having satisfied the community benefit test, the community organisation must satisfy the Council that it has the capacity to service the debt. This process normally involves an assessment by Council's Finance section of financial information provided by the organisation. A review of the financial statements to form an assessment of the liquidity and financial stability of the organisation. A review of the 10 year cash flow forecast to ensure its capacity to service the debt while continuing to meet its other obligations.

Council should test and critically review the projections for revenue and expense items as part of the review of the 10 year cash flow forecast. Council should be comfortable that there are sufficient uncommitted funds available to service the debt.

In addition to satisfying itself of the financial stability of the organisation, Council should also review the stability of the organisation’s membership to ensure that current income generated will be continued.

If memberships show a steady decline over a number of years or membership fluctuates significantly from year to year, then Council should seek greater assurance that financial targets will be achieved. Small clubs are much more vulnerable if significant fluctuations or cyclical reductions in memberships occur. It is recommended that loan guarantees should not be provided to community organisations whose membership is less than 100 members due to the impact that fluctuations in membership may have on the organisations financial position.

It is further recommended that where organisations have experienced a membership reduction of 30% or more over a three year period prior to the request for a loan guarantee that additional information be provided to Council of the stability of the community organisations membership prior to a guarantee being provided.

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### 5.3.3 Step 3 – Adequate Security

Council should satisfy itself that the community organisation has adequate security to ensure that any loss suffered by Council will be minimised if the community organisation defaults on the loan provisions.

Council should obtain reasonable assurance that it is not exposed to significant loss in the event that the community organisation defaults on its debt. Council should always be aware that this is the risk that it exposes itself to in acting as loan guarantor.

Financial institutions generally assess an application for a loan initially based on the applicant's capacity to service the debt and then on the level of security available as collateral for the loan.

Where community organisations own facilities they should retain 40% equity in their assets after the loan is taken into account before Council guarantees a loan.

Community organisations who construct premises on land owned by Council or the State Government present a risk to financial institutions in terms of recovery of the debt should a default occur.

This policy assists those organisations by offering some assistance at minimal cost to ratepayers. If Council restricts the offer of loan guarantees to facilities that provide a community benefit and are not presently available in the Region then presumably if the originator of the debt fails Council would seek to retain the facility.

### 5.3.4 Step 4 – Borrowing Entitlements and Limits

Council should review the cumulative effect of providing the facility on Council's total borrowing limit.

Loan guarantees provided by Council are included as debt by the DSDILGP when assessing Council's borrowing entitlements and total borrowing limits. There is a risk that if a number of loans and/or guarantees were provided over a period of time that the cumulative effect of these guarantees could have a significant impact on Council's borrowing entitlement. This is particularly the case as many of the loan guarantees may be for long term debt (10 to 15 years).

The concern in terms of the cumulative effect of providing a range of loans or guarantees over time can be minimised by providing facilities that reduce in line with the reduction in the balance of the debt over time as the debt is repaid. Financial institutions are required to provide Council with annual statements of the debt and the level of the guarantee.

Each request for a loan guarantee should be reviewed by Council's Finance section to ensure it does not compromise Council's borrowing program over a five year planning horizon and it can be accommodated within Council's total borrowing limits.

Once Council is satisfied that it should approve a request to provide a loan guarantee to a community organisation this recommendation should be adopted by Council subject to Treasurer approval.

## 5.4 State Government Approval

Specific approval for a loan guarantee is required from the Treasurer. The administrative process that must be followed is:

- (a) An application from Council for the loan guarantee needs to be completed and forwarded to the DSDILGP. Specific application requirements as stipulated from time to time by the DSDILGPA must be complied within the application.
- (b) DSDILGP forwards a recommendation to the Treasurer who completes their own assessment of the application.
- (c) Should the Treasurer accept the recommendation the DSDILGP is informed, and the DSDILGP informs Council formally of the outcome of the application.

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## 6 Review Timelines

This policy is reviewed when any of the following occur:

- (a) The related information is amended or replaced; or
- (b) Other circumstances as determined from time to time by the Council.

## 7 Document Management

Sponsor	Chief Executive Officer
Business Owner	Deputy Chief Executive Officer
Policy Owner	Chief Financial Officer
Policy Quality Control	Legal and Governance



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