

Policy

Title: **Guarantee of Loans**

Category: **Corporate Governance**

Date Last Adopted: 19 September 2016

1. Objectives

This policy is to provide a framework for the approval of Loan Guarantees for community organisations that wish to substantially self-fund capital asset projects on Council owned/controlled land, whilst limiting the Council's exposure to potential loss.

The policy objectives are to achieve:

- A means of supporting local communities and sporting organisations to self-fund capital asset projects.
- A mechanism to fund community assets that are on land that is owned or controlled by Council that will vest in or ultimately be controlled by the Council. These are assets which provide essential services or a clear benefit to the wider community, that also align to the Council's Strategic Plan 2015-2025.
- A funding solution that enables the community organisation to manage the resultant loan agreement directly with the lending institution.
- Proposals for loan guarantees are required to satisfy the criteria identified in the policy statement as well as being the subject of a report to Council. Satisfaction of the criteria does not guarantee approval as all approvals are at the discretion of the Council.
- To establish the maximum amount of Council's exposure to loan guarantee commitments.

2. Background

The City of Hobart is committed to supporting community groups that provide facilities and services that benefit the Hobart community.

This policy provides general guidelines and principles against which requests for the Council to act as a Guarantor will be assessed.

3. Policy

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

General

1. Where is it demonstrated that the project will provide essential services or a clear benefit to the wider community, and will align to the Council's Strategic Plan 2015-2025.
2. 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 the Council.
3. The applicant is a "not for profit" organisation and has a legal status (incorporated or a company), and is the current lessee of the land.
4. The applicant has no outstanding debts to the Council.
5. The useful life of the asset exceeds the life of the loan guarantee.
6. The term of the loan shall not exceed the term of the existing lease agreement. The lease agreement refers to the agreement between the Council as landlord and the community organisation.
7. The loan must not include a redraw facility.
8. The loan must not be an interest only loan.
9. Guarantees will not be provided where works have already commenced, unless the Council resolves that extenuating circumstances exist.

Maximum Exposure

The Council's maximum exposure to loan guarantee commitments be limited to five percent (5%) of annual revenue, subject to Council's forecast net financial liabilities ratio for the term of the requested guarantee remaining between 0% and 50%.

Guarantee Term

The maximum period that the Council will guarantee a loan for is twenty-five (25) years.

Documentation

The applicant will be required to demonstrate in their application the requirements as set out in 'General' together with their ability to service the loan repayments. The

Council reserves the right to request and receive any information that may be required in its consideration of the guarantee request.

Should the Council resolve to act as guarantor of the loan, the applicant will be required to:

1. Notify the Council of any legal action that 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 the 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. Provide the Council with bi-annual loan statements that demonstrate the status of loan repayments.
4. Immediately notify the Council in the event of any default in loan repayments.
5. Ensure the asset is appropriately insured with a certificate of currency provided annually to Council.
6. Provide the Council with minutes of the organisation’s annual general meeting plus audited financial statements, and any other information the Council may reasonably require to assure itself of the status of the loan.
7. All costs, if any in relation to the guarantee, are to be paid by the applicant.

4. Legislation, Terminology and References

Not applicable.

Responsible Officer:	Director Financial Services
Policy first adopted by the Council:	19 September 2016
History	
Amended by Council	Not applicable
Next Review Date:	March 2017