

## Self-Supporting Loans

### Part A

#### Policy Objective

To establish the principles and constraints for the utilisation of Shire of Broome (Shire) borrowings to finance self-supporting loans for community-based organisations currently leasing or occupying land or buildings vested in the Shire.

#### Policy Statement

This Policy only applies to community-based organisations that lease or occupy land and/or buildings owned or vested in the Shire.

Self-supporting loans shall only be utilised for capital asset acquisition or development and not for operational equipment or operating expenses. There must be objective and compelling evidence that providing a self-supporting loan would deliver positive benefits to the community.

Council will only consider requests for self-supporting loans where the applicant has exhausted all other financial avenues, such as grants, sponsorship, fundraising or application for credit from a lending institution. The Shire is not a lender-of-last-resort for community-based organisations or sporting groups.

The Shire will only provide access to self-supporting loans when the Shire's financial circumstances permit and in exceptional circumstances such as:

- a. To mitigate serious risks and/or meet urgent capital requirements that will deliver substantial benefits to the community consistent with the Shire's Strategic Community Plan and priorities identified in the Corporate Business Plan.
- b. Where the self-supporting loan forms part of a matching community grant component (e.g. CSRFF).
- c. Where in the view of Council, the use of the Shire's borrowings for a self-supporting loan will deliver benefits to the community that materially outweighs likely benefits from the alternative purposes from which the said borrowings would have to be diverted.
- d. Where in the view of Council there is compelling justification for the Shire to act as lender instead of a bank or other financial institution.

Provision of self-supporting loans by the Shire is subject to sound financial risk mitigation safeguards which include but are not limited to:

- The financial position of the Shire;
- Prevailing budget circumstances;
- Forecast funding requirements for municipal funds and capital projects;
- Competing demands for funds, debt financing structure;
- Eligibility of the requesting organisation, and the ability of the requesting organisation to repay borrowings; and
- The capacity of the Shire to borrow.

Officers will assess applications against this Policy and its associated Business Operating Procedures and make a determination as to the eligibility of the application. Ineligible applications will not be submitted to Council for their consideration.

Council will consider eligible loan requests at its Ordinary Council Meetings in accordance with this policy. Applicants will be advised in writing as to the success of their application.

Council will make provision in the annual budget for minor sporting facility funding, subject to prevailing financial circumstances.

Council will seek all remedy available to it under the law to recover delinquent repayment of loans.

## Part B

# Management Procedures

### **Objective:**

To establish procedures for the consideration, approval and administration of self-supporting loans for community-based organisations and to provide a guideline in determining eligibility of applicants, assessment of applications and the allocation of Shire borrowings to self-supporting loans for community-based organisations.

### **Application:**

#### Application Requirements

1. The applicant must be based locally in Broome and be an incorporated body occupying or leasing land and/or buildings owned or vested in the Shire.
2. Applications must be for the construction and/or acquisition of capital assets including but not limited to:
  - a. constructing or improving facilities for use in connection with the activities of the organisation or club; or
  - b. for the erection or improvement of buildings associated with or incidental to those facilities;on lands which are owned by, vested in, or under the care, control and management of, the Shire.

3. Applicants should be able to make a reasonable co-contribution and/or attract other funding or sponsorship to the project.
4. The lease must have an expiry date at least two years post the expiry of the loan.
5. All self-supporting loan applicants shall provide the following information for assessment:
  - a. Shire of Broome Self-Supporting Loan Application (Appendix A)
  - b. Audited financial statements for five years preceding the year of application to present the financial position and results of operations.
  - c. Certificate of Incorporation.
  - d. Articles of Association or Constitution outlining office holder's financial liabilities and responsibilities and winding up clause.
  - e. Membership records for preceding five years.
  - f. Certificate of Currency for appropriate Public Liability Insurance
  - g. Statement demonstrating alternative funding options have been investigated prior to seeking the Shire's assistance and the reasons why they weren't successful.
  - h. Statements demonstrating the need for the loan together with a business plan for the construction and/or capital acquisition which is to include detailed costings and an overall budget.
  - i. Forward financial plans (e.g. 5-year business plan) to cover the term of the loan which are certified by a Certified Practising, Chartered or similarly qualified and experienced Accountant.
  - j. Statements of satisfactory past payment history from at least three (3) principal suppliers (e.g. credit references). The Shire may be included where such history exists.
  - k. Names of up to three persons, at the discretion of the Director Corporate Services, who will guarantee the clubs and /or associations liability for the loan repayments.
  - l. Evidence of adequate security/collateral.
  - m. Any additional information that will assist the Council with consideration of the application.

### Assessment of Applications

1. The assessment of applications will be undertaken by the Director Corporate Services, Manager Financial Services and the Coordinator Financial Services who will then put a recommendation to Council for consideration.
2. Matters that are to be considered include:
  - a. The current number of self-supporting loans the Shire may have.
  - b. The Shire's Long-Term Financial Plan and forecast debt financing capacity across the prospective life of a requested loan.
  - c. Regulated borrowing limits as determined by WA Treasury Corporation (WATC).
  - d. Funding to any one (1) applicant is to be limited to \$300,000 at any time unless approved by Council for a higher amount.
  - e. Debt Service Coverage Ratio (calculated as annual surplus before interest expense and depreciation divided by annual debt service payments) meets the required Department of Local Government Standard.
    - i. *Below is the indicator which is used by the WATC in considering loan applications from the Shire:*
      1. *Standard is NOT met if ratio is less than two*
      2. *Basic Standard if ratio is between 2 and 5*

### 3. Advance Standard if greater than 5

- f. Indebtedness Ratio – measures the extent to which past borrowings principal outstanding relate to the Shire's discretionary general revenue. Target = < 0.4. The level of consolidated self-supporting assistance to groups in any one year may not exceed annual repayment of principal and interest of more than 0.5 per cent of rates revenue.
  - g. Annual budget and current financial position of the Shire.
  - h. Stability, sound management, membership base, community accessibility and longevity of applicant organisation.
  - i. Debenture security over assets (including lease) of organisation if considered appropriate.
  - j. Not duplicate or overlap with existing similar activities.
  - k. Contribute towards Council's Strategic Plan.
  - l. Compliance with legislative requirements associated with borrowing monies in accordance with section 6.20 of the Local Government Act 1995 (LGA).
3. Assessment of Applications will be based on:
- a. Demonstrated ability to repay the loan on time and for the loan to be repaid in full at the end of the loan period.
  - b. Benefit to the wider community.
  - c. The community organisation that is applying for the loan must have been in existence for at least 5 years and can clearly demonstrate financial sustainability and a stable and / or increased membership.
  - d. The life of the capital asset acquisition or development exceeds the life of the self-supporting loan.
  - e. Whether all other funding options have been fully exhausted.
4. Applicants should obtain any necessary licences or approvals, meet design and documentation requirements, and provide robust costs estimates for the project. Documentation and cost estimates need to take into account all Occupational Health and Safety obligations, environmental requirements, work methods and must include all other project costs.

### Ineligible Applications

The following list provides examples of applications that are not considered eligible for funding. This is not an exhaustive list and is provided to provide direction for officers assessing applications.

- Individuals.
- Organisations that operate for commercial purposes.
- Projects or events that are run for commercial purposes.
- Applications for funding public liability insurance.
- Organisations that have not satisfactorily acquitted previous funding applications to Shire by the due date.
- Applications for 'phased' projects or for project design costs.
- Ongoing operational or administrative costs.
- Activities that are the primary responsibility of other funding agencies.
- Remissions of rates.
- Proposals which may lead to a continued dependence upon Council funds.

### Term of Loan

1. The term of the loan shall not exceed the term of any existing lease agreement.

2. The term of the loan shall be as determined by Council subject to certain limitations.
3. The term of the loan should be less than or equal to the half-life of the capital asset acquisition or development being undertaken. This enables the community-based organisation sufficient time to set aside a cash reserve for future refurbishment or replacement. If the term of the loan is longer than the half-life of the capital asset acquisition or development being undertaken, the organisation is to demonstrate how it will fund future refurbishment or replacement whilst still servicing the loan.
4. The term of the loan can be less than the maximum if the Applicant has the ability to repay the loan over a shorter timeframe.

<b>Self-supporting Loan Amount</b>	<b>Maximum Term of Loan*</b>
Up to \$50,000	5 years
\$50,000 - \$99,999	10 years
\$100,000 and above	15 years
*Note that these are indicative only and will be dependent upon each application	

5. Loans will be provided at the same interest rate, loan period and repayment terms as the loan drawn by the Shire to support the community-based organisation.

#### Approval Requirements

1. The final decision on the granting of a self-supporting loan will be by resolution of the Council via the adoption of the annual budget which includes details of the proposed self-supporting loan.
2. Any proposal to lend to a community-based organisation that has not been included in the Shire's annual budget must be advertised for one month in accordance with Section 6.20(2) of the LGA.
3. A 'Deed of Loan' for the period of loan repayments is to be prepared and executed as contractual evidence for repayment of the loan.
4. Funds will only be released after documentary proof of significant expenditure (or committed expenditure) is submitted by the applicant.
5. For each year of the loan an independently audited end of year financial statement must be supplied to the Shire.
6. If requested by the Shire, a profit and loss statement must be produced within three (3) weeks of the request being made.
7. No community based organisation can have more than one self-supporting loan at any one time.
8. The loan will not be a revolving credit that includes a re-draw facility.

#### Administration Costs and Loan Guarantee Fees

The following costs incurred by the Shire will be recouped from clubs or organisations applying for self-supporting loans:

1. Actual advertising costs (including GST).

2. Costs associated with the preparation and stamping of the 'Deed of Loan'.
3. Loan Application Fee as determined by the Council when setting the fees and charges.
4. Stamp duties or other duties or taxes applicable to the self-supporting loan application or documentation, will be charged to the applicant at actual cost.
5. WATC government loan guarantee fees.
6. Penalty interests and loan default charges incurred by the Shire as a result of the borrowing organisation.
7. Any additional charges associated with the self-supporting loan.

#### Loan Repayment Administration

Once the loan has been established, officers must process the repayment of the loan to the lending institution and raise debtors invoices to the community organisation within a sufficient time period prior to the due date for each repayment instalment as per the loan repayment schedule.

#### Loan Default

1. Any default of loan repayments will incur penalty interest as determined by the Council when setting the fees and charges, unless arrangements have been made with Council, prior to the re-payment being defaulted.
2. If the community-based organisation defaults on a loan, it will not be permitted to receive any further self-supporting loans from the Council until the outstanding loan is repaid in full. In exceptional circumstances this may be reviewed, but not until the timeframe allowed for the initial loan expires.
3. Should an organisation default on loan payments, Council will take whatever action it considers necessary in accordance with the LGA to recover the funds. Council may enter into an agreed, mutually beneficial repayment arrangement with the organisation to facilitate repayment of the loan funds.
4. The community-based organisation must insure and keep insured the capital asset acquired and any other assets that are security over repayment of a loan. Failure to do so constitutes default.
5. Defaulting on the loan may implicate future leasing arrangements between the Shire and the lessee. In extreme cases, Council may consider closing the use of the facilities to the club or community group in default and taking legal action to recover funds.
6. Officers will need to assess and confirm the organisation's public liability insurance provisions and if an incorporated association, whether office holders have been indemnified. Board members, committee members, and directors of organisations may need director's insurance as they can be held personally liable for acts of negligence and personal assets can be seized to recover unpaid debts and damages.

### Interest on Unremitted Loan Funds

Where a club or organisation is meeting the full costs of a project, and the self-supporting loan funds have been drawn down but not remitted to the borrowing organisation, any interest earned on the un-remitted funds will be credited to their debtor account.

### Reallocation of Surplus Loan Funds

After completion of the project should any loan funds remain unspent, in addition to the provisions of section 6.20(3)(b) of the LGA, officers responsible for the activity or project for which a loan is raised shall prepare a recommendation to Council for approval of the re-allocation or return of loan funds to the lending institution. The reallocation or repayment will be subject to the merits, financial implications and risk assessment of reallocating or repayment of the surplus loan funds.

<b>Document Control Box</b>							
<b>Document Responsibilities:</b>							
<b>Owner:</b>	Director Corporate Services			<b>Owner Business Unit:</b>	Corporate Services		
<b>Reviewer:</b>	Manager Financial Services			<b>Decision Maker:</b>	Council		
<b>Compliance Requirements:</b>							
<b>Legislation:</b>	<a href="#">s6.20 &amp; 6.21 of the Local Government Act 1995</a>						
<b>Industry:</b>							
<b>Organisational:</b>							
<b>Document Management:</b>							
<b>Risk Rating:</b>	Low	<b>Review Frequency:</b>	Triennially	<b>Next Due:</b>	12/2022	<b>Records Ref:</b>	
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1.	14 December 2017		OMC Initial adoption				
2.	12 December 2019		Review and converted to new Policy Template				

## Appendix A: Application for Self-Supporting Loan



### Application for Self-Supporting Loan

1. APPLICANT DETAILS	
Rates Assessment Number (if applicable): A	
Applicant's Legal Name:	
Registered: Address:	
Postal Address:	
Contact Person:	ABN:
Telephone:	Postcode:
Mobile:	Fax:
Email	

### 2. ELIGIBILITY

- Is the Organisation an incorporated body?
- Does the Organisation have an ABN?
- Has the Organisation been operational for at least 5 years?
- Can the Organisation demonstrate an established relationship with the Shire?
- Will the results from the loan be an asset?
- Are the land / buildings that the Organisation lease / occupy under control/ownership of the Shire?

### 3. LOAN INFORMATION

Loan amount required: \_\_\_\_\_

Term of Loan: \_\_\_\_\_

Purpose of Loan: \_\_\_\_\_

Description of the Project: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### 4. DOCUMENT REQUIREMENTS (please provide a copy of the following documents)

- Certificate of Incorporation
- Constitution and provisions for office holder liability and winding up
- ABN Certificate
- Plans and specifications associated with the project
- Audited financial statements for the last five (5) years
- Membership records for preceding 5 years



- Current 3-5 year business plan
- Detailed costings, cash flow outlays, and budget for the project
- Details of other sources of project funding
- Statement demonstrating alternative funding options have been investigate prior to seeking Council's assistance
- Statement demonstrating the need for the loan
- Demonstration of ability to repay loan
- Forward financial plans to cover the term of the loan
- Payment history/ credit reference from three (3) principal suppliers
- Public liability insurance certificate, for incorporated associations indemnity of office holders, and/or director's insurance for office holders
- Any other information for consideration