

SPECIAL BUDGET MEETING**25 JUNE 2018****10****BANK GUARANTEE POLICY**

Kerry Robertson | 17/25/2-13 | #5739510

RECOMMENDATION:**That Council adopts the Bank Guarantee Policy.****EXECUTIVE SUMMARY:**

This report provides an update of the Bank Guarantee Policy for adoption with the annual budget. No changes have been made to this Policy since it was last adopted by Council in June 2017. The cumulative limit for total guarantee's, set by council in the policy remains unchanged at \$3.5M.

BACKGROUND:

Council's Bank Guarantee Policy provides the ability for Council to support community development projects by providing a guarantee to financial institutions on loan borrowings by community organisations.

Council has a loan guarantee policy in place with a limit of \$3.5M to facilitate this. The limit is to be reviewed by Council as required, taking into account newly approved, expiring or reducing guarantee obligations.

COMMENT:

The provision of a guarantee of this nature is classified as a type 1 financial arrangement, requiring Treasury approval. In April 2018 Council applied for, and was granted, a general approval to provide these guarantees, up to the limit of \$3.5M set in the policy, provided they comply with the Council policy. This means that we no longer have to apply to the Treasurer on a case-by-case basis, which cuts down the time and administrative processes involved, allowing us to provide this support to local community organisations in a timelier manner.

Council has traditionally adopted a Bank Guarantee Policy annually. However it is recommended that the current policy remain in force until otherwise determined by Council.

OPTIONS:**Option 1:** (Recommended)

That Council adopts the Bank Guarantee Policy.

Option 2:

Council does not endorse the Bank Guarantee Policy in the proposed form and puts forward an alternative position with regards to the provision of Bank Loan Guarantee's, the limit to be set or the process involved.

CONSIDERATIONS:**Risk Management:**

When each application is received Council officers perform a detailed risk analysis of the financial affairs of the organisation and their ability to service the loan repayments. The continuing social and economic benefits and community support for the project is also considered. If deemed suitable, a recommendation is then put to Council to resolve to support the project and provide the bank loan guarantee. Additional conditions of approval include:

- That Council continue to receive on an annual basis copies of the organisation's audited, unqualified financial statements
- Council is provided with an annual budget and cash flow forecast
- The organisation holds adequate insurance cover
- Council's consent is gained before entering into any further debt arrangements during the term of this loan
- Council is notified in the event of any changes in management and updated forecasts are provided
- Loan guarantee documents stipulate that Council's loan guarantee exposure reduces over the life of the loan

Statutory:

Council has Queensland Treasury approval under the Statutory Bodies Financial Arrangements Act 1982, Part 9, Division 3 for a general guarantee limit of \$3.5M (in line with Council's Bank Guarantee Policy).

ATTACHMENTS:

- Bank Guarantee Policy
- Councils current bank loan guarantee commitments



Jason Ritchie
Manager Finance



Lisa Whitton
Chief Financial Officer

BANK GUARANTEE POLICY

- Intent** To outline Cairns Regional Council's policy regarding the guarantee of third party loan borrowings based upon sound financial management guidelines.
- Scope** This policy applies to the 'in principal' commitment to the guarantee of any third party loan borrowings and is subject to Treasury approval.

PRINCIPLES

The provision of guarantees to third parties will be a decision of Council. Council will consider the guarantee of third party loan borrowings for community organisations where:

- The loan borrowings are for the purpose of funding a project that clearly serves a community need and/or provides a benefit to the community; and
- There is a high level of community support for the project; and
- The community organisation can adequately prove its ability to fund the repayment of the loan borrowings (principal and interest) throughout the loan term; and
- The loan guarantee amount is within Council's loan guarantee limit of \$3.5 Million. This limit is to be reviewed by Council as required, taking into account newly approved, expiring or reducing guarantee obligations.

REPORTING

Upon receipt of the audited financial statements of each of the organisations for which Council has provided a guarantee, Council officers will perform an assessment of the organisation's financial position. This assessment allows Council officers to accurately disclose the guarantee in Council's financial statements each year as well as inform Council of any pertinent issues where appropriate.

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This policy is to remain in force until otherwise determined by Council.

General Manager Responsible for Review:

Chief Financial Officer

ORIGINALLY ADOPTED: 21/04/2010
CURRENT ADOPTION: 25/06/2018
DUE FOR REVISION: 25/06/2022
REVOKED/SUPERSEDED:

John Andrejic
Chief Executive Officer