

3.3 Self-Supporting Loans

PART A - Policy

Objective

The objective of this policy is to provide a framework to guide Council decision-making in relation to the provision of self-supporting loans to community organisations, for the purpose of capital projects only, ensuring that such loans are financially sustainable, transparent, and do not place an unintended burden on the Shire's general rate revenue.

Policy Statement

The Shire of Dandaragan recognises the contribution made by community organisations to the wellbeing of the community. In exceptional circumstances, Council may approve the provision of self-supporting loans to eligible community organisations for approved capital projects where such loans deliver demonstrable, long-term benefits to the community and will be subject to the following conditions:

1. The project being assessed as meeting a need required within the community.
2. The community group being assessed as financially viable and able to meet all loan repayments.
3. The loan for capital improvements or other approved capital expenditure.
4. Whether or not a more suitable source of funding exists.
5. The Shire's debt service ratio; and
6. The community group signing a Self-Supporting Loan Agreement, which includes a requirement for the payment of all loan repayments, interest on outstanding debts, administration or other fees incurred by the Shire with respect to the agreement.

PART B - Management Procedures

Definitions

Self-Supporting Loan – an amount of money raised by the Shire in its own name through a specific loan for an agreed period provided to an approved community group through a Self-Supporting Loan Agreement.

Detail

1. Application process

1.1. Eligibility to Apply

Applications for a self-supporting loan may be accepted from incorporated community organisations where the proposed borrowing relates to an approved capital project.

1.2 Submission Requirements

The organisation is to apply in writing, advising the following information:

- amount of loan principal required;
- purpose for which loan is to be expended;
- term of proposed loan;
- the last annual audited financial statements of the organisation;
- current monthly financial statement of the organisation;
- number of financial members of the organisation;
- financial viability of group to repay loan;
- evidence of incorporation; and
- other information considered appropriate and requested by Council.

2. Assessment Criteria

Council will consider providing self-supporting loans to community organisations where the following conditions are met:

- In exceptional circumstances to mitigate serious risks and/or to meet urgent capital requirements that will deliver significant benefits to the community as a whole and in keeping with priorities set by the Corporate Business Plan.
- Where it does not have any adverse effect on the Long-Term Financial Plan, and the forecast debt financial capacity of the Shire.
- Where Financial Ratios are not materially impacted.
- Where capital works are not materially impacted during the financial year.
- When there is no material impact on asset renewal / replacement funding requirements.
- Where in the view of Council, the use of Shire's borrowing for the intended purpose will deliver greater benefits to the community that far outweighs benefits for alternative purposes from which the said borrowings would have been diverted.
- 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.
- Is able to demonstrate it has the capacity to service the loan repayments out of its normal operations.

3. Decision-Making

3.1 If an application has no significant or adverse impact in relation to the abovementioned general principles and it also meets the criteria and guidance principles, the application will be assessed by Council based on the following:

- a) Provision of an appropriate fully completed application.
- b) Provision of proof of incorporation.
- c) Provision of latest set of audited financial statements (Operating Statement, Cash flow and Financial Position Statements).
- d) Provide a track record with the Shire of paying its invoices within 60 days of issuance of invoices.
- e) Provision of a forward financial plan in line with the required term of borrowing.
- f) Provision of compelling evidence of ongoing capacity to service and repay the loan from existing operations.
- g) Provision of a business case in support of the asset acquisition or development proposal to be financed by the requested self-supporting loan.
- h) Report prepared for Council with the supporting application for Council consideration supported by the business case.

Council may approve, approve with conditions or decline any application at its discretion.

4. Self-Supporting Loan Agreement

4.1 When a self-supporting loan is being raised, a separate "Self-Supporting Loan Agreement" will be executed between the Shire and the recipient organisation prior to any funds being advanced. The Self-Supporting Loan Agreement will specify;

- a) Repayment terms
- b) Interest
- c) Default provisions
- d) Reporting requirements

4.2 All legal, advertising, stamp duty and administrative costs associated with the preparation and execution of the agreement will be recovered from the applicant organisation.

5. Interest on Unremitted Loan Funds

Where the full costs of a project utilising loan funds have been drawn down but not spent on the project, interest at the rate of 3% on the un-remitted funds will be credited to their debtor's account.

6. Loan Repayments by Recipients

Loan repayment invoices are issued every six months and are payable within 30 days. Recipient organisations are responsible for meeting all repayment obligations by the due dates.

7. Interest on Debtors Balances

When a debtor's account is raised for the value of the next instalment of the loan, and this is not paid on time, interest will accrue and be charged on the overdue balance in accordance with the conditions of the Self-Supporting Agreement.

8. Defaults and Financial Difficulty

Where a recipient organisation fails to meet repayment obligations, the Shire may pursue remedies in accordance with the Self-Supporting Loan Agreement.

Council may consider alternative repayment arrangements where an organisation demonstrates financial hardship, provided current obligations are maintained and the Shire's financial position is not adversely impacted

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