

Bank Guarantee Policy

DETAILS

Council Admin

Effective from:	23 February 2022	
Contact officer:	Executive Coordinator Financial Planning & Strategy	
Next review date:	February 2024	
File reference:	FN338/601/01	
eDRMS#	This policy	A18686827
	Value Proposition	A74443809

OBJECTIVES AND MEASURES

Objectives	To minimise credit and documentation risk by stipulating the requirements related to the acceptance of bank guarantees.
Performance measures	All bank guarantees provided to Council of the City of Gold Coast (Council) comply with the requirements stated in the Bank Guarantee Policy, therefore minimising Council's credit risk.
Risk assessment	Medium

POLICY STATEMENT

Background

Developers and other persons or entities may be required to provide Council with a cash deposit or bank guarantee in situations where Council must be protected from the failure by the developers or other entities to fulfil their obligations. For example, an obligation to construct a road.

The effect of obtaining a cash deposit or bank guarantee is that Council can immediately access the amount deposited or guaranteed when the developer or other person/entity fails to perform the obligation.

Consequently, Council only deals with highly rated banks or other financial institutions in accordance with Council's Credit Risk Policy when considering the acceptance of bank guarantees.

Bank guarantees must meet certain criteria, as outlined in this policy, to be accepted by Council.

Acceptable 'banking' institutions

Standard and Poor's, Moody Investor Services and Fitch Ratings are internationally recognised ratings agencies that compile and continuously review the credit rating information of financial institutions.

To minimise credit risk, Council will only accept bank guarantees from banks or other financial institutions with a minimum long term credit rating of:

Standard and Poor's- A-
Moody Investor Services- A3
Fitch Ratings- A-

These ratings are regularly reviewed and bank guarantees from banking or financial institutions with a lower rating will not be accepted.

In the event that a financial institution that has provided an existing bank guarantee is downgraded below the minimum credit rating, the Manager Corporate Finance will refer the matter to the Chief Operating Officer for a decision to either continue with that bank's guarantee/s or to ask that a new bank guarantee be provided from a more highly rated financial institution. Council may refrain from acceptance of any guarantee from a bank or financial institution, where to accept same would place Council in aggregate credit limit breach, or be likely to result in exceeding Council's exposure limitations as set out in Council's Credit Risk Policy.

It is furthermore noted that insurance bonds will not be accepted as a suitable guarantee.

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Documentation requirements

To ensure that bank guarantees provided to Council are enforceable: the following documentation must be completed when the arrangement commences:

- Bank guarantees relating to property require reference to lot and survey plan numbers and an explanation detailing the purpose of the guarantee.

Note: In the event of a legal dispute, bank guarantees not containing accurate descriptions of property details, including lot and survey plan numbers, risk refusal of payment from banks or other financial institutions, especially if there are several lots relating to one property.

- Contract (bank) guarantees require quotation of the contract number and a brief description of the contract. This minimises the confusion of relating each bank guarantee to a particular project. This protects the bank guarantee from becoming void as changes to contracts may alter the description of the contract.
- All bank guarantees to exclude termination dates. Bank guarantees are invalid and unenforceable after their termination dates even if the obligation has not been performed or the work is yet to be completed, therefore Council will not accept bank guarantees with a termination date.
- Separate bank guarantees are required for separate obligations. Over the course of a project, the level of work being undertaken sometimes increases. In these cases, the possibility could exist that the original amount of the bank guarantee is no longer sufficient to fulfil the intended obligation. Stakeholders within Council will confirm to Receivables Management “Financial Control”, Revenue Services Branch at the start of each financial year that the amount of the bank guarantee is still appropriate for the level of the outstanding obligation. If this value is insufficient, Council will notify the developer or other person/entity and request an additional bank guarantee for the relative shortfall

Receivables Management “Financial Control” will maintain a centralised register of bank guarantees and the physical documents will be stored in a secure location. Receivables Management “Financial Control” should contact Council’s Treasury Section if there is any doubt as to whether a bank guarantee satisfies the requirements of this policy.

Reporting requirements

The bank guarantee exposures are reported in the daily Treasury credit exposure reports, so that credit exposures arising from both the Treasury Investment Portfolio and bank guarantees are provided in one report.

Notes:

As an obligation is progressively satisfied bank guarantees will be reduced as deemed appropriate.

SCOPE

The Bank Guarantee Policy sets out the constraints and risk management guidelines for the management of all bank guarantees issued to Council.

This policy applies to all developers and other persons or entities, who may be required to provide Council with a bank guarantee.

DEFINITIONS

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Call-up – Call-up of a bank guarantee is when Council requests cash payment from a counter party (i.e. a bank or other financial institution Council accepts a bank guarantee from) when a developer or other person/entity cannot perform part or their entire obligation to Council.

Council – Council of the City of Gold Coast

Credit Risk – Credit risk is the risk that a counter party (i.e. a bank or other financial institution) cannot pay when a bank guarantee is called-up. This would include either paying it late or non-payment of some or all of the bank guarantee concerned.

RELATED POLICIES AND DELEGATIONS

Credit Risk Policy

LEGISLATION

Nil

SUPPORTING DOCUMENTS

Nil

RESPONSIBILITIES

Sponsor	Chief Operating Officer
Owner	Manager Corporate Finance

VERSION CONTROL

Document	Date	Approved	Amendment
A18686827 v9	23.2.22	COO #A89184412	Minor amendment
22945312 v7	24.10.18	COO #72037375	Minor amendment
22945312 v6	11.08.16	COO #57355504	Minor amendment
22945312 v5	22.01.15	COO #47900568	Minor amendment
22945312 v4	22.10.12	CEO #34406090	Minor amendment
22945312 v3	17.02.12	GF09.0805.001/G09.0810.018	Council resolution
22945312 v2	09.08.09	F01.0501.007/ G01.0504.018	Council resolution
22945312 v1	03.06.08		Original policy