

ITEM NUMBER: 10.1

CONFIDENTIAL REPORT

LOAN RECEIVABLES

Pursuant to section 87(10) of the Local Government Act 1999 the Report attached to this agenda and the accompanying documentation is delivered to the Audit and Risk Committee upon the basis that the Audit and Risk Committee considers the Report and the documents in confidence under Part 3 of the Act, specifically on the basis that the Audit and Risk Committee will receive, discuss or consider:

- d. commercial information of a confidential nature (not being a trade secret) the disclosure of which –
 - i. could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party; and
 - ii. would, on balance, be contrary to the public interest.

Recommendation – Exclusion of the Public – section 90(3)(d) Order

1. That pursuant to section 90(2) of the *Local Government Act 1999* the Audit and Risk Committee hereby orders that the public be excluded from attendance at this meeting with the exception of the Chief Executive Officer and Staff in attendance at the meeting in order to consider Report No: 243/24 Loan Receivables in confidence.
 2. That in accordance with section 90(3) of the *Local Government Act 1999* the Audit and Risk Committee is satisfied that it is necessary that the public be excluded to consider the information contained in Report No: 243/24 Loan Receivables on the following grounds:
 - d. pursuant to section 90(3)(d) of the Act, the information to be received, discussed or considered in relation to this Agenda Item is commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party.

In addition, the disclosure of this information would, on balance, be contrary to the public interest. The public interest in public access to the meeting has been balanced against the public interest in the continued non-disclosure of the information. The benefit to the public at large resulting from withholding the information outweighs the benefit to it of disclosure of the information.
 3. The Audit and Risk Committee is satisfied, the principle that the meeting be conducted in a place open to the public, has been outweighed by the need to keep the information or discussion confidential.
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Item No: 10.1

Subject: LOAN RECEIVABLES

Summary

To complete the financial statements for the year ended 30 June 2024 an assessment is required of community loans that are owed to Council and whether there is any objective evidence that they will not be fully repaid.

Based on Council's decision to forgive 50% of the debt owed by Glenelg Football Club, the same club's previous financial performance and its conservative budget forecasts, it is recommended that the current impairment provision of \$517,780 be maintained.

Recommendation

That Audit and Risk Committee advises Council that:

1. it has received and considered an assessment of community loans receivable as at 30 June 2024;
2. the current impairment amount of \$517,780 be maintained for impairment of community loans receivable as at 30 June 2024; and
3. in accordance with Accounting Standards the impairment amount be reviewed and updated annually.

RETAIN IN CONFIDENCE - Section 91(7) Order

4. That having considered Agenda Item 10.1 Loan Receivables in confidence under section 90(2) and (3)(d) of the *Local Government Act 1999*, the Audit and Risk Committee, pursuant to section 91(7) of that Act orders that the report, attachments and minutes be retained in confidence for a period of six months and the Chief Executive Officer is authorised to release the documents when Audited Financial Statements are presented to Council.
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Background

The 2023-24 financial statements will include amounts for loans receivable from community clubs which total \$1,195,314. To finalise the financial statements an annual assessment is required as to whether the loans receivable amount will be realised.

During 2023-24 repayments were made totalling \$217,793 which included a \$200,000 South Australian National Football League (SANFL) land divestment fund payment for the Glenelg Football Club loan. Except for the Glenelg Football Club, all remaining community club loans are being repaid in accordance with their respective repayment schedules.

In 2023 Council established a working group, consisting of members of both Glenelg Football Club and City of Holdfast Bay, to ensure the Club's long-term sustainability. Part of the role of this group was to establish the financial capacity of the Club to make repayments of its loan once the final SANFL disbursement was received in October 2023. The outstanding balance of the loan owed to Council is currently \$1,029,922.

Report

Background - Glenelg Football Club Loan

In 2001 Council entered into a loan agreement with the Glenelg Football Club under which the Club borrowed \$2.5 million from Council to fund its building redevelopment with the construction of a function centre. Council funded the loan by borrowing from the Local Government Finance Authority (LGFA) and on-lending to the Club on identical terms.

The Club had met its principal and interest payments up to October 2012 at which point the Club approached Council to restructure its loans including a two-year interest-only term, to which Council agreed. Following a few years of financial difficulty consultants BRI Ferrier were engaged in 2016 to undertake a review of the Club's financial position. It was noted that the recovery of the loan was dependent upon the continuation of Glenelg Football Club as a going concern. Their recommendation at that time was for Council to maintain their support of the Club and for both parties to agree a strategy to achieve debt reduction.

To this end Council agreed to an arrangement whereby they would receive a share of a SANFL dividend due to the Club. This dividend, received in installments over seven years, has resulted in a principal reduction to the outstanding loan amount of \$1,274,666.

Debt forgiveness proposal

Over the last year, the Glenelg Football Club Working Group has continued to meet to discuss the Club's ability to pay the remainder of the outstanding loan. This included engaging BRI Ferrier to once again review the Club's financial position. Following those discussions a formal letter was received from Glenelg Football Club with a proposal on how to resolve the issue while ensuring the Club remains financially viable.

In summary the Club requested that Council consider the following:

- A request for 50% forgiveness on the current \$1.029 million debt facility with the City of Holdfast Bay.
- The remaining 50% debt (\$514,961) be payable upfront as a final payment to extinguish all outstanding debts with Council.

This proposal was reviewed by the Audit and Risk Committee at its 15 April 2024 meeting (Report 109/24) and subsequently approved by Council on 23 April 2024 (Resolution C230424/7751).

As at 30 June 2024, Glenelg Football Club had not yet arranged payment of \$514,961 which is the trigger to process forgiveness of the remaining 50% of debt. It is now anticipated this will be received in August 2024.

Loan Receivables – Accounting Standard Requirements

Council's general purposes financial statements are prepared in accordance with Australian Accounting Standards (AAS). Australian Accounting Standards Board (AASB) 139 – Financial Instruments: Recognition and Measurement, paragraphs 58 to 70, covers the topic of impairment of financial assets including loan receivables. Impairment means the carrying amount of the asset is more than the amount that is expected to be recovered.

The standard requires an assessment at the end of each reporting period as to whether there is objective evidence that a financial asset is impaired. The amount is therefore reviewed annually in conjunction with preparing the general-purpose financial statements.

Due to the financial difficulties of Glenelg Football Club, a provision for the impairment of their loan was first made in Council's 2015-16 General Purpose Financial Statements in accordance with AASB 139. Annually this provision has been reviewed and endorsed by the Audit and Risk Committee, which in the 2022-23 financial statements provided a provision for impairment of \$517,780. As such the current carrying value of the loan including this impairment is \$512,142.

Glenelg Football Club Current Financial Position

In August 2023 BRI Ferrier were once again engaged to conduct a review of the Club's financial position and advise on the options available to Council regarding the realisation of outstanding debt. The Audit and Risk Committee previously received a copy of this report on 15 April 2024 (Report 109/24). The review identified that the Club is forecasting overall accounting losses with any cash surpluses allocated to upgrading and improving the oval precinct's facilities. The decision by Council to accept the 50% debt forgiveness proposal was based on the Club's current financial position and its inability to realistically meet its debt obligations. Currently the club is securing the finance to repay the debt and a deed of release is being prepared.

The expected 50% payment from Glenelg Football Club equates to \$514,961 which is \$2,819 higher than the current loan carrying value. Once this payment is received then the provision for impairment can be realised with the resulting transactions having no material effect on Council's operating result, or financial statements.

Given the Council's decision to forgive 50% of the debt, the Club's previous financial performance and its conservative budget forecasts, it is recommended that the current impairment provision of \$517,780 be maintained.

Budget

This report is recommending that the provision for impairment be maintained at \$517,780. This will not affect the 2023-24 operating result or the provision for impairment in the Statement of Financial Position.

Life Cycle Costs

Not applicable

Strategic Plan

Statutory requirement

Council Policy

Not applicable

Statutory Provisions

Local Government (Financial Management) Regulations 2011
Local Government Act 1999, Section 143

Written By: Manager Finance

General Manager: Strategy and Corporate, Ms S Wachtel

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