

Department of Jobs,
Precincts and Regions

Treasury Corporation of Victoria
loans to Victorian councils

2021

TABLE OF CONTENTS

Acronyms	2
Introduction	3
1 About the loans framework	4
1.1 Overview of the loans framework	4
1.2 What are the objectives of making TCV loans available to councils?	4
1.3 How much can be applied for?	4
1.4 How is the loans framework administered?	4
1.5 What are the key steps in the loans framework?	5
1.5.1 Borrowing intentions survey and council annual budgets	5
1.5.2 Approval of a TCV borrowing limit by the Treasurer	5
1.5.3 Application for new TCV loan funds	5
1.5.4 Timeframes for availability of TCV loan funds	6
2 Eligibility	7
2.1 What entities are eligible under the framework?	7
2.2 What can the loans be used for?	7
2.3 What can the loans not be used for?	7
3 Loan process	8
3.1 DTF credit assessment	8
3.1.1 Supporting documentation	8
3.2 TCV loan application	8
4 Timelines	9
5 Conditions that apply to TCV borrowings	10
5.1 TCV loan agreement and other documentation	10
5.2 TCV client account onboarding	10
5.3 TCV loan product offering	10
5.4 Interest rates	11
5.5 Lending and guarantee fees	11
6 Other services available to Victorian councils	12
6.1 TCV's other services	12
6.1.1 TCV treasury management services	12
6.1.2 TCV project advisory services	12
6.1.3 TCV economic services	12
6.2 Deposit and investment services	12
6.2.1 TCV deposits	12
6.2.2 VFMC investments	13

Acronyms

ADI	Authorised Deposit-taking Institution
DJPR	Department of Jobs, Precincts and Regions
DTF	Department of Treasury and Finance
ISPRF	Integrated Strategic Planning and Reporting Framework
LGPRF	Local Government Performance Reporting Framework
LGV	Local Government Victoria
TCV	Treasury Corporation of Victoria
VAGO	Victorian Auditor-General's Office
VFMC	Victorian Funds Management Corporation

Introduction

Victorian councils collectively own and manage community assets and infrastructure worth in excess of \$107 billion and spend over \$9 billion on the provision of services annually. Recognising these significant economic responsibilities, the *Local Government Act 2020* requires councils to forward plan by developing annually a budget comprising the 'Budget Year' and the three subsequent years together with a 10-year financial plan. Combined, these tools will demonstrate how a council can effectively finance operational and capital requirements.

Access to cost effective debt finance has been seen by some councils as a barrier to their operations, sustainability and economic growth and development.

Following a recent announcement by the Treasurer, the Hon. Tim Pallas MP, and the Acting Minister for Local Government, the Hon. Mary-Anne Thomas MP, Victoria's 79 councils may now access loans from Treasury Corporation of Victoria (TCV). The primary objective of this initiative is to address concerns regarding the cost of borrowing by giving Victorian councils access to lower cost loan funds through TCV.

This document provides an outline of the key steps, milestones, and criteria for Victorian councils to successfully access loans from TCV.

1 About the loans framework

1.1 Overview of the loans framework

The Victorian Government has approved the Treasury Corporation of Victoria (TCV) to become a direct lender to local councils. Victoria's strong credit rating means that the State can borrow and lend money at cheaper rates than are commercially available to councils. This new policy initiative will enable Victorian councils to achieve interest cost savings by being able to access low-interest loans financed through TCV.

The *Local Government Act 2020* provides Victorian councils with the power to borrow money to finance service delivery and infrastructure investment subject to certain parameters. For example, councils cannot borrow money unless the proposed borrowings were included in the budget or a revised budget.

Previously councils have predominantly borrowed from private sector Authorised Deposit-taking Institutions (ADIs). The new framework adds the option for councils to borrow directly from TCV and thereby gain access to low-interest TCV loans.

This new framework differs from some predecessor schemes offered by the State such as the Community Infrastructure Loans Scheme. Councils will now be able to access borrowings from TCV for general working capital requirements, in addition to project specific infrastructure investment purposes.

This framework, which provides councils with the flexibility to access loans from TCV, is designed to complement, not replace, existing funding programs and sources.

1.2 What are the objectives of making TCV loans available to councils?

The objectives of the framework are:

- to provide councils with access to lower cost debt which is ultimately to the benefit of ratepayers
- to incentivise councils to consider the strategic use of debt to fund capital expenditure that provides intergenerational community benefits
- to incentivise councils to bring forward community infrastructure delivery by providing increased opportunities to access affordable finance
- to support a range of local community projects which ultimately deliver on the objectives of both the Victorian Government and the local council and maximise community access and benefit
- to provide additional support to encourage economies and communities as they emerge from the coronavirus (COVID-19) pandemic.

1.3 How much can be applied for?

Individual Victorian councils may request to borrow from TCV up to a borrowing limit in line with their borrowing requirements as part of the annual budget process. They may also indicate future borrowing intentions in the four-year budget cycle required by the *Local Government Act 2020*. However, this does not constitute an application; applications can only be made on an annual basis.

1.4 How is the loans framework administered?

Local Government Victoria (LGV) in the Department of Jobs, Precincts and Regions (DJPR) is administering the framework in collaboration with the Department of Treasury and Finance (DTF).

The broad process associated with administering the framework is as follows:

- LGV conducts an annual survey to determine the indicative individual and total borrowing intentions of Victorian councils for the following financial year, nominally in March following the establishment (first) year of the Scheme
- LGV communicates these borrowing intentions to both DTF and TCV for the budget and planning purposes of the State

- LGV reviews final adopted budgets (due by 30 June) to determine the actual planned new borrowings for the financial year. The collective planned new borrowings of all councils are presented for the endorsement of the Minister for Local Government
- LGV provides the endorsed individual council and total annual new borrowings to DTF for credit risk assessment (*This is based upon the final adopted budget of a council*)
- DTF will assess each individual council's financial viability, capacity to repay the loan and service the interest cost (refer to section 3.1)
- Should a council meet the credit criteria, DTF will recommend to the Treasurer that the council can borrow up to the approved limit from TCV. The loan from TCV will be made subject to the council agreeing to the specific terms and conditions of the TCV loan agreement. The council will be notified of the approval to borrow up to a specified TCV borrowing limit
- Then and only then can a council apply to TCV for a loan.

(Note that the processes associated with the new loans framework will differ in 2021-22 as this is the establishment year)

1.5 What are the key steps in the loans framework?

1.5.1 Borrowing intentions survey and council annual budgets

LGV, within the Department of Jobs, Precincts and Regions (DJPR) will conduct an annual survey of Victorian councils to determine the indicative individual new borrowing intentions of Victorian councils for the following financial year. LGV will communicate these new borrowing intentions both individually and collectively to DTF and TCV for budget and planning purposes.

This activity is in advance of completion of the annual council budget process. Whilst it is not uncommon for other entities to refer to borrowings as being the collective of existing and new debt, councils often refer to the amount of 'new borrowings' planned in any financial year. Indeed, planned new borrowings must be disclosed in each council's annual budget. The annual budget, including any planned new borrowings, is confirmed by being adopted by council (the adopted budget).

Victorian councils must adopt a budget by 30 June each year. Budgeted council borrowings must be evidenced through adopted budgets. The Local Government (Planning and Reporting) Regulations 2020 require a council to disclose in the budget the total amount to be borrowed (other than borrowings to refinance existing loans) during the budget year compared with the previous financial year.

On an annual basis, LGV will collate individual planned council borrowings disclosed in adopted budgets to determine total new borrowings for consideration and endorsement by the Minister for Local Government.

1.5.2 Approval of a TCV borrowing limit by the Treasurer

Following endorsement of the individual and total new borrowings by the Minister for Local Government, DTF will undertake a credit assessment of all Victorian councils planning to borrow, to ensure that the councils meet the minimum requirements and other loan conditions.

DTF is responsible for reviewing the credit risk of each council. When considering their planned level of borrowings, councils must ensure they will be able to comply with credit financial ratio criteria (see Section 3.1) and are encouraged to make use of the relevant debt ratios available in both the VAGO and Local Government Performance Reporting Framework (LGPRF) financial indicator sets.

Following the credit assessment process by DTF, the recommended TCV borrowing limit (which may differ from the requested amount) will be presented to the Treasurer for approval. Subject to the Treasurer's approval, councils will be advised of their TCV borrowing limit.

The access to a TCV loan does not preclude any council from seeking loan funds from any other approved provider. However, if councils intend to borrow from TCV, further borrowing may be restricted by financial covenants existing in TCV loan agreements.

1.5.3 Application for new TCV loan funds

Once a council receives advice of their confirmed TCV borrowing limit, they may formally apply to TCV for loan funds. TCV would then fund loans to individual councils up to the approved limit.

1.5.4 Timeframes for availability of TCV loan funds

The *Local Government Act 2020* requires a council to disclose their planned new borrowings in the budget on an annual basis. The timing for completion of the budget process and all consultative mechanisms often results in the budget being adopted in late June. Whilst endorsed new borrowings are reported in the adopted budget it does not follow that TCV loan funds will be immediately available.

As a guide, councils should not expect TCV loan funds to be available before November of the budget year. In the framework's establishment year TCV loan funds will be available from 1 January 2022.

Should the draw-down of loan funds earlier in the budget year be critical, it is expected that councils consider this in their prior year budget process. Alternatively, astute cash flow management may be sufficient to meet any short-term cash shortfall.

2 Eligibility

2.1 What entities are eligible under the framework?

Only Victorian councils are eligible to access TCV loans under the framework.

2.2 What can the loans be used for?

The framework provides Victorian councils with access to TCV loans to fund infrastructure and general working capital requirements.

Councils must ensure compliance with all relevant legislation in making application for such funds. Access to these funds is not limited to works of a specific nature as may be the case in other programs offered by the Victorian Government.

2.3 What can the loans not be used for?

While TCV loans under the framework are for general purposes there are limitations on what the loans can be used for. Proposed borrowings that will not be supported under the framework include, but are not limited to:

- applications to refinance an existing loan or borrowings prior to their current contractual repayment date, but these loans can be refinanced once they reach contractual maturity
- investment in financial assets.

3 Loan process

3.1 DTF credit assessment

DTF will undertake a credit assessment to ensure that councils meet the minimum requirements and other loan conditions for their planned borrowings.

3.1.1 Supporting documentation

The following table outlines documentation that will be required to demonstrate financial viability and capacity to repay any loan. In some instances, there may be a requirement that further documentation is supplied.

Financial supporting documentation

Financial Statements

(Audited for the previous three years, and projected and approved by the council for the next four years):

- Comprehensive income statement
- Balance sheet
- Cash flow statement

Should the council meet the credit assessment criteria and requirements, DTF will seek the Treasurer's approval for the loan.

The following financial ratio criteria will need to be satisfied by all councils:

- Interest Cover Ratio not to be less than 2:1
 - Interest Cover Ratio = EBITDA: Interest Expenses
- Interest bearing loans and borrowings not exceeding 60 per cent of own source revenue (interest bearing liabilities / own source revenue).

Approval of the TCV borrowing limit by the Treasurer will be premised on no variation to the adopted budget. Where a revised budget is required in compliance with the *Local Government Act 2020* it is the responsibility of the council to advise DTF and TCV of any revised budget that is prepared.

Once a council receives written confirmation from DTF of the amount of their approved TCV borrowing limit they will be eligible to apply for a TCV loan.

3.2 TCV loan application

Councils wishing to access TCV loans must comply with the TCV requirements outlined below (section 5.1).

It is important that councils provide true and correct information in their documentation and during the period of the loan. Providing false details or omitting required information may result in the loan being cancelled or the borrower being in default.

4 Timelines

The 2021-22 timelines (and those proposed for future years) for the local council lending framework are as follows:

	2021-22 financial year (establishment year)	2022-23 onwards
Framework formally launched	August 2021	–
Councils notify LGV via annual survey of indicative borrowing intentions for the following financial year	Not applicable	31 March
LGV communicates these borrowing intentions to both DTF and TCV for budget and planning purposes	Not applicable	30 April
Councils adopt (four-year) budgets	30 June 2021	30 June
LGV collates individual planned council borrowings disclosed in adopted budgets to determine total new borrowings for consideration and endorsement by the Minister for Local Government	September 2021	July
Minister for Local Government notifies the Treasurer of planned council borrowings for the financial year	September 2021	August
DTF credit assessment and loan recommendation process	October 2021 – November 2021	September / October
Treasurer approves TCV borrowing limits and DTF writes to each council confirming individual TCV borrowing limits	December 2021	October
Council applies to TCV for loan	From January 2022	From November
TCV loan agreement execution process	As required	As required

5 Conditions that apply to TCV borrowings

5.1 TCV loan agreement and other documentation

The TCV loan agreement will set out the terms and conditions of the loan. A council must satisfy itself as to the appropriateness of any such agreement.

Loans will be secured against the council's revenue from general rates.

There are a number of conditions under the TCV loan agreement that require a council to provide information prior to draw down. These requirements may include the maintenance of financial covenants.

In lodging a TCV loan agreement a council will also be required to submit a Notice of Drawing as provided for in the loan agreement.

An intercreditor deed may be required by councils which have other secured creditors. Where this is required then TCV's legal costs regarding the preparation, negotiation, and execution of an intercreditor deed are payable by the council.

5.2 TCV client account onboarding

In order to access TCV's lending and other transactional services, a council will be required to establish a client account at TCV. The following client account onboarding documentation will require completion:

- TCV Participating Authority application
- List of Authorised Personnel form
- TCV Client Portal Access form
- Direct Debit Request Service Agreement / confirmation of organisation bank account details.

5.3 TCV loan product offering

TCV offers a range of flexible loan products that can be arranged to meet the requirements of individual councils. The range includes:

TCV loan	Description
11am loan	A short-term loan product to be generally used by council to fund working capital and cash management requirements or alternatively to be drawn to fund specific project borrowings during the construction phase. The interest rate on a TCV 11am loan is variable and is determined with reference to the market cash rate and TCV's client lending fees. Interest on the 11am loan facility accrues daily and is payable on the first business day on the following month.
Term Floating Rate Note loan	Term Floating Rate Note loans are for fixed terms, however, the rate of interest paid is variable and may be reset monthly, quarterly, or semi-annually.
Term fixed rate loan	Term fixed rate loans include interest only (bullet style) loans with principal payable at maturity and amortising principal and interest (credit foncier) loans. TCV offers fixed rate loans for periods up to 15 years, while loan terms greater than this can be provided by special arrangement. Term loans can be structured to suit tailored drawdown and repayment profiles.
Flexible Rate Set Term loans	Flexible Rate Set Term loans are for a fixed term and coupon payment frequency and provide councils with the flexibility to set the interest rate at the floating rate benchmark rate or fix the interest rate for certain periods during the life of the loan. The Flexible Rate Set Term loan provides for multiple resets of the interest rate from floating to fixed, or from fixed to floating. Interest rate resets occur on coupon payment dates.

TCV will work with the council to determine the most appropriate structure to meet their needs.

5.4 Interest rates

TCV will provide borrowers with prevailing loan interest rate information at the time requested. It is important to note that TCV's loan interest rates are subject to market fluctuations and therefore the actual interest rate offered will be dependent on TCV's loan interest rate at the date of transaction execution.

The TCV loan interest rate is determined by the TCV yield curve which is primarily derived from observable TCV market funding rates across the maturity spectrum. Indicative 3-year and 10-year TCV bond yields are published monthly on TCV's website, www.tcv.vic.gov.au.

A sample of TCV's interest rates **as of 28 July 2021**, inclusive of TCV's lending fee, is detailed in the following table:

TCV 11am loan		0.265%	
Fixed rate loan, semi-annual interest payments		Credit foncier loan, semi-annual principal, and interest payments	
Term to maturity	TCV interest rate	Term to maturity	TCV interest rate
1 year	0.175%	1 year	0.180%
3 years	0.500%	3 years	0.345%
5 years	0.890%	5 years	0.610%
10 years	1.615%	10 years	1.165%
15 years	2.110%	15 years	1.590%

5.5 Lending and guarantee fees

The above interest rates include the TCV lending fee of 0.115%. No other lending fees such as establishment fees or ongoing service or facility fees are applicable.

In addition, a guarantee fee of 0.15% will be charged on council loans from TCV. The guarantee fee is charged by the State to recoup the cost of the guarantee provided to TCV.

6 Other services available to Victorian councils

6.1 TCV's other services

TCV can offer councils other services including treasury management and advisory, project advisory and economic services. An outline of these services is detailed below.

6.1.1 TCV treasury management services

The treasury management services that TCV is able to provide include:

- financial market updates
- debt, short term investment and cash management advice, including transaction execution
- debt portfolio management advice, valuations, and reporting
- debt portfolio performance monitoring and benchmarking
- interest expense forecasting and scenario analysis
- treasury policy development and or review advice.

6.1.2 TCV project advisory services

TCV's project advisory services team can offer councils an extensive range of financing advice and services. These services can focus on the specific financial evaluation and risk management aspects of a project and/or business plan. This can include determining the most appropriate funding solution for a business or project, when considering the cash flows of the business and relevant financial metrics.

The advisory team can also assist with investment evaluation and the development of sound business planning and/or business case viability, utilising a full range of sophisticated financial analysis tools including:

- cash flow modelling
- debt modelling and forecasting
- financial sustainability reviews
- risk and sensitivity analysis
- project viability assessments.

6.1.3 TCV economic services

TCV economic services can inform councils of developments in the economy and financial markets. This service can provide vital input into business planning and treasury strategy development.

TCV is able to provide periodic economic and financial updates and reviews, and invitations to regular economic briefing presentations.

6.2 Deposit and investment services

6.2.1 TCV deposits

In addition to TCV loans, TCV is able to offer councils a deposit taking service to assist with their cash management activities. The deposit facilities are simple to administer and structured to meet the needs of councils offering choices of investment term, interest rate setting mechanism and repayment schedule. Below is a list of TCV's deposit facilities:

TCV deposit facility	Description
11am deposit	11am deposits provide a highly liquid short-term facility for investing daily surplus cash balances. The interest rate on the deposit is calculated by applying an execution fee to the prevailing market cash rate. The accrued interest on 11am deposits is paid on the first business day of the following month.
Term deposit	Term deposits are for investment of short-term cash surpluses for periods up to 365 days. The interest rate paid is based on the agreed term to maturity and market interest rates at the time of the investment. Funds

	lodged as term deposits are available for repayment on the maturity date at which time the accrued interest is also paid.
Term Floating Rate deposit	A term floating rate deposit is a short to medium term investment that pays a rate which is calculated by applying a fixed margin to either the 90 day or 180-day bank bill swap reference rate for the term of the investment.
Structured deposit	Deposits arranged according to a council's specific cash management needs. Deposits can be structured to return principal and income flows in accordance with an agreed schedule that meets the council's cash flow requirements.

6.2.2 VFMC investments

As part of this framework, the Victorian Funds Management Corporation (VFMC) is available to councils for the investment of funds. Councils can contact VFMC for long-term investment products on the following email: info@vfmc.vic.gov.au.

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