

Access to funding through TCV – Your questions answered

In early September the State Government announced that “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.”

Following the announcement FinPro representatives met with representatives from LGV and TCV to discuss the proposed TCV loan to local government. On behalf of the sector, FinPro has welcomed the initiative from the state government and provided a list of questions that were collected from its members.

The discussion was productive, and several questions asked by our members were tabled with TCV / LGV. Thanks to TCV / LGV for providing the following answers:

Legend:

- DTF = Department of Treasury and Finance
- LGFV = Local Government Funding Vehicle (MAV scheme)
- LGV = Local Government Victoria
- LTFP = Long Term Financial Plan
- TCV = Treasury Corporation of Victoria

1. Timelines

Question: For Councils with the LGFV maturing in Nov 2021, would LGV/TCV consider making the 11am loan available before the borrowing facility is in place in Jan?

Answer: TCV is unable to provide loan facility to a council, 11am or otherwise, until the DTF credit assessment is finalised and the Treasurer’s approval for the borrowing limit has been provided. These requirements are scheduled to be finalised by the end of December 2021.

Question: For the councils applying for the loan in Jan 2022, when will the funds be available? How long is the "TCV loan agreement execution process"?

Answer: TCV loan funds can be made available from the first business day in January 2022 (2/1/2022) presuming the Treasurer’s approval has been provided for the borrowing limit, the TCV loan agreement and if required an intercreditor deed are executed and TCV’s client account onboarding requirements are finalised.

The TCV loan agreement specifies Conditions Precedent to drawing which will also require completion prior to the loan being drawn down. A Drawdown Notice is also required and is a schedule to the TCV loan agreement. The TCV loan agreement execution process is generally driven by the Council’s capacity to return the documents within a reasonable timeframe and the Council satisfying the drawdown condition precedent requirements. TCV highly recommends that councils complete TCV’s finance transaction documentation and onboarding requirements ahead of time, if it is a requirement that loan funds will be required early in 2022.

2. Process

Question: What borrowings requirements are collated by LGV? As loan structures can have a lot of variations, some clarity/examples would be much appreciated.

- **New borrowings**
- **Borrowing maturing during the financial year - if budget indicates refinancing? i.e. LGFV**
- **Floating rate loan (termination date is reviewed annually)?**
- **Current overdraft facility?**

Answer: LGV will survey councils annually prior to the finalisation of council budgets (March) to seek indicative new borrowings, rollover of existing borrowings and potentially other items. This data is for State level planning and budgeting purposes. LGV will then collate the planned new borrowings disclosed in council adopted budgets to confirm the sector's total planned new borrowings.

Question: What is the process for councils to apply for the loan? Is it a simple notification from the CEO or by council resolution? i.e., how many council meetings are required - one to apply and one to execute mortgage doc? Exact details will be required for planning of council meetings and wordings in council reports.

Answer: Following the credit assessment process DTF will notify councils of approval to borrow up to a specified TCV borrowing limit. Please refer above and to the guidelines for further information on the TCV application / onboarding process. It is expected that existing council processes (and delegations) in place to approve commercial loans would remain appropriate for TCV loans.

Question: Do councils need to adjust their procurement policy to allow for the borrowing from the statement government? Or the letter from the Minister is sufficient to waive the open tender requirement?

The *Local Government Act 2020* requires councils to adopt a procurement policy by 31 December 2021. The procurement policy will therefore determine the requirement for councils to test the market, or not, before borrowing from TCV. This is a matter for councils to determine at the local level.

Question: Are councils limited to the loan type they put in the budget? i.e. can they use 11am loan if their budget assumed a 10 year fixed rate P&I loan?

Answer: No. Subject to the legislative requirement for borrowings to be included in the budget or a revised budget (s.104) councils may consult with TCV to determine the most appropriate loan type to meet their needs at the time of formal application.

Question: What happens if a council budgeted for a loan but didn't take it, will the approval on the loan be carried over to the next year? Or the whole borrowing approval process resets every year?

Answer: Once endorsed in the council budget the borrowings are effectively approved. If the loan is not taken / drawn down the approval can still carry forward, noting that borrowing capacity remains subject to the DTF credit assessment.

3. Ratios/Rates

Question: Are there any credit assessment criteria and requirements in addition to the 2 financial ratio criteria?

Answer: Yes. The credit assessment uses a model which takes into account historic and budgeted items from the income statement and balance sheet to assess credit risk. The model used is similar to that used by banks and other lenders. The model is proprietary, and the specifics of the model are not for discussion or circulation.

Question: What if a council doesn't meet any of the credit assessment criteria due to COVID impact?

Answer: In general, councils have strong credit fundamentals and will be able to meet the financial ratio criteria set out in the program guidelines (including during the COVID period). If a council cannot meet the ongoing financial ratio criteria, there are likely to be other underlying issues besides COVID impact. Where a council does not meet the minimum credit requirements under the program the council will not be able to borrow from TCV. If this circumstance arises DTF will consult with the council to identify potential options. In this circumstance, the council has the option of borrowing from other lenders.

Question: Are the "maintenance of financial covenants" (page 10) refer to the 2 financial ratio criteria? They will probably need to be expressly mentioned in councils' LTFP.

Answer: This is probably more a question for LGV. It may however be worth highlighting that the financial covenants will be detailed in the TCV loan agreement and will be required to be calculated and reported back to TCV on an annual basis together with a certificate of compliance.

Question: What is the market cash rate? Where can we view the rate?

Answer: The interest rate on a TCV 11am loan is set with reference to market cash rates which are determined by the daily demand for and supply of cash in wholesale financial markets. Accordingly, the current cash interest rate applicable to a TCV 11am loan is 0.15%. The fees applied to a TCV 11am loan include TCV's 0.115% administration fee and the state's 0.15% guarantee fee. The total TCV 11am loan rate is therefore currently $0.15\% + 0.115\% + 0.15\% = 0.415\%$

The TCV 11am loan interest rate and other fixed or floating interest rates can be requested via email at treasuryclientservices@tcv.vic.gov.au

4. Term deposits

Question: When is the service available?

Answer: Immediately

Question: What's the process of getting quotes for interest rates?

Answer: Any requests for term deposit interest rates can be emailed to: treasuryclientservices@tcv.vic.gov.au

5. TCV's other services - Treasury management, project advisory and economic services

Question: Are they free to councils?

Answer: TCV does not generally charge fees for advisory services where the requirement is ad hoc or not extensive. An advisory assignment that has a specific scope is likely to incur a fee which will be based on TCV's standard \$250 per hour (plus GST) fee for advisory services.

TCV's Economic Services which includes publications and presentations are available to all councils and are complimentary.

Question: How do councils access those services?

Answer: Contact the TCV Treasury Client Services team on 9911 3636 or at treasuryclientservices@tcv.vic.gov.au to discuss your requirements.

6. Contact details for any future questions?

Question: When and whom does council contact for what - DTF, TCV and LGV?

Answer: LGV is available to field general queries about the loans framework. DTF will notify councils of approval to borrow up to a specified TCV borrowing limit and as noted will consult with councils if required for purposes of the credit assessment.

TCV is best placed to assist with technical loan details / queries and the client onboarding process.

For enquires regarding TCV loans, terms deposits and advisory services, please contact Treasury Client Services on 9911 3636 or at treasuryclientservices@tcv.vic.gov.au

Contact details for both LGV and TCV are available at

<https://www.localgovernment.vic.gov.au/council-innovation-and-performance/treasury-corporation-of-victoria-loans>