

Distribution Date: 25 June 2019

## 14.1 Early Repayment of Loans – release of additional Reserve funds (*File No. 12/02/0001*)

Author	Director Corporate and Performance
Authorising Officer	Chief Executive Officer
Disclosure of Interest	The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

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### OFFICER'S RECOMMENDATION

That Council amend the 2018/19 Annual Budget to include additional expenditure for the payment of loan repayment premium costs totalling \$618,606.00 to be funded from the Port Hedland International Airport Long Term Lease Proceeds Reserve account, resulting in a nil impact to the 30 June 2019 closing surplus.

*ABSOLUTE MAJORITY VOTE REQUIRED*

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### PURPOSE

The purpose of this report is for Council to consider the release of additional funds from the Port Hedland International Airport (PHIA) Long Term Lease Proceeds Reserve (Reserve) to cover additional loan repayment premium costs already paid by the Town (as per Council decision CM201819/178 at the 30 April 2019 Ordinary Council Meeting) from Municipal bank accounts (Municipal). The release of additional funds will prevent Municipal funds being overdrawn as at 30 June 2019, and assist with cash-flow management in the financial year ended 30 June 2020.

### DETAIL

At the Ordinary Council Meeting held on 30 April 2019, Council adopted the following two resolutions:

- 1) Approves early repayment of all loans currently held with WA Treasury Corporation by 30 June 2019 totalling \$24,352,070.12 inclusive of accrued interest expense, subject to change pending current day interest rates; and
- 2) Amend the 2018/19 Annual Budget to include expenditure for the payment of the loan principal and premium costs totalling \$23,951,183.35 to be funded from the Port Hedland International Airport Long Term Lease Proceeds Reserve account, resulting in a nil impact the to 30 June 2019 closing surplus.

The dollar values included in the resolutions were based on pricing provided by WA Treasury Corporation (WATC) on 8 April 2019 with projected settlement date of 14 June 2019.

On Tuesday 4 June 2019, the Reserve Bank of Australia announced an interest rate reduction of 25 basis points. This, along with the expectation of further rates cuts in the short-term influencing the final pricing received from WATC on 13 June 2019 with payment made on 18 June 2019. A summary of the final pricing and payment is outlined in the table below.

	Indicative	Final payment
Pricing date	08/04/2019	13/06/2019
Payment date	14/06/2019	18/06/2019
Principle	\$20,431,015	\$20,381,939
Accrued interest*	\$400,887	\$358,653
Early repayment premium	\$3,520,168	\$4,230,084
Total payment	<b>\$24,352,070</b>	<b>\$24,970,676</b>
Reserve funded	\$23,951,183	\$23,951,183
Municipal interest*	\$400,887	\$400,887
Municipal premium funded		\$618,606
Total payment	<b>\$24,352,070</b>	<b>\$24,970,676</b>

\*Note that a scheduled loan repayment occurred between 14/06/2019 and 18/06/2019 meaning that the interest expense funded by Municipal remains at \$400,887.

Whilst the first motion approved by Council on 30 April 2019 provided for a change in the final payment value due to interest rate movements, the second motion did not. The additional payment of \$618,606 has been funded from Municipal. It is requested that Council approve the release of additional funds from the Reserve account to assist with cash-flow management as at 30 June 2019 (FY2019) and continuing into financial year ended 30 June 2020 (FY2020). It should be noted that the Municipal bank account has been impacted by Tropical Cyclone Veronica, with a material outflow of funds in the last quarter of FY2019 which is not expected to be recouped via disaster recovery funding until the December quarter of FY2020.

### ***Additional information***

WATC provided the following explanation regarding the movement in the early repayment premium.

*“...since the analysis and report was undertaken there has been a sustained decrease in long term interest rates on financial markets due to growing expectations that the Reserve Bank would move into another interest rate easing cycle. In particular, Port Hedland’s debt portfolio has approximately a 12.5 year weighted average term to maturity at present, and the interest rates for a 12.5 year loan has fallen from approximately 2.75% at end February to 2.1%. As a result, the premium in the market valuation to payout the loans early has increased by approximately \$765,000 as reflected in the updated market valuation provided today.”*

*“The same also applies to future earnings that Port Hedland would expect to earn on short-term investments. The RBA cut interest rates on 4 June by 0.25%, and the market*

*has fully priced in another 0.25% cut within 2 months. This will in turn impact Port Hedland's term deposit rates as these mature over the coming months."*

The repayment of the Town's loan portfolio on 18 June 2019 realised the main intent of the original decision approved by Council on 30 April 2019. The repayments on all loans achieved positive internal rates of return when compared to current term deposit rates and repayment continued to meet the requirements of the Town's policy 2/018 on Borrowings. Achieved internal rates of return on loans repaid range from 2.26% to 2.89%.

It should be noted that the most recent term deposit entered into by the Town was for 2.05% for six months, with rates offered in the range of 1.8% to 2.05% (previous term deposit rates in the order of 2.65% to 2.9%). This is consistent with the comment above made by WATC.

#### LEVEL OF SIGNIFICANCE

In accordance with Policy 4/009 'Significant Decision Making', this matter is considered to be of medium significance. Whilst the additional payment has already been funded from Municipal accounts, the release of additional funds from the Reserve will assist with management of cash-flow requirements for the Town.

#### CONSULTATION

##### *Internal*

- Elected members at confidential briefing on 19 June 2019.

##### *External Agencies*

- WA Treasury Corporation – advisory section.

##### *Community*

Community consultation is not deemed necessary for this matter.

#### LEGISLATION AND POLICY CONSIDERATIONS

Section 6.8(1)(b) of the *Local Government Act 1995* requires that a Local Government is not to incur expenditure from its municipal fund for an additional purpose except where the expenditure is authorised in advance by resolution. This was achieved by resolution of Council CM201819/178 for 'Early Repayment of Debt' at the Ordinary Council Meeting held on 30 April 2019.

This recommendation also complies with Town of Port Hedland policy 2/018 Borrowings with states the following:

*"Any loan can be paid off in full where it can be demonstrated that there is a significant benefit to the Town. Any retirement of debt will not occur without approval from Council. The final payment will include the principal outstanding, interest accrual to date and*

*the premium cost for breaking the loan contract. The decision to pay off a loan will be based on economic viability and will be analysed on a case to case basis.”*

#### FINANCIAL AND RESOURCES IMPLICATIONS

The proposed additional funds to come from the Reserve have not been allocated to any specific project via an adopted Long-Term Financial Plan. Funds in the Reserve have not been designated for any specific purpose to date.

The release of the additional funds from the Reserve will assist cash-flow management for both FY2019 and FY2020.

#### STRATEGIC AND SUSTAINABILITY IMPLICATIONS

The following section of the Town's Strategic Community Plan 2018-2028 is applicable in the consideration of this item:

*4.b.1* Sound long-term financial planning is implemented

There are no significant identifiable environmental or social impacts relating to this item.

#### *Corporate Business Plan*

The following action of the Town's Corporate Business Plan 2018-2022 apply in relation to this item:

- 4.b.2.1 – Ensure the Town's finances are managed efficiently and effectively in line with legislated requirements.

#### RISK MANAGEMENT CONSIDERATIONS

There is a financial risk associated with this matter due to the large dollar value. Applying the risk matrix, the risk rating is considered to be low (4), which is determined by a likelihood of rare (1) and a consequence of major (4).

The primary risk is that the additional money release from the Reserve is required in the short to medium term for another purpose. As there will be \$143M remaining in the Reserve, the likelihood of this occurring has been assessed as rare.

#### OPTIONS

*Option 1 – Adopt officer's recommendation*

*Option 2 – Amend officer's recommendation*

Council may consider reducing the amount released from the Reserve.

*Option 3 – Do not adopt officer's recommendation*

## CONCLUSION

It is recommended that an additional amount of \$618,606.00 be released from the PHIA Long Term Lease Proceeds Reserve to cover the additional loan repayment premium paid on 18 June 2019 (currently funded from Municipal). Releasing the additional funds will assist with cash-flow management and prevent Municipal bank accounts being overdrawn at 30 June 2019.