

# City of Busselton

*Geographe Bay*

COUNCIL AGENDA

## **SUPPLEMENTARY ITEM**

*23 February 2022*

ALL INFORMATION AVAILABLE IN VARIOUS FORMATS ON REQUEST

[city@busselton.wa.gov.au](mailto:city@busselton.wa.gov.au)

**CITY OF BUSSELTON**

**LATE ITEMS FOR THE COUNCIL MEETING TO BE HELD ON 23 FEBRUARY 2022**

**TABLE OF CONTENTS**

<b>ITEM NO.</b>	<b>SUBJECT</b>	<b>PAGE NO.</b>
<b>16.</b>	<b>FINANCE AND CORPORATE SERVICES REPORT .....</b>	<b>3</b>
16.1	Budget Amendment - Additional Loan Facility .....	3

## **16. FINANCE AND CORPORATE SERVICES REPORT**

### **16.1 Budget Amendment - Additional Loan Facility**

<b>STRATEGIC THEME</b>	LEADERSHIP - A Council that connects with the community and is accountable in its decision making.
<b>STRATEGIC PRIORITY</b>	4.5 Responsibly manage ratepayer funds to provide for community needs now and in the future.
<b>SUBJECT INDEX</b>	
<b>BUSINESS UNIT</b>	Finance and Corporate Services
<b>REPORTING OFFICER</b>	Director Finance and Corporate Services - Tony Nottle
<b>AUTHORISING OFFICER</b>	Director Finance and Corporate Services - Tony Nottle
<b>NATURE OF DECISION</b>	Executive: Substantial direction setting, including adopting budgets, strategies, plans and policies (excluding local planning policies); funding, donations and sponsorships; reviewing committee recommendations
<b>VOTING REQUIREMENT</b>	Absolute Majority
<b>ATTACHMENTS</b>	Nil

### **OFFICER RECOMMENDATION**

That the Council agrees to:

- 1. Amend the 2021/22 Annual Budget to borrow a further \$10 million over a period of up to 20 years for the purposes of funding the construction of the Busselton Performing Arts and Convention Centre; and**
- 2. Authorise the CEO to advertise Council's intent to borrow \$10 million in the 2021/22 financial year to fund the Busselton Performing Arts and Convention Centre over a period of up to 20 years in accordance with Section 6.20(2) of the Local Government Act 1995.**

### **EXECUTIVE SUMMARY**

The 2021/22 Annual Budget has allocated an amount of \$10 million in borrowings for the Busselton Performing Arts and Convention Centre (BPACC) Project. These loans (two separate \$5 million loans) have been taken out with the Western Australian Treasury Corporation (WATC) in January 2022.

Council requires (up to) an additional \$16.5 million in loan funds to complete the Busselton Performing Arts and Convention Centre (BPACC). Data surrounding interest rates indicates a rising trend and therefore this report seeks Council's approval to amend the City's Annual Budget to draw down the bulk of these additional funds within the 21/22 year and to undertake associated administrative processes.

### **BACKGROUND**

In the 2020/21 financial year, Council had anticipated the commencement of the BPACC Project and allocated in the 2020/21 Annual Budget a \$7.5M loan to meet funding requirements. The project was subsequently delayed and as a result, the City did not borrow the funds.

Council adopted its 2021/22 Annual Budget (Budget) on the 26 July 2021. Included within the Budget was the capital project for the Busselton Performing Arts and Convention Centre (BPACC) which included loan borrowings to the amount of \$10 million. At its meeting on the 24 November 2021, Council awarded tender RFT 22/21 Construction of the BPACC, to Broad Construction with a

construction contract value of \$38 million. As outlined in the report the City will fund the project with borrowings of up to \$26.5 million.

In accordance with the Budget, City staff have already undertaken the necessary applications and provided information to the WATC to establish the budgeted \$10 million loan facility for the BPACC.

As a result the City executed two loan facilities on 24 January 2022 for the BPACC project as follows:

1. Loan 225 - \$5 million over 10 years at a fixed interest rate of 2.099%
2. Loan 226 - \$5 million over 15 years at a fixed interest rate of 2.3855%

During the development of the Budget, the goal was to maximise savings by utilising low interest rates and only taking out the loan when the funds were required. This was to be regularly reviewed while City staff monitored the indicative interest rates from the Western Australian Treasury Corporation (WATC). It appears through this monitoring that interest rates are on the rise and given the City has the ability to lock in interest rates for the life of the loan, it would be prudent to consider borrowing the remaining funds as soon as possible to avoid cost escalation of borrowing costs.

#### **OFFICER COMMENT**

Analysts are predicting up to four interest rate rises in the next 12 months, and Reserve Bank Governor Philip Lowe stated on 2 February 2022 in an interview with the Sydney Morning Herald:

*"...Interest rates will go up. And the stronger the economy, the better progress on unemployment, the faster and the sooner the increase in interest rates will be."*

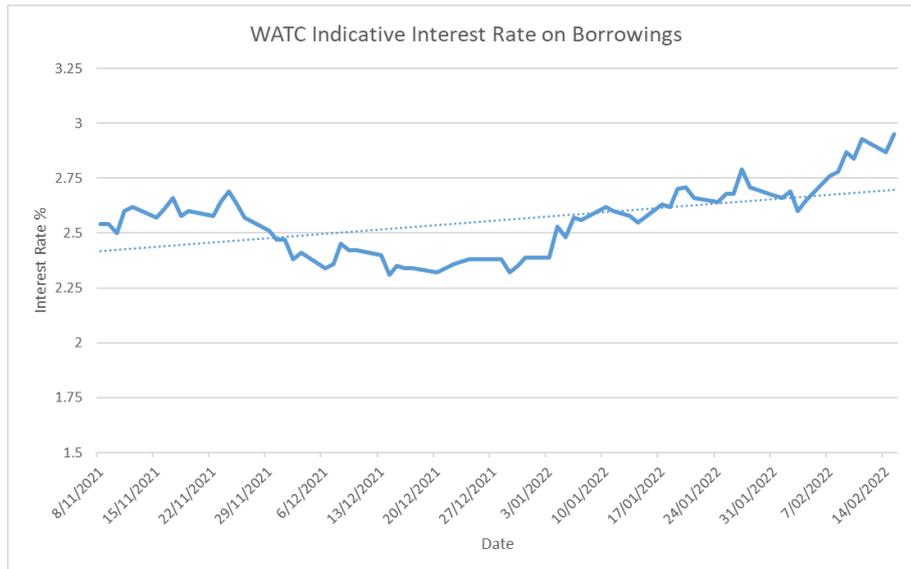
The benefit that the City has when borrowing from the WATC is that the interest rate is fixed for the life of the loan. It therefore makes sense to lock in future borrowings required for the BPACC Project as soon as possible.

As at 15 February 2022, the WATC current indicative rates for 10, 15 and 20 years are as follows:

10 years	2.48%
15 years	2.75%
20 years	2.95%

The City's Draft Long Term Financial Plan (LTFP) has factored in an estimated interest rate of 3% for the remaining \$16.5 million required to fund the project. There is a risk that interest rates will continue to rise throughout the year, which in turn could see a higher interest rate applied to the remaining borrowings.

An upward trend has occurred in the period from November 2021 to February 2022 based on the WATC indicative interest rates as depicted in the graph below.



In order to reduce the risk of escalating interest rates, Council is requested to consider applying for a further \$10 million in loan funding within the 2021/22 financial year, rather than waiting to include this funding in its 2022/23 annual budget as per the original funding plan. Council would be required as per Section 6.20(2) of the Local Government Act 1995 to advertise of its intention to borrow any funds that were not included within its adopted budget.

Council is requested to consider borrowing over a period of up to 20 years, to allow for potential long term savings, should a shorter term be manageable.

As the City aims to reduce the amount of borrowings required where possible and is still waiting on the outcomes of some grant funding applications, it is proposed that only an additional \$10 million be borrowed this financial year. The remaining \$6.5 million can be considered during the development of the 2022/23 Annual Budget, subject to grant funding that may reduce the amount. Council could also supplement this with the use of its existing cash Reserves.

### **Statutory Environment**

Section 6.20 (1) allows a local government to borrow money or obtain credit to perform its functions.

To meet statutory requirements, Council must agree by absolute majority to amend the budget to include additional loan borrowings of \$10 million and associated loan repayments and must also advertise Council's intentions for a period of one month.

### **Relevant Plans and Policies**

Borrowing costs for the BPACC Project are in line with previous and draft Long Term Financial Plan projections.

Council's Loan Facilities Policy section 5.8 states that the Council will not borrow funds if the Debt Service Coverage Ratio (Debt Ratio) is outside the basic standard prescribed by the Department of Local Government, Sport and Cultural Industries (the Department).

As at 30 June 2021 the City's Debt Ratio was 5.824. The estimated projected Debt Ratio with the full \$26.5 million predicted loan borrowings as per the draft LTFP for the BPACC Project is 3.02. This estimated result falls well above the Department's minimum standard of 2.0.

### **Financial Implications**

As City staff executed Loans 225 and 226 (\$10 million in total) in the second half of the financial year, there is a saving of approximately \$270,000 for payments not required in the first half of 2021/22. Therefore no additional costs will be incurred in 2021/22 to service the proposed new loan of \$10 million.

At an estimated interest rate of 2.95% over 20 years, the loan repayments would cost approximately \$165,930 per quarter. The loan would be taken out towards the end of the financial year, therefore the City would only need to service one payment for the 2021/22 financial year. As previously mentioned in the Officer Comment, should a shorter term be deemed manageable, this may save the City over the term of the loan in interest payments.

Dependent on the new loan repayment schedule, the payments on this new loan would be met by the existing reserve transfers and allocated for in future budget commitments.

### **Stakeholder Consultation**

Council would be required to advertise its intention to borrow for a period of 1 month. Any submissions would be considered by Council.

### **Risk Assessment**

An assessment of the potential implications of implementing the officer recommendation has been undertaken using the City's risk management framework, with risks assessed taking into account any controls already in place. The following risks have been identified:

Interest rates will rise causing additional cost to the City over the life of the loan.			
<b>Risk Category</b>	<b>Risk Consequence</b>	<b>Likelihood of Consequence</b>	<b>Risk Level</b>
Financial	Minor	Likely	Medium

Interest rates could potentially cost the City approximately an additional \$305,000 in interest and fees over the life of the loan, should the interest rate increase by 0.25% off original estimates. To minimise this risk, the City could lock in a loan early to ensure a spike in interest rates does not cause excessive costs to the City.

### **Options**

As an alternative to the proposed recommendation the Council could:

1. Choose to wait until the 2022/23 financial year to include sufficient loan borrowings to complete the BPACC Project. This is not recommended due to the additional cost that is likely to occur as interest rates rise.
2. Consider borrowing an alternate amount

### **CONCLUSION**

Council is therefore requested to approve a loan for \$10 million over a 20 year period within the 2021/22 financial year to reduce the risk of increasing interest rates and costs to the City. Any payments associated with servicing the loan can be covered in the 2021/22 budget. Should Council agree to the officer recommendation, the advertising of the Council's intention for a period of 1 month would be required.

**TIMELINE FOR IMPLEMENTATION OF OFFICER RECOMMENDATION**

Advertising for a period of 1 month would be required prior to Council giving final approval to borrow \$10 million. Following final approval City staff would execute the paperwork with the WATC within 3 – 5 working days.