



TOWN OF PORT HEDLAND

SPECIAL COUNCIL MEETING MINUTES

TUESDAY 25 AUGUST 2015 AT 7:30PM

**COUNCIL CHAMBERS, MCGREGOR
STREET, PORT HEDLAND**

Agenda Items:

Port Hedland International Airport

- *Adoption of the Business Plan (Port Hedland International Airport Long - Term Lease Business Plan)*
- *Long-Term Lease (Award of Tender 05/15 Long-Term Lease of Port Hedland International Airport)*
- *Long-Term Lease Recommendations (Port Hedland International Airport Long-Term Lease – Wealth Management Strategy Framework)*

**“A nationally significant, friendly city that people
are proud to call home”**

*M.J. (Mal) Osborne
Chief Executive Officer*

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ITEM 1 OPENING OF MEETING

The Mayor declared the meeting open at 7:33 pm.

ITEM 2 ACKNOWLEDGMENT OF TRADITIONAL OWNERS

Mayor acknowledged the traditional owners, the Kariyarra people.

ITEM 3 RECORDING OF ATTENDANCE**3.1 Attendance***Elected Members*

Mayor Kelly Howlett
Councillor Gloria Jacob
Councillor George Daccache
Councillor Jan Gillingham
Councillor David Hooper
Councillor Julie Hunt
Councillor Lorraine Butson
Councillor Troy Melville

Officers

Mal Osborne	Chief Executive Officer
Sid Jain	Director Corporate Services
Brendan Smith	Director Works and Services
Chris Linnell	Director Community and Development Services
Peter Kocian	Executive Officer
Brett Reiss	Acting Airport General Manager
Josephine Bianchi	Governance Coordinator/Minute Taker

Public	34
Media	1
ToPH officers	13

3.2 Apologies

Nil

3.3 Approved Leave of Absence

Nil

ITEM 4 PUBLIC TIME

Important note:

'This meeting is being recorded on audio tape as an additional record of the meeting and to assist with minute-taking purposes which may be released upon request to third parties. If you do not give permission for recording your participation please indicate this at the meeting. The public is also reminded that in accordance with Section 6.16 of the Town of Port Hedland Local Law on Standing Orders nobody shall use any visual or vocal electronic device or instrument to record the proceedings of any meeting unless that person has been given permission by the presiding member to do so.'

Mayor opened Public Questions Time at 7:35pm

4.1 Public Question Time**4.1.1 Ms Jan Ford on behalf of Port Hedland Progress Association**

Has the Town of Port Hedland and Council advised the consortium partners of the commitment between the Town of Port Hedland, the community and the owners of Port Hedland Airport Transient Accommodation village known as Port Haven village, for an international university to be built on the airport land which is known as Port Haven and is a 1100 man camp? This was part of the overall vision for Port Hedland back in around 2007-2009 when that negotiation took place.

Mayor advised that there is no such agreement in place with the community or with the town or the current owners of the facility, however the Town has mentioned to the consortium that people are talking about a potential university and that is a discussion to be had with the whole community as the sighting of that facility is considered.

With all due respect Madam Mayor the question was about the commitment.

Mayor advised this was not conveyed in the 2008 minutes of the meeting of which the Town has copies.

I was referring to the 2007 negotiations, however, bearing in mind that there is no agreement but there is an intent, will the intent for the Port Hedland International University at Port Haven at the end of the lease in 2019 be part of the lease document with the lessees in tonight's agenda?

Mayor advised in the negative.

4.1.2 Mr Richard Whitwell

The Town now has the results from the public bids; has it therefore compared the public against the private management of the airport in terms of its internal rate of return?

Mayor advised that all considerations are detailed in the agenda item.

Executive Officer advised that some modelling was completed a few years ago in terms of the requirement to complete a competitive neutrality review for the airport and that indicated a 7% to 9% target rate of return on the airport.

I asked whether you had done an analysis and comparison of private and public management of the airport in terms of internal rate of return since you now have a market bid which makes it possible.

Executive Officer advised the Town has not undertaken a comprehensive review of the internal rate of return versus what it would be under a private governance arrangement. In terms of the assessment that has been completed to date, that was based on the valuation of the airport which was provided to the community at a forum over the last 2-3 weeks outlining four different methodologies in terms of valuation.

I have seen that the Town's latest press release does not mention the \$90M investment; has this 'gone from the plate'?

Chief Executive Officer advised the lease requirements that were put to the market included \$40M to be spent within the first five years on a range of capital projects. The \$90M figure quoted was the balance of the Town of Port Hedland 10 year capital campaign, of which we are in the third year now. In terms of lease documentation there was a requirement for the bidders to support and acknowledge a requirement to spend \$40M on a range of projects in the first five years of the lease. The Town has regularly said that its total capital campaign initially was \$105M over 10 years, and always said that as part of the lease requirements there would be requirement for the bidders to indicate how they would commit to a \$40M capital campaign in the first five years.

The current modelling shows that the Town will have to spend \$90M.

Mayor advised that figure was on the basis of the Town of Port Hedland undertaking this work and within its own timeframe; a comparison is not possible in this instance, as it is between two different matters.

There is an issue where the Town has said that it is going to spend money on community development type work as a static amount, but this appears to be odd because if all these are nominal amounts, then the Town is actually depleting the reserves in that area. Is this right in real terms?

Chief Executive Officer advised that agenda item three provides for a potential wealth management framework, there is a model that will be demonstrated this evening and will go out for public comment, but not until after the October 2015 elections. The new Council will therefore make a determination on the framework or on any other investment mechanism it believes to be appropriate.

Executive Officer advised that the community grants component of the framework has a 3% indexation, however the model has nominal values only at this stage as it was put out for illustrative purposes. The framework will be developed over a six month period subject to Council's resolution tonight in consultation with the community, elected members and the WA Treasury Corporation. At this stage the model demonstrates that the fund will be depleted over a 50 year period.

4.1.3 Mr Arnold Carter

In relation to the terminology on page 51 of this agenda, the first paragraph under the Next Steps section states "non-material issues"; what does this mean?

Chief Executive Officer advised that what normally happens with any contractual resolution of Council is that sometimes there might be some final wording to be resolved, or non-major issues that would not affect the final resolution of Council but nevertheless need to be resolved. One of the recommendations tonight allows for the Mayor and CEO to make some of those minor changes, sometimes it's the legal wording, such as contract wording. Non-material means that the value or the basic principles of the legal documentation will not change, but there might be additions or deletions to the wording.

Page 66 of the agenda states that 'a deposit of 5.5% of the overall purchase price will be payable upon execution of the Agreement for Lease'; when will this take place exactly?

Chief Executive Officer advised that the agenda refers to the deposit being paid on execution of agreement for lease. Once that document has been signed by the Chief Executive Officer, the Mayor and the bidders, and common sealed, it then becomes a contractual document and at that stage the deposit will be due and payable.

4.1.4 Mr Jim Henneberry on behalf of Port Hedland Progress Association

Page 55 of the agenda states the transaction value of the bidding as \$165M for the lease premium. I thought that TAG would get paid their commission and bonus based upon this figure, but the capital expenditure for the \$40M upgrade of airport has been included in that as well, so the Town is now paying them another \$800,000 fee, and instead of \$3.7M they are getting \$4.5M. Why are we paying the fee on the capital and not on \$165,000?

Chief Executive Officer advised that Council's resolution from 22 April 2015 stated that the first part of the fee payable is 2% on the total transaction value. The second part of the resolution talked about negotiations of a success fee, which was a step fee. The Town has taken legal and commercial advice on how this fee could be constructed. The \$40M capital investment required has always been considered to be part of the total transaction value.

Mayor closed Public Question Time at 7:48pm

Mayor opened Public Statement Time at 7:48pm

4.2 Public Statement Time

4.2.1 Mr Jim Henneberry on behalf of Port Hedland Progress Association

We are seeking a Councillor to move an amendment to tonight's agenda item 7.1.2 recommendation 2. We are requesting the addition of a point i) to be worded as follows: "that the lease is awarded only if the area of land adjoining the Port Haven Village being not less than 30 hectares be sublet on a peppercorn rental for 50 years, for the use of a university campus "to the Port Hedland International University Trust" a private trust to be run by an appointed board.'

4.2.2 Ms Jan Ford

My grandfather was a Lockyer and an Englishman, an explorer to this area and my grandmother was a sixth generation local person that spoke 16 dialects from Roebourne. My grandfather was from a privileged background and at the age of six was removed very sadly from a station to go to Perth to seek private education. My grandmother was not so privileged and she left at 16 to further her nursing career after she had proven as a local that she was not able to be accepted as a nurse because she was not the right colour. I was brought up with those two grandparents and was very fortunate to have an entrepreneurial father who bought me not one but two sets of encyclopaedias in the 1960s. It was the time when Charles Court was our Minister for Regional Development and he worked very heavily to have a moratorium lifted so Western Australia would export iron ore overseas. The fear was that if Japan was involved in iron ore trade they would use that iron ore and come back and bomb us. My grandparents were forward thinking, they told me many stories of leaving their beloved North, and as a young child I understood both cultures and what it meant to them. At the age of 18 on the 4 January 1974 my dreams came true as I jumped on my first flight to Port Hedland; there was no accommodation for me. I moved on to Darwin, in those days one could fly from Darwin to Port Hedland. And today I flew again from Perth to Karratha checked out their new airport which looks great, and then to Port Hedland. On this flight I sat next to a girl on her way to Darwin and I was reminded as I heard her talk about walking on this land about what walking on this country really means to people that really belong to this area. Now those encyclopaedias that my father bought me, an English set and an American set, so I would not get a biased education, were so I could learn the history and know that Charles Court designed tertiary education and big cities so we would not just be a quarry mining iron ore when I would become a grandparent. Sadly we are a quarry mining iron ore. Happily I am a grandparent. I sat with my grandchild today he is 9 years old turning 10 and he said to me: "Granny you make sure you tell Mayor Kelly that I want to be a palaeontologist. Make sure that you tell her so she knows why. And if those people are going to give you a big new airport like Karratha is getting, make sure that I can go to university like you promised, and like she promised, to be a palaeontologist. Because I want to study those dinosaurs and I want to invent bionic limbs so that people that lose their limbs from shark attacks can run and move like a dinosaur and I know that I will learn that at university."

Thank you people, this is not a question to consider, it is an obligation that we have as Western Australians.

4.2.3 Arnold Carter

I have been considering the airport lease for the past three to four months and the reasons as to why it should go ahead. After spending a few hours this morning with the Town's Executive Officer I wondered why the financial modelling information he presented me with had not gone out into community earlier. For me, it solved many problems I had with this lease and answered many of my questions. The information is beneficial for the Town of Port Hedland and all Councillors should consider this carefully tonight.

4.2.4 Camilo Blanco

Councillors you would have received the legal advice on behalf of the ratepayers association. There are numerous issues that the association is concerned about. The lease agreement has not followed the requirements of the Local Government Act, the business plan has failed to supply the relevant information that is required for the disposal of this asset, not only is this a major land transaction but it is also a major business undertaking which requires a business plan in itself. The business plan did not address how this deal would affect existing facilities, did not specify what machinery, fixtures or fittings, or going concerns are also to be included in the lease, or the value of those additional facilities, no review on the expected effects to existing operations within the town because of the lease, no evidence to the financial effects on the town or the local community.

In tonight's agenda there seems to be some clarification on these issues raised, but that's a bit late, these issues should have been included in the business plan. All through this process there has been specific conversation about the binding bid. The \$40M investment into the airport redevelopment by the bidder was an extra sum, they had to invest that \$40M on top of the bid. So the media release suggesting a \$200M+ deal is misleading to the people that attended those airport meetings.

The Town suggested the people working at the airport would be retained by the new operator but there is no guarantee of contracts that would match or exceed their current working conditions.

There is specific mention of the intention to retain a senior manager who has not been part of the decision making process because of conflict of interest, so I wonder why he has attended meetings with legal advisors about the airport long term lease; that is written in the freedom of Information documents I have received in relation to this officer's credit card expenditure.

There are some problems in the business plan and recommendation 2 in tonight's agenda. The business plan, page 34 of the agenda, has the airport boundary from Great Northern Highway moving into Kingsford estate, cutting out the first five blocks 401, 402, 403, 404, 405. The deposited plan 402661 refers to lots 15,16,29,436,9000,9001,9002 and 9003, yet the current Landgate deposited plan 402661 only refers to lots 401 to 405, 4012, 436, 9000 to 9003. Lots 15, 16 and 29 are not even on the Landgate deposited plan, yet they are included in tonight's recommendation. The recommendation has those blocks included in the revised plan in recommendation two that is displayed on page 41 of the agenda. The business plan includes all of lots 9003 up to Altitude Road in Kingsford Business Park. This would include 6 lots within the Kingsford Business

Park subdivision plan that would mean lots 406 to 11 are now excluded from the advertised business plan. These lots have a significant commercial value, in the order of millions of dollar and have a total area of approximately two hectares. This significant change should require re-advertising of the business plan.

This whole process has been rushed and I object to the special meeting proceeding due to the lateness of notice, lateness of the agenda report and response being awaited from the Minister for Local Government on the legal advice sent by the Ratepayers Association. I am requesting immediate deferment of this matter to the next available Ordinary Council meeting to enable due consideration of the content of the Chief Executive Officer's recommendations in depth. The multitude of issues that are unresolved in the legal advice could potentially divert any liability and risk of litigation on to our town. It is your responsibility to ensure the best possibly outcome is achieved.

Mayor advised Mr Blanco as follows: 'In response to some of the misinformation in your statement, I can advise that the Town has received information and documentation that the process followed has been compliant with the Act, and that the business undertaking provisions need not be applied to this transaction, as it is in regard to land. In terms of staff, the consortium have met with staff today and there was an undertaking to continue working with staff at both management and grass roots level.'

With regard to timing, as per my response to you in my email today, you were notified as part of the meeting that councillors attended with the Port Hedland Progress Association and the Ratepayers Association on 27 July that the meeting would be today. Since then the Town has advertised and promoted the meeting on a number of occasions, so nearly one month's notice has been given in regard to tonight's meeting. On Thursday a community notice was sent out in relation to the agenda items being available on Friday, and the agenda in full was made available on Friday but much of its content was discussed at the community information event on 17 August. In relation to comments from Mr Blanco wanting the Town to wait to receive a response back from the Minister, the Town has spoken to the Minister's office and the Department of Local Government today, even as late as 6pm, and no red flags were raised. Further a letter is being drafted from the Minister for Mr Blanco confirming the same.'

Mayor closed Public Statement Time at 8:06pm.

ITEM 5 QUESTIONS FROM MEMBERS WITHOUT NOTICE

5.1 Councillor Gillingham

Why was the agenda for this meeting difficult to access from Friday up to Monday?

Mayor advised that there have been no reported issues on this matter and that it might depend on internet speed.

I spoke to the Department of Local Government and they told me they could not access it.

Mayor advised that nothing had been reported and that the Town had been liaising extensively with the Department and nothing had been raised in relation to this.

Today I was asked to attend a meeting at 3pm at the airport as a staff member of the Port Hedland School of the Air. I don't know what the meeting was about as I did not go, I am gathering by your comments a little while ago that the consortium met with staff out there. Would it have been something to do with that?

Mayor advised that there were two meetings, one at 2:45pm that was just a meet and greet with staff, and another meeting just after 3pm with all stakeholders and users such as Royal Flying Doctors Services and car hire agencies. The commitment was that once tonight's decision is made, that would be communicated to everybody and taken from there.

Have staff at airport been briefed over the past 18 months as to what has been happening with the airport lease proposal?

Mayor advised that a number of briefings have taken place.

Why then, when I contacted staff at airport from MSS security today did they say that this is the first contact they have had?

Mayor advised that she is unsure as to whom the individual invitations were addressed to, but she confirmed that the complete user group and all stakeholders have had briefings at various times. There has been extensive consultation.

Chief Executive Officer advised that together with the Program Director he has had many meetings with Town of Port Hedland staff and they have talked about future opportunities and about their ongoing employment being protected within the draft lease.

For other contracted parties at the airport, all existing leases will be novated over if the Council goes ahead with this agreement tonight. If so, the existing contracts will continue on their current terms until their leases expire.

I would like to know why MSS is stating they had only been contacted for the first time today.

Mayor advised that this is incorrect and that she will provide Councillor Gillingham with relevant information.

5.2 Councillor Butson

Page 15 of this agenda states 'Included within the proposed terms of lease is the specific requirement for the airport lessee company to undertake \$40M in airport capital development including aeronautical infrastructure such as the runway, taxiways and the terminal redevelopment within the first 5 years of the lease'. This expenditure is not itemised; what will be spent on each item?

Chief Executive Officer advised this page contains responses to when the business plan was advertised.

Acting General Manager Airport advised that programs that form the base of the \$40M over 5 years, those programs have been set as a guide to the lessee company. The Town's budget for the total terminal redevelopment was \$25M.

What about the runways?

Acting General Manager Airport advised that on top of the terminal redevelopment there were other key items such as the strengthening of the apron bays for about \$1M, the taxiway for approximately \$4.7M, the ground transport for about \$2M, and other components for airfield, lighting and the like at about half a million dollars.

Have all business owners been contacted at the airport?

Mayor advised in the affirmative.

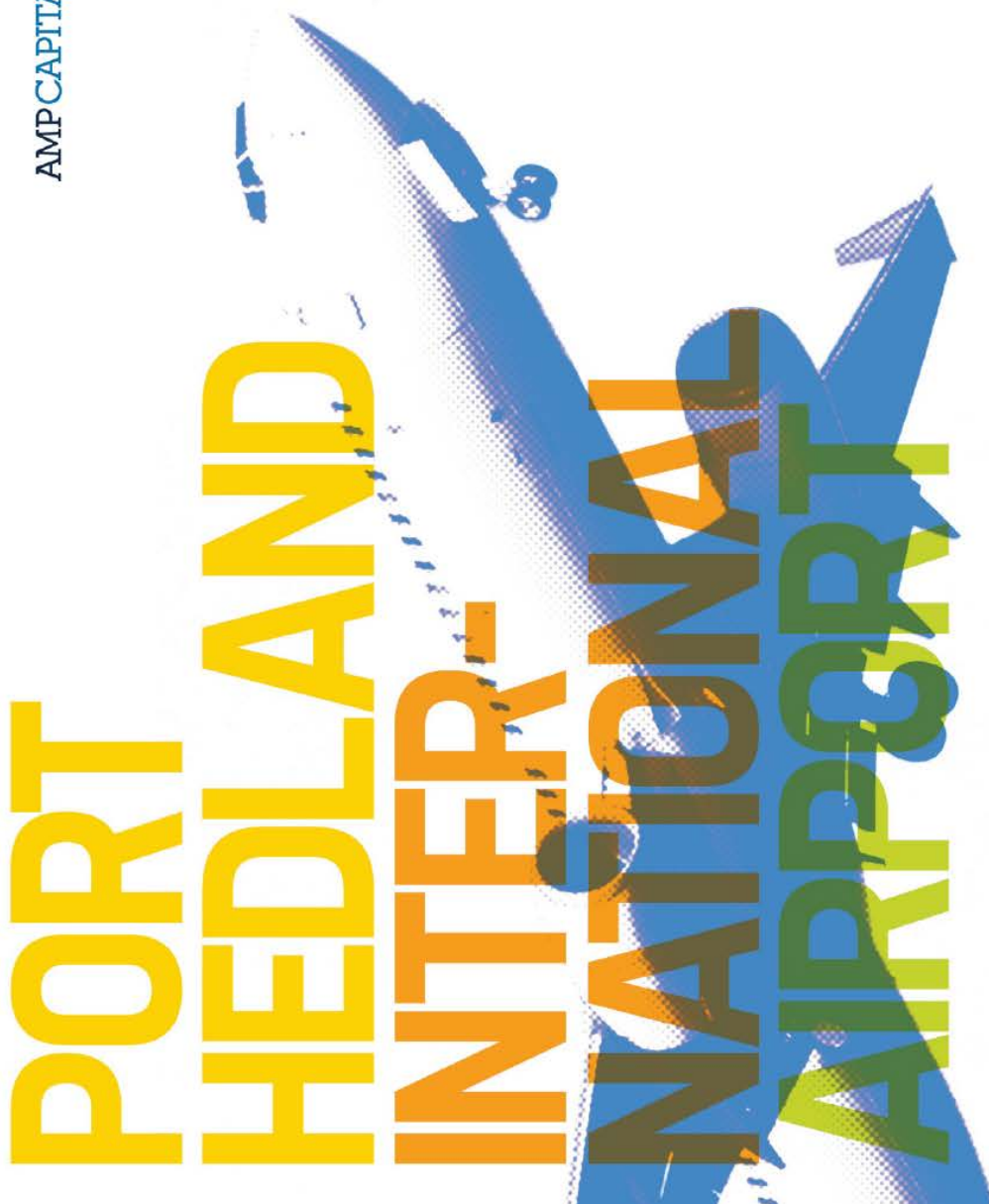
Mr Butson told me that he had not been contacted.

Mayor advised that information to this regard will be provided to Cr Butson.

ITEM 6 DECLARATION OF ALL MEMBERS TO HAVE GIVEN DUE CONSIDERATION TO ALL MATTERS CONTAINED IN THE BUSINESS PAPER BEFORE THE MEETING

Mayor Kelly Howlett	Councillor Hooper
Councillor Jacob – Deputy Mayor	Councillor Hunt
Councillor Daccache	Councillor Butson
Councillor Gillingham	Councillor Melville

DEPUTATION FROM AMP CAPITAL AND INFRASTRUCTURE CAPITAL



Consortium representatives

AMP Capital and ICG are delighted with the opportunity to discuss the lease of the Port Hedland International Airport and outline their vision for the region's future



JOHN CLARKE

Proposed Director



PHIL BAKER

Proposed Director



SUNNY YU

AMP Capital
Proposed Director



MICHAEL BESSELL

Head of Origination and
Segregated Accounts,
AMP Capital



TOM LAIDLAW

Managing Director,
Infrastructure Capital Group



JIREN ZHOU

Associate Director,
AMP Capital

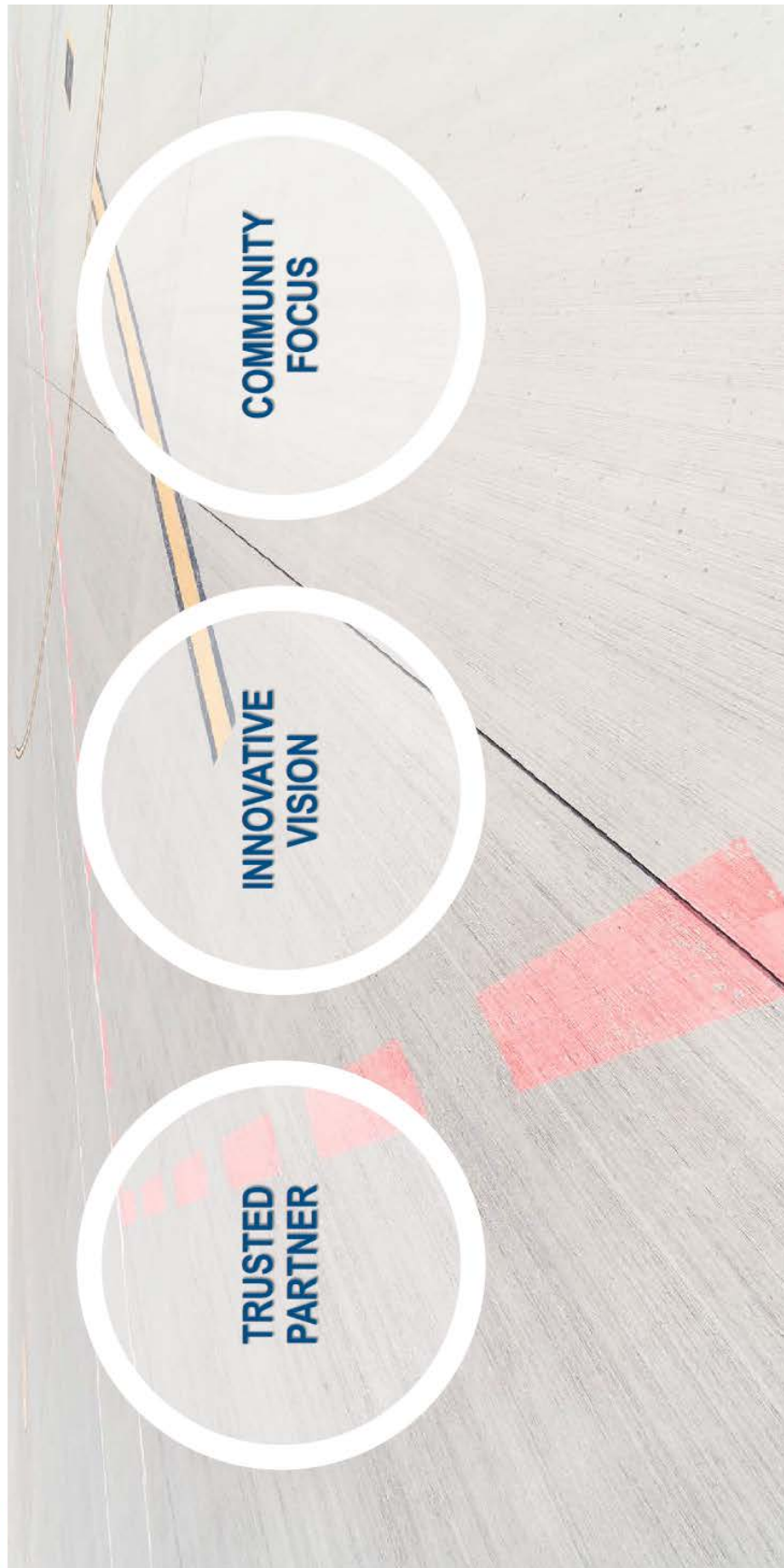


Who we are

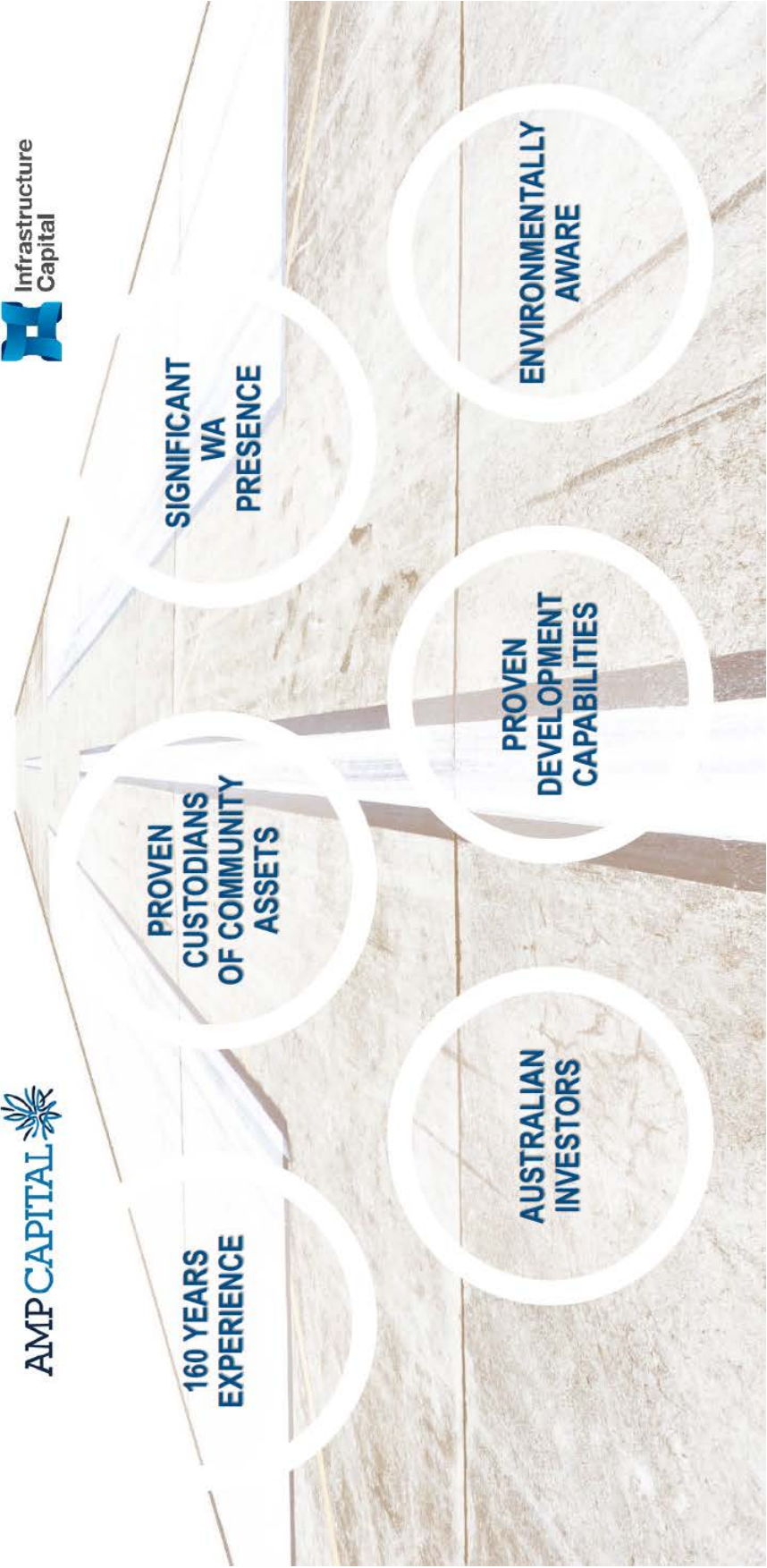
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A trusted pair of hands for the future of the airport

Investing with a vision



Trusted partner



Trusted custodians of community assets

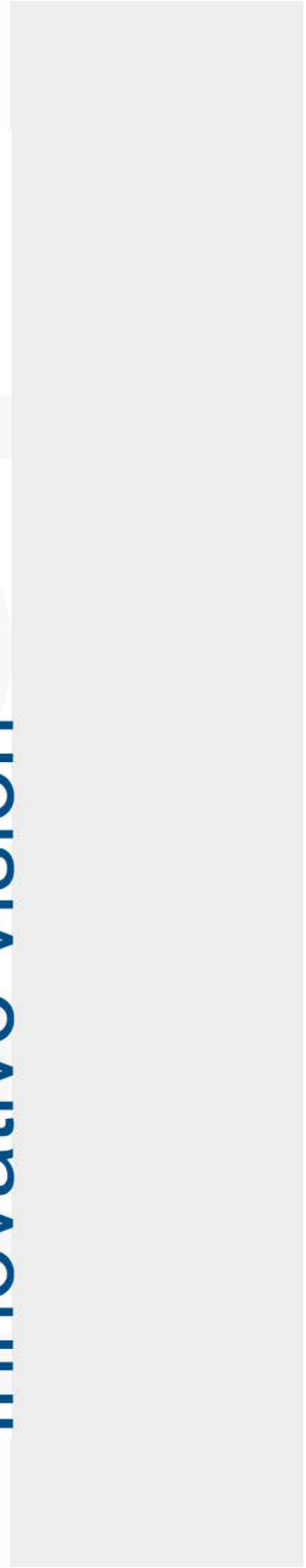




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Innovative vision



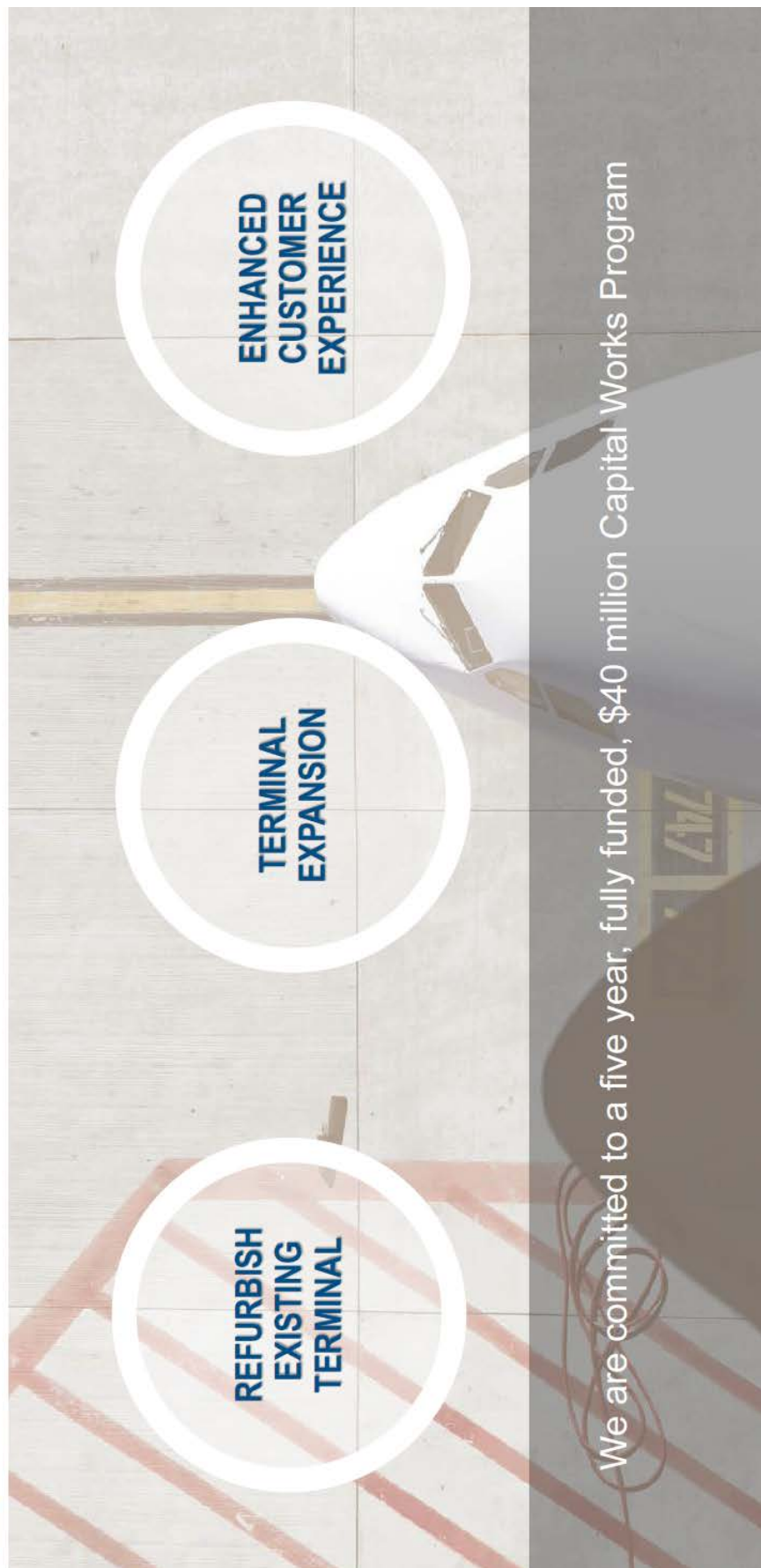
Innovative vision



The grey area contains three icons in white circles, each with a corresponding text block to its right:

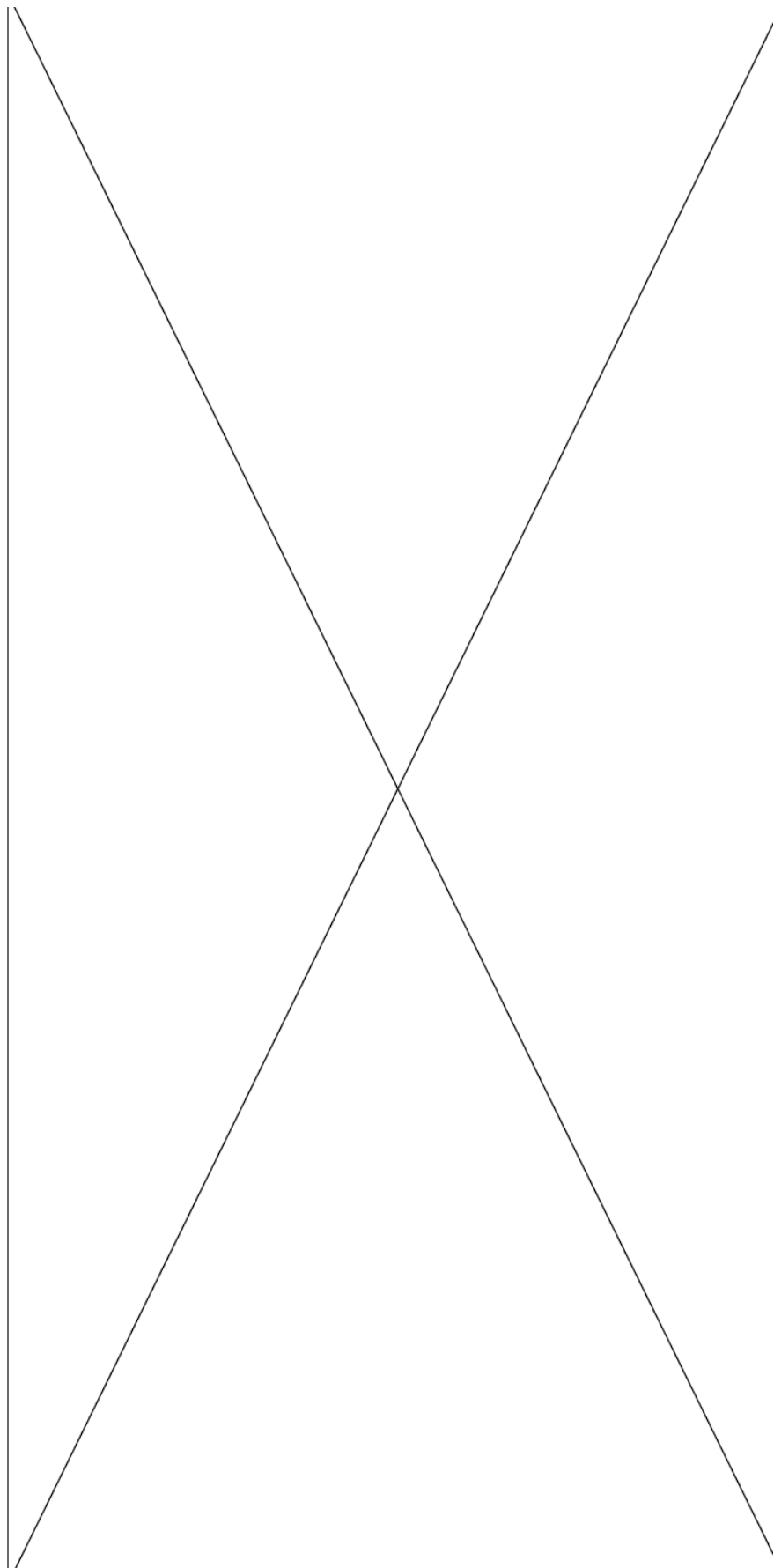
- Icon 1:** A map of the Northwest region of Australia with a star in the northern part.
- Text 1:** GATEWAY TO AUSTRALIA'S NORTHWEST
- Icon 2:** A globe with several human figures connected to it by lines, representing a network or service.
- Text 2:** MODERN AND WELL SERVICED OPERATION
- Icon 3:** A group of stylized human figures of varying heights.
- Text 3:** COMMUNITY FOCUSED STEWARDSHIP

Enhancing the customer experience



We are committed to a five year, fully funded, \$40 million Capital Works Program

Our experience:
Melbourne Airport terminal expansion





Melbourne Airport New Domestic Terminal - YouTube.mp4

You Tube clip of AMP's latest project at the Melbourne New Domestic Terminal.

Our experience:
Adelaide Airport new terminal

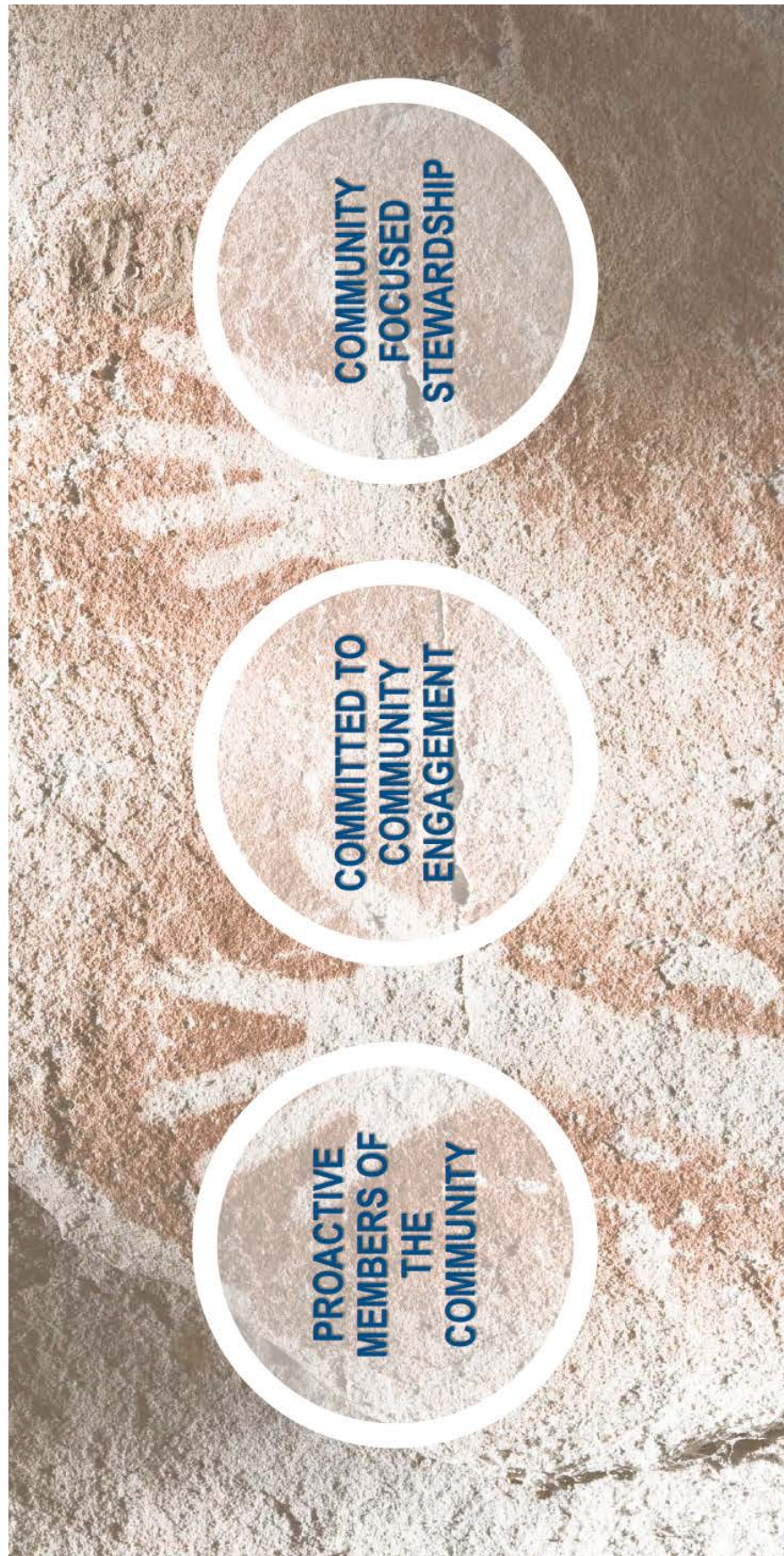


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Community focus



Community focus



Committed to the community



Indigenous Scholarship Program at Guildford Grammar School

NewGen Power Kwinana sponsors indigenous education through an indigenous scholarship foundation at Guildford Grammar School.



Graham (Polly) Farmer Foundation in Port Hedland and beyond

An AMP partnership to support Indigenous students and their progression to tertiary education, apprenticeships or employment in 26 communities across Australia.

Town's objectives

Transfer all Airport development, operational and financial risks to private sector	<input checked="" type="checkbox"/>
Terms and conditions of lease to provide town with adequate protections and guarantees	<input checked="" type="checkbox"/>
Receive fair value for the lease	<input checked="" type="checkbox"/>
Airport to operate as a stand-alone entity	<input checked="" type="checkbox"/>
Lessee to undertake prescribed capital expenditure	<input checked="" type="checkbox"/>
Select an experienced partner, with financial resources to meet development needs	<input checked="" type="checkbox"/>

PETER KOCIAN, EXECUTIVE OFFICER – WEALTH MANAGEMENT STRATEGY FRAMEWORK

Mr Kocian illustrated how the proposed wealth management strategy framework included in item 7.1.3 of this agenda would assist the Town in managing the lease proceedings, should the Council resolve to go ahead with the lease proposal.

Disclaimer

Members of the public are cautioned against taking any action on Council decisions on items on this evening's Agenda in which they may have an interest, until formal notification in writing by the Town has been received. Decisions made at this meeting can be revoked, pursuant to the Local Government Act 1995.

ITEM 7 REPORTS OF OFFICERS

Chief Executive Officer provided the following statement.

'There have been a number of comments made about the processes the Town has undertaken and I wanted to provide advice and give confidence to Elected Members and the community that they have been lawful, in accordance with the Local Government Act, and vetted by legal advisors Herbert Smith Freehills who submitted a 16 page report to this regard yesterday. I also have an email from Brad Jolly, the Executive Director of Sector Regulation and Support at the Department of Local Government and Communities, which indicates the process has been done in accordance with the Act. I have a report from Protiviti (see attachment below) who have been engaged as independent probity advisors indicating the process has been: open and fair; complied with applicable laws and regulations; took into account only relevant matters, applied rules consistently and fairly, but not inflexibly; complied with the express conditions set out in the request documents; contained adequate processes to manage actual, potential or perceived conflicts of interest; made decisions that were free from bias and external influences; and was secure and confidential.

Further, the Town is not engaging in a major trading undertaking but simply a major land transaction. The definition of major trading undertaking in the Act specifically excludes lease arrangements and the Town does not intend to be involved in any major trading undertaking if the lease is progressed, it is simply a land transaction.

There have also been concerns raised about declaration of interest; I can confirm that all senior staff associated with this process have signed confidentiality agreements and conflict of interest disclosures back in May. Where there have been any concerns the decision making process has been very clear. The Acting General Manager Airport was not involved in the decision making process, he made recommendations to the Executive who reported to me as CEO and then I made the ultimate decision as to whether to proceed with those recommendations. The Acting General Manager Airport was not involved in the assessment process or the assessment panel.

To conclude, my last discussion with the Minister's office took place at 4:52pm today, and it indicated no issues with the process the Town has undertaken to date, similarly to my last discussion with the Department of Local Government and Communities at 6:09pm today.



Powerful Insights. Proven Delivery.™

22 August 2015

Level 19, 44 St George's Terrace
PERTH WA 6000

Tel | 618 6430 6820
Fax | 618 9325 9605

The Chief Executive Officer
Town of Port Hedland
Civic Centre
McGregor Street
PORT HEDLAND WA 6721

Dear Mr Osborne,

RE: RFT 05/15 Long Term lease of Port Hedland International Airport, Probity Report

This report provides our opinion of the probity of the processes adopted for the abovementioned procurement process up to and including the Assessment Report from The Airport Group (TAG) indicating that AMP has been assessed as providing a Binding Bid that satisfies all of the Town's Commercial objectives and evaluation criteria.

Scope of Services

Protiviti was engaged to provide probity audit services. Probity active involvement included review of EOI and RFT documentation, responses to various probity queries, attendance at Interactive Tender Process meetings, and provision of proactive probity advice as and where required. We did not attend evaluation sessions held by TAG or the Town of Port Hedland.

Objective of Services

To provide probity advice and to review probity of the processes associated with the procurement process to determine whether they were fair, unbiased and providing equal opportunity to all respondents.

Service Provider

Probity services were provided by Mr Stephen Linden, Director of Protiviti.

Significant Probity Issues Identified

There were no significant or unresolved probity issues occurring during the procurement process. One potential Respondent to the Binding Bid phase delivered their response after the deadline and was not considered for further assessment. We consider this to be the appropriate treatment of that response in accordance with the approved procurement documentation.

Significant Deviations from Approved Processes

There were no significant deviations from approved processes.

Recommendations for Improvement

There are no recommendations for improvement.

Other Considerations

- Declarations of confidentiality and interests were obtained from all relevant staff
- No unresolved conflicts of interests were declared or identified
- Security of information appeared adequate for this project

Overall Opinion

It is my opinion that the procurement process:

- Was open and fair;
- Complied with applicable laws and regulations;
- Took into account only relevant matters;
- Applied rules consistently and fairly, but not inflexibly;
- Complied with the express conditions set out in the Request documents;
- Contained adequate processes to manage actual, potential or perceived conflicts of interest;
- Made decisions that were free from bias and external influences; and
- Was secure and confidential.



Stephen Linden
Director

7.1 Office of the CEO

Clarification Note: The Consortium has provided the following clarification in respect of the terminology 'lease premium' used in the agenda items. The \$165 million payment is the upfront payment which the Town will receive from the Consortium as a consideration for the purchase of future rent receivables and the purchase price for the transfer of Assets. It does not represent a premium or other consideration for grant of the Lease. The recommendation in the long term lease agenda item correctly refers to the upfront payment which will be received by the Town. This terminology was discussed with the Town and is reflected in the Transaction Documents so the amendment is for clarification purposes only.

7.1.1 Adoption of the Business Plan (Port Hedland International Airport Long - Term Lease Business Plan)

Mal Osborne, Chief Executive Officer
File No. 30/12/0013

DISCLOSURE OF INTEREST BY OFFICER

Nil

201516/022 RECOMMENDATION 1/ COUNCIL DECISION

MOVED: CR JACOB

SECONDED: CR DACCACHE

That Council:

- 1. Receive this report from the Chief Executive Officer on the outcomes of the Port Hedland International Airport long-term lease business plan (Attachment 3);**
- 2. Note that the Town released the major land transaction business plan (relating to a potential long-term lease of Port Hedland International Airport) for public comment from 24 April to 8 June 2015 in accordance with section 3.59 of the Local Government Act 1995;**
- 3. Note that nine public submissions (Attachment 2) on the major land transaction business plan were received from the following parties and the officer's comments are provided in the report:**
 - a. Qantas Group**
 - b. Chamber of Minerals and Energy**
 - c. Port Hedland Community Progress Association**
 - d. Mary Attwood**
 - e. Ronald Attwood**
 - f. Bill Adams**
 - g. Pamela Heather Lyttle**
 - h. Petition (with 47 signatories)**
 - i. Brian Raeburn**
- 4. Note extensive community consultation (Attachment 1) has taken place on the proposed long-term lease in addition to statutory advertising requirements including:**
 - a. five community information sessions**

- b. three lease fund working group meetings
- c. information booths at local shopping centres, Port Hedland International Airport and community events
- d. meeting with Port Hedland Ratepayers Association meeting
- e. information materials on website
- f. press advertisements in the North West Telegraph
- g. Mayor chair pieces in the North West Telegraph
- h. weekly social media posts
- i. weekly radio segments
- j. ten media statements issued to more than 1000 stakeholders
- k. radio advertisements
- l. market research via telephone survey to 200 residents

CARRIED 7/1

201516/023 RECOMMENDATION 2/ COUNCIL DECISION

MOVED: CR JACOB

SECONDED: CR HUNT

That Council:

1. Note the proposed major land transaction for the proposed long-term lease of Port Hedland International Airport is not significantly different from the advertised business plan and note the following minor clarifications:
 - a. Inclusion of transient worker accommodation sites (as the business plan included an option for the sites to be excluded)
 - b. Modified lot descriptions to align with inclusion of transient worker accommodation sites and a minor adjustment to the lease boundary to align with the lot boundary
 - c. Confirmation of a profit sharing arrangement based on passenger numbers in addition to the up-front premium for lease
 - d. Description of lease term as 50 years as opposed to 'long-term'
2. Having considered the public submissions received, resolve to proceed with the major land transaction as described in the report, being not significantly different from the major land transaction that was advertised in the business plan;
3. Authorise the disposal of 817.8971 hectares (lease boundary plan Attachment 4) by way of lease in accordance with section 3.58 of the Local Government Act 1995 consisting of:
 - i. the whole of Lot 9004 on Deposited Plan 404823, being 150.6084 hectares;
 - ii. the whole of Lot 435 on Deposited Plan 404824, being 60 hectares;
 - iii. the whole of Lot 436 on Deposited Plan 402661, being 9.9966 hectares;
 - iv. the whole of Lot 437 on Deposited Plan 404824, being 3.3349 hectares;
 - v. the whole of Lot 438 on Deposited Plan 404824, being 3.3405 hectares;

- vi. the whole of Lot 439 on Deposited Plan 404824, being 3.3349 hectares;
- vii. the whole of Lot 16 on Deposited Plan 163352, being 10.7 hectares;
- viii. the whole of Lot 15 on Deposited Plan 161311, being 3.44 hectares;
- ix. the whole of Lot 29 on Deposited Plan 168193, being 10.51 hectares;
- x. part of Lot 9006 on Deposited Plan 404823, being 30.2831 hectares;
- xi. part of Lot 9007 on Deposited Plan 404824, being 245.8909 hectares; and
- xii. part of Lot 9008 on Deposited Plan 404824, being 286.4578 hectares.

CARRIED BY ABSOLUTE MAJORITY VOTE 6/2

Record of vote

FOR	AGAINST
Mayor Howlett	Councillor Gillingham
Councillor Jacob	Councillor Butson
Councillor Daccache	
Councillor Hooper	
Councillor Hunt	
Councillor Melville	

EXECUTIVE SUMMARY

Council has previously endorsed a review of the Port Hedland International Airport's governance structure to determine if a more efficient and economically viable operating model is available. This review determined that a long-term lease was the most beneficial approach.

The Town of Port Hedland has sought expressions of interest, non-binding, and then binding bids from suitable parties to enter a long-term lease agreement for the Airport and land through tender 05/15. The Town has also released a Business Plan for a major land transaction in accordance with section 3.59 of the Local Government Act 1995 for Port Hedland International Airport long-term lease.

The review of the governance structure identified a number of key foundation objective principles that Council wished to achieve from the long term lease of the Airport and land. These include:

- The transfer of some or all of the Airport development, operational and financial responsibilities and risks to the private sector
- Terms and conditions of any Lease must provide the Town with adequate strategic oversight to ensure an alignment of the Town's and the Airport lessee's objectives
- The Town must receive fair value from the Lessee for the Airport

- The Airport must operate as a stand-alone entity from the Town
- The Lessee must undertake a prescribed capital expenditure program
- Any private sector partner must have demonstrated experience, recognise and understand the responsibility of managing public infrastructure, and the financial resources to meet the development needs of the Airport over the long term
- A greater commercial focus on the airport

Based on these foundation principles Council resolved at its 22 April 2015 ordinary meeting to release the business plan for the long term lease of Port Hedland International Airport for public comment and to proceed to the expressions of interest phase of the tender 05/15 for the long term lease of Port Hedland International Airport.

This report:

- Summarises the processes and decisions that have been made to date on this matter
- Outlines and discusses the community feedback that has been received on the business plan
- Outlines the program and next steps

DETAILED REPORT

Background

The Town commenced a prudent and holistic review of the governance structure of the airport in September 2013 to determine if a more efficient and economically viable operating model was available. It was determined that a long-term lease was the most beneficial approach and a scoping study review was completed, and endorsed at the 22 April 2015 Ordinary Council Meeting.

This study and its recommendations to proceed were the latest part of a gradual, step by step process which has been compiled on the back of numerous Council workshops and meetings, specialist consultant reports, meetings with airport management and meetings with key stakeholders.

Council consideration is noted below:

- 13 November 2013 – Council workshop on governance review models and options
- 12 March 2014 – Council workshop on objectives and key success criteria for airport governance models
- 25 June 2014 – Council confidential concept forum on airport governance review recommendations
- 24 September 2014 – Council endorsed long term lease review recommendation program and process (decision 201415/056)
- 17 December 2014 – Council appointed The Airport Group to undertake Phase One (the long term lease scoping study) and Phase Two (long term lease transaction) (decision 201415/147)
- 25 February 2015 – Council workshop on scoping review report
- 25 March 2015 – Council workshop on scoping review initial findings

- 22 April 2015 – Council endorsed the commencement of stage two of the Port Hedland International Airport long-term lease transaction (decision 201415/234)
- 24 June 2015 – Council endorsed the seeking of binding bids from shortlisted bidders for the long-term lease of the Port Hedland International Airport (decision 201515/285)

A gradual step-by-step process has been undertaken over almost two years. This has included extensive community consultation and tender 05/15 process which began with the invitations for expressions of interest from potential private sector lease partners.

Context

Alternative governance models to enable private capital and efficient management of regional airports was identified in the 2015 State Aviation Strategy. It notes that a long-term lease to the private sector enables private capital and effective and efficient management of airports in a way that minimizes risk to major users and facilitates continued State economic growth. The State Government notes that a lease transaction will encourage private sector investment in regional airports. The Department of Transport has part funded the Town's long-term lease scoping study.

Further, the Department of Transport, Western Australia State Aviation Strategy (2015, page 65) states:

“The current council ownership and governance model offers integration with local planning and economic development and some economies of scale from council resourcing. The model has worked well in several locations and has delivered significant investment at Karratha, Newman, Geraldton and, previously, at Kalgoorlie. However, the Pilbara airports’ management arrangements in particular appear fragile and the model lacks both governance depth and the flexibility to operate commercially in areas such as charging, borrowing and industrial relations. In the case of the State’s larger and fast growing airports, whose role goes beyond that of servicing the needs of a local community, the option of long-term lease to the private sector enables private capital and professional airport management expertise at board, executive and operational level to be mobilised. This allows the effective and efficient management of the airport in a way that minimises risk to major users and facilitates continued State economic growth.”

There are a number of regional airports which have previously been leased from government to the private sector under long-term lease arrangements, such as Alice Springs Airport, Cairns Airport, Townsville Airport, Launceston and Mount Isa Airport. These leased airports have benefited from the involvement of the private sector with unprecedented increases in capital investment and business development growth. These benefits have flowed onto the local communities through increased economic activity and stimulation. In each of these airports, the new management team has proactively participated in local community and economic growth initiatives and the airports themselves have made an increasingly significant contribution to the local economy.

Governance Structure Objectives

The original review identified that any new governance structure should meet the following minimum objectives. The following points have been determined as clarification and endorsed outcomes from progressing with the major land transaction and long term lease of the Port Hedland International Airport:

- The transfer of some or all of the airport development, operational and financial risks from the local government:
 - i) Airport management report to the independent Lessee Company Board, with the Town retaining strategic oversight through the lease and/or a presence on the Board
 - ii) Business planning and budgeting for the Airport be the sole responsibility of the Lessee Company Board based on advice from airport management
 - iii) Any debt finance underpinning the lease remains the sole responsibility of the Lessee Company Board
- Terms and conditions of any airport lease to provide the Town with adequate protections and ensure:
 - i) A commercial focus in the way the Airport is developed, operated and managed;
 - ii) The Airport meets all regulatory insurance and licensing requirements;
 - iii) The Town is able to terminate the lease if the Airport fails to operate effectively as an airport;
 - iv) Essential services are maintained, including the Royal Flying Doctor Service, emergency services, airfreight and postal services;
 - v) General airport facilities continue to meet community expectations; and
 - vi) The quality of airport management expertise is maintained and wherever possible enhanced.
- The Airport maximises the use and the return from the existing land and facilities through planning and the efficient use of airport infrastructure. The Town would receive fair value from the Lessee for the Airport based on:
 - i) The Airport operates as a stand-alone entity;
 - ii) Prevailing market conditions;
 - iii) Committing the Lessee to undertake prescribed capital expenditure and other strategic requirements of the Town;
 - iv) The transfer of operational risks to the Lessee;
 - v) The ownership structure of the lease and the possibility of Town retention of an economic interest; and
 - v1) The level of supervision and transparency the Town is entitled to during the term of the lease
- Any private sector partner will need to have a demonstrated experience that they recognise and understand the responsibility of managing transport infrastructure, as well as the financial resources to meet the development needs of the Airport over the long term.

The governance objectives have formed the basis for the development of the transaction documents for the long term lease and the conduct of tender 05/15 process to identify a lessee. The results of tender 05/15 process are fully addressed in the agenda paper in respect of that matter, contained elsewhere within this agenda.

Business Plan – Public Comments

The Town released the business plan for public comment on 24 April 2015 with submissions closing on 8 June 2015. Public notices were placed in the West Australian 24 April and North West Telegraph on 29 April, 6 May, 13 May, 20 May, 27 May and 3 June.

As part of this process the Town undertook significant communications and provided opportunities for engagement as per attachment 1. This included:

- weekly press advertisements outlining key considerations for the proposed lease and invited public submissions on the business plan
- weekly segments on local radio as part of the Mayor's regular segments
- social media updates
- information display at Port Hedland International Airport
- community conversations forum held 20 May 2015
- South Hedland Shopping Centre and Port Hedland Boulevard community engagement session and information booth display 30 May 2015

There were nine public submissions received one of which was in petition format with 47 signatories. A summary of the public submissions and the petition follows. All submissions are provided in full in attachment 2 to this report.

Following the receipt of submissions, the Town continued its community engagement, including an additional:

- four community information sessions (with between four and twelve community members in attendance)
- three lease fund working group meetings
- information booths at community events
- meeting with Port Hedland Ratepayers Association and Port Hedland Progress Association
- information materials on website
- four press advertisements in the North West Telegraph
- opinion pieces in North West Telegraph
- weekly social media posts
- weekly radio segments
- six media statements issued to more than 1000 stakeholders
- radio advertisements

Market research was also undertaken via a telephone survey to 200 residents (renters and owners) to provide a statistically relevant reflection of community sentiment and to inform the communications strategy. The survey was conducted on Friday 7 and Saturday 8 August. The full report is included at Attachment 6. The research highlighted that:

- 71% of respondents were either ambivalent (41%) or in favour (30%) of the proposal
- 44% of respondents were aware of plans to lease the airport
- respondents noted benefits of leasing the airport including employment opportunities, ability to upgrade the airport, decrease in airfares, investment and money into the community, expertise, better services and more destinations

- respondents noted concerns around fare, food and parking increases, benefits for fly in fly out workers and continued employment of existing employees.
- respondents identified the following opportunities for lease premium
 - 20% Amenities development - e.g. library, hospital, town hall, child care, schools/education
 - 20% Crime / community safety
 - 16% community/arts development
 - 14% Roads or pathways improvement
 - 13% Parks, gardens, reserves improvement
 - 10% cultural/arts development
 - 6% Reduce rates
 - 6% Fund for future projects

<i>Submission</i>	<i>Key issues</i>	<i>Officer Comment</i>
1. Qantas Group	<p>Qantas understands the lease proposal is to provide an increased opportunity to develop the airport for the benefit of the Town and the community and supports this intent, while noting the following:</p> <p>i) need to ensure adequate controls on aeronautical pricing.</p> <p>ii) Land leased to mining companies for a sum of \$40m was to be used for airport development but was diverted for Marina development.</p>	<p>The proposed approach and controls for aeronautical pricing will be light handed as the airport lessee company will need to set fees and charges based on reaching commercially acceptable terms with its airline partners. In addition the normal regulatory checks and balances will be in place in terms of the ACCC and consumer protection regulations and the recognised principles of establishing a fair return on investment.</p> <p>Experience at other leased airports have seen the introduction of incentive pricing agreements to stimulate airline frequency and increase passenger throughput</p> <p>In summary the normal commercial pressures around pricing and demand together with the State & Federal regulatory checks and balances will provide effective control without limiting the ability of the airport lessee company to obtain a fair return on its investment.</p> <p>Included within the proposed terms of lease is the specific requirement for the airport lessee company to undertake \$40m in airport capital development including aeronautical infrastructure such as the runway, taxiways and the terminal redevelopment within the first 5 years of the lease.</p>

	<p>iii) Increased operating costs of some routes requires the operator to rely on network efficiencies to remain competitive.</p>	<p>A basic business strategy to create a competitive advantage is to expand services and create economies of scale.</p>
<p>2. Chamber of Minerals and Energy of Western Australia (CME)</p>	<p>CME commends the Town’s consideration of the long-term lease of the airport acknowledging the financial constraints for local governments, while noting the following:</p> <p>i) Need to consider a sustainable contractual framework for fees and charges.</p> <p>ii) Ensure the successful lessee regularly considers infrastructure development.</p>	<p>The proposed approach and controls for aeronautical pricing will be light handed as the airport lessee company will need to set fees and charges based on reaching commercially acceptable terms with its airline partners. In addition the normal regulatory checks and balances will be in place in terms of the ACCC and consumer protection regulations and the recognised principles of establishing a fair return on investment.</p> <p>In summary the normal commercial pressures around pricing and demand together with the State & Federal regulatory checks and balances will provide effective control without limiting the ability of the airport lessee company to obtain a fair return on its investment.</p> <p>Include within the proposed terms of lease is the requirement for the airport lessee company to undertake \$40m in airport capital development within the first 5 years of the lease as discussed above.</p>
<p>3. Port Hedland Community Progress Association</p>	<p>i) 50 year lease too long</p>	<p>To ensure the Town achieves its objective of receiving fair value for the lease, an improved return and the lessee has adequate time to recover its investment a minimum term of 50 years is needed. Any term less than this would result in a steep decline in economic benefits to the Town and the community. Furthermore, the lease includes significant protections for the Town in the</p>

	<p>ii) Not enough international exposure</p> <p>iii) Insufficient detail provided in the business plan</p>	<p>event that the lessee does not meet its obligations, including the ability to terminate the lease if these are not met.</p> <p>The long-term lease was publicly advertised. Two substantial off shore infrastructure investors in addition to a number of International infrastructure investors with offices in Australia lodged EOI's and were invited into the non-binding bid phase of the transaction.</p> <p>The business plan was prepared in consultation with the Town's legal advisors to ensure compliance with the Act. It was also important to note that the Business Plan was prepared in the context of ensuring the Town's position was not compromised to ensure it could maximise its commercial outcomes consistent with the Objectives stipulated by Council.</p> <p>Further legal commentary is as follows:</p> <p>The Local Government Act 1995 (WA) (Act) requires certain matters to be addressed in the business plan, as described in section 3.59(3) of the Act. The business plan contained a section to describe each of the matters and so met the requirements of the Act. This submission raises two issues in respect of the business plan:</p> <p>the matters contained in the business plan do not contain supporting evidence. The requirements of s 3.59(3) of the Act are to include an overall assessment of the major land transaction and details of each of the items. It does not require that the information that is presented to be supported by the underlying evidence which the Council has used in making its decisions;</p>
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	<p>iv) A detailed business plan prepared by independent qualified professionals including critical data necessary for a major land transaction, including a funding scenario and detailed sensitivity analysis should be prepared.</p>	<p>the process is being conducted too quickly and without due consideration.</p> <p>As described above, the transaction first had its genesis in 2013 and has been the subject of extensive Council consideration since that time.</p> <p>Further comments from the Town’s legal team: The business plan was prepared in consultation with the Town’s legal advisors to ensure compliance with the Act.</p> <p>Section 3.59(3) of the Local Government Act 1995 (WA) lists the matters that are to be addressed in the business plan. The business plan contained a section to address each of these matters. The business plan is forward looking, consistent with the requirement in the Act that the business plan describe the expected effect of the various matters.</p> <p>The submission states that the business plan does not contain underlying evidence. The Act states that the business plan must include the expected effect of each of the matters, but does not state that underlying evidence is to be presented.</p> <p>TAG are independent advisors to the Town. TAG executives have over 75 years experience in the analysis and advice on airports and other infrastructure assets around the world. In line with industry best practise a confidential scoping study was completed by the TAG that included funding scenarios and detailed sensitivity analysis.</p> <p>a) The total site is identified in the plan at section 2.3 of the BP. Final area is subject to survey.</p>
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	<p>v) See attached submission for the detail included in section 2 of the BP submission.</p>	<p>b) The plan at 2.3 of the BP identifies the areas included within the proposed lease boundary which identify precincts 1,2,3,4 and the airside precincts as being included.</p> <p>c) Section 3.4(2) of the BP outlines current and future airport revenue.</p> <p>d) Final area is subject to survey. Section 2.2 of the BP details the extent of freehold land to be leased.</p> <p>e) Fair Value is calculated using detailed discount cash flow analysis benchmarked against EBITDA multiples and summation methodology which are global industry accepted methods for determining Fair Value. The Town and its advisors will determine Fair Value.</p> <p>f) Refer section 3.4(4). The lessee will be required to fund the necessary infrastructure for the airport to comply and operate at a minimum level of service, otherwise the Town has the rights to terminate the lease.</p> <p>g) Refer section 3.4(4) of the BP.</p> <p>h) Refer Section 1.0 of the BP. All infrastructure is owned by the Town.</p> <p>i) Refer section 2.4 of the BP. The Town retains land use planning control.</p>
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<p>4. <i>Mary Attwood</i></p>	<p>i) Lack of detail to take an informed view of proposal</p> <p>ii) Airport is currently generating funds and a feasibility study is needed</p>	<p>As above in respect of the process for preparing the business plan.</p> <p>Due to required capital investment over the medium term, the airport is not expected to generate free cash flow for the Town. On current trends, the airport financial performance is projected to deteriorate in the context of declining FIFO passenger numbers and significant increases in projected capital spending. The airport is expected to need large cash injections of approximately \$30 million from the Town over the next 3 year period.</p>
<p>5. <i>Ronald Attwood</i></p>	<p>i) Lack of detail to take an informed view of proposal</p> <p>ii) Airport is currently generating funds and a feasibility study is needed</p>	<p>As above.</p>
<p>6. <i>Bill Adams</i></p>	<p>i) Lack of detail in the business plan to take an informed view of proposal</p> <p>ii) Lessee will result in increased cost to the community</p>	<p>As above in respect of the process for preparing the business plan.</p> <p>Over 22 airports have been leased to the private sector by state and federal governments over the past 15 years and the experience has been just to opposite. In the vast majority of cases the costs to the community have come down as the airport lessee companies have sort to increase airline competition and passenger through put.</p>
<p>7. <i>Pamela Heather Lyttle</i></p>	<p>i) 150 year lease too long</p>	<p>To ensure the Town receives fair value, an improved return and the lessee has adequate time to recover its investment a minimum term of 50 years is needed. Any term less than this would result in a steep decline in economic benefits to the Town and the community.</p>

		The mandatory lease oversight provisions coupled with the lease termination provisions ensures the Town has visibility of the lessee's management of the airport, and the mechanisms to rectify non conformance
8. <i>Petition</i>	<p>i) Airport is currently generating funds</p> <p>ii) Concern that community and stakeholder interests will not be maintained</p> <p>iii) Costs to community may increase</p> <p>iv) There are alternate better business models</p>	<p>The airport financial performance is projected to deteriorate in the context of declining FIFO passenger numbers and significant increases in projected capital sending. The airport is expected to be need large cash injections for the Town of the next 3 to 5 year period.</p> <p>The terms of the lease include community commitments, obligations and extensive consultation provisions with the Town and Port Hedland community</p> <p>Over 22 airports have been leased to the private sector by state and federal governments over the past 15 years and the experience has been just the opposite. In the vast majority of cases the costs to the community have come down as the airport lessee companies have sort to increase airline competition and passenger through put.</p> <p>The Town undertook a very comprehensive process of review of a number of governance models and the only model that met all of the Town's foundation objective principles was the long-term lease of the airport.</p>
9. <i>Brian Raeburn</i>		This submission was received as a submission to the 2015/16 Rates model however the Town has included it as a submission to the Port Hedland International Airport Long Term Lease

	<p>i) Airport is an income producing asset to the Town.</p> <p>ii) If it is leased out who will own the airport</p>	<p>Business Plan as the submission includes reference to the Long Term Lease of the Port Hedland International Airport.</p> <p>Due to required capital investment over the medium term, the airport is not expected to generate free cash flow for the Town. On current trends, the airport financial performance is projected to deteriorate in the context of declining FIFO passenger numbers and significant increases in projected capital spending. The airport is expected to need large cash injections of approximately \$30 million from the Town over the next 3 year period.</p> <p>The Town of Port Hedland will still own the Port Hedland International Airport as only a lease is being proposed.</p>
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Adoption Of Business Plan

The process to date has comprehensively and thoroughly explored all matters related to the business plan proposal, inclusive of the public consultation period and submission process.

The business plan attached (Attachment 3) noted a number of key aspects under consideration. These included:

- The possible inclusion of the transient worker accommodation sites. These have been included in the long-term lease transaction proposal.
- The land delineation was modified to align lot descriptions with the inclusion of transient worker accommodation sites. This required a minor adjustment to the lease boundary to align with the lot boundary.
- The possible inclusion of a profit sharing arrangement based on passenger numbers, in addition to the up-front premium for lease was noted as an optional inclusion and this has been included in the long-term lease transaction.
- Description of lease term was noted as a long-term lease, it is noted as 50 years in the long-term lease transaction.

The major land transaction involves the disposal of 817.8971 hectares of land. A large portion of this land is sterilised for aeronautical uses with only 108 hectares of land available for non-aeronautical development as per Attachment 5.

Tender 05/15 Port Hedland International Airport Long-Term Lease

As foreshadowed in the business plan, at the same time as the public consultation for the major land transaction, the Town commenced a public tender (tender 05/15) process for the procurement of the Lessee as follows:

- Seeking expressions of interest for a suitably qualified proponent – completed
- Pursuing preliminary non-binding offers (Indicative Tender 05/15) – completed
- Securing the final and binding offer (Binding Tender 05/15) – completed

Timing relating to the request for tender 05/15 non-binding and request for 05/15 binding bid phase has been as follows:

- 22 May 2015 – the non-binding bid phase commenced
- 8 June 2015 – the business plan public notice period closed
- 19 June 2015 – tender 05/15 non-binding bids stage closed
- 24 June 2015 – Council considered the business plan public submissions and endorsed next stage of process
- 26 June 2015 – the parties invited for tender 05/15 binding bids were advised.
- 11 August 2015 – during the binding bid process one of the bidders requested an extension of time. An extension to 11 August 2015 was granted to both bidders after consultation with the probity advisor and the Town's legal counsel. The bidding bids stage closed on this date.
- 25 August 2015 – Council consideration of offers

Should the Council decide to proceed with the major land transaction, the consideration of the preferred lessee is the subject of a separate paper.

Should Council resolve to enter a long-term lease arrangement, a large body of work to transition the operations of the airport from the Town to the lessee will need to occur. This is likely to take several months and will include areas such as; compliance, operational, administration, staffing and financial matters. These matters will need to be addressed as part of the transfer of the airport from a Town management model to an airport leasing model. The Airport Lessee proponent has requested the Town to provide administrative support for a period of no more than two years under a Transitional Services Agreement commercial principle. The Town would receive a payment of \$750,000 per annum for these services.

Should Council resolve to enter a long-term lease arrangement, then any lease premium proceeds will be held in a reserve account pending the establishment of key governance principles for the management and establishment of a framework for the prudential stewardship of the lease premium.

FINANCIAL IMPLICATIONS

<p>The advertised Business Plan indicated the following expected financial effects on the local government:</p>	<p>Now that the value and full detail of the proposed land transaction is known, additional comment is provided as follows:</p>
<p>Remove the responsibility of operation of the Airport from the Town. As part of the Proposed Transaction the responsibility for the day to day operation of the Airport will transfer to the Lessee. This will include airport management oversight, airport operational and compliance management, all airport administrative matters and financial management. The costs of this ongoing administrative oversight will no longer be met by the Town and will become the responsibility of the Lessee.</p>	<p>The Airport Lessee proponent has requested the Town to provide administrative support for a period of no more than two years under a Transitional Services Agreement commercial principle. The Town would receive a payment of \$750k per annum for these services. The Lessee will seek to scale back and “insource” the Towns service scope progressively during that 2 year period and will seek to adjust the charge accordingly. After this period, the Town will be totally removed from the administration of the Port Hedland International Airport.</p>
<p>Remove the revenue streams that are derived from Airport operations. The current dividends and internal revenue transfers that are provided from Airport operations will cease under the Lease. These revenue streams will be replaced by a one off capital payment for the granting of the Lease.</p>	<p>The Town has remodelled its 2015/16 Budget to assess the financial impact of novating the Airport to a private party:</p> <ol style="list-style-type: none"> 1. Total Operating Revenue will reduce from \$70,149,377 to \$46,316,614. This impacts mainly in fees and charges revenue (reduction of \$15,881,604), and other revenue being the loss of the airport dividend to municipal funds and TWA lease revenues from Port Haven, Mia Mia and BHPB Lease area (reduction of \$7,451,158) 2. Total Operating Expenditure will reduce from \$69,722,925 to \$60,259,283. This impacts mainly in the following areas:

	<ul style="list-style-type: none"> • Employee costs – reduction of \$1,998,566 • Materials/Contracts – reduction of \$4,762,235 • Insurance expense – reduction of \$332,841 <p>3. A budget shortfall of \$8,292,692 will eventuate due to the loss of recurrent municipal revenue streams as follows:</p> <ul style="list-style-type: none"> • Airport dividend to Muni \$3,383,415 • Precinct 3 lease revenue \$3,795,258 • Port Haven lease revenue \$1,275,292 • Mia Mia lease revenue \$195,982 <p>4. This revenue stream will be replaced by a recurrent return to the Town from the investment of the lease proceeds. The Town has engaged the Western Australian Treasury Corporation to assist in the development of an appropriate wealth management framework which will include the creation of a stabilisation fund. Illustrative models have been presented to the Community and Council indicating a sustainable revenue stream to the Town over the life of the lease.</p> <p>5. Proceeds from the sale of lots at Kingsford Smith Business Park will be returned to municipal funds rather than the Airport Reserve. The forward Budget does rely on \$2.8m in annual proceeds to support municipal services; any proceeds over and above \$2.8m annually can be considered by Council for investment in the community or as a transfer to Reserve funds.</p>
<p>The assessed fair value of the Airport’s land and the depreciated value of the Airport assets will be taken off the Town’s balance sheet under the Proposed Transaction.</p>	<p>The Town will seek advice from its auditors RSM Bird Cameron and the Department of Local Government and Communities on the appropriate accounting treatment for the disposal of the Port Hedland International Airport by way of long-term lease.</p>
<p>A substantive capital payment (the lease premium) will be brought to account on the Town’s balance sheet.</p>	<p>It is proposed that Council establish a Reserve Fund titled Port Hedland International Airport Long Term Lease Proceeds for the purpose of accounting for the lease proceeds on the Towns balance</p>

	sheet and to disburse funds as per the wealth management framework once finalised.
Shift all of the obligation for ongoing long term capital investment from the Town to the airport lessee company. Under the terms of the Lease, some of the responsibility for future capital investment in the Airport (including redevelopment and asset upgrades) will be shifted to the Lessee. This will have the net effect of freeing up future capital and Town resources for other community based projects.	The draft lease term sheets include a requirement for the Airport Lessee to spend \$40M on capital improvements over the first 5 years of the lease. This includes work on apron extensions, runway 18/36 rebuild, runway resheets, CCTV network, plant and equipment, security upgrades, car park ground transport reconfiguration and terminal redevelopment. The Town is committed to a \$19.6m capital spend on the Port Hedland International Airport over the next three financial years, with approx. \$8.5m budgeted to be expended in 15/16 on a Solar Farm, water and sewer services, apron strengthening, security fencing and crash gates, and other security upgrades. The balance of \$11.125m will be expended on water and sewer services. After this time, the Town will have no further capital obligations with respect to the Port Hedland International Airport, and the remaining balance of the Airport Reserve (estimated \$3m) will be available to be moved to the municipal fund once approved by Council.
Allow for the leverage of investment from the private sector, including the provision of investment opportunities that the Town is unable to currently access, and the attraction of business to the Airport. This may include future commercial and business development opportunities, which would generate further economic development opportunities for the Town.	
Transfer the risk of operations away from the Town. Under the Lease, the Airport operational risks would be transferred to the Lessee. This will release the Town and its rate payers from future risk obligations that may arise from running the Airport.	

The Town has engaged Western Australian Treasury Corporation (WATC) to construct a "Lease vs Keep" financial model which will enable the Town to clearly quantify how the transaction would affect the Town's overall long-term financial position. The modelling has considered all income and expenditure directly and indirectly related to the Airport operations.

Should the Town finalise a long term lease then there will be a large lump sum payment of circa \$160,000,000 will be made to the Town. This forms part of a total transaction value of \$205,000,000 which includes upfront cash payment (lease premium) of \$165,000,000 and a capex requirement of \$40,000,000.

Further detailed consideration as explained above is being given to future financial management of these funds. WATC has also been engaged to provide advice on potential principal protected structure(s) which can be pursued to safeguard the sales proceeds. As part of this work WATC developed a range of possible investment protection structures and how the funds are best used to deliver outcomes for the community over several decades.

The Town will make a decision with respect to the use of the lease funds after the upcoming Town elections. The funds will be held in a protected reserve account until this decision is made.

RISK IMPLICATIONS

Risk of the transaction not proceeding

The work done to date has seen significant interest from parties in the EOI phase and then subsequently through the shortlisting phase. This work has culminated in the submission of binding bids at above fair market value.

If the transaction does not proceed, the Town will be liable for its own transaction costs that will still be payable. This cost is estimated at approximately \$1.2million.

As part of the binding bid process, the bidder has agreed to provide a deposit amount ahead of the payment of the lease premium, which will help mitigate costs if the transaction does not proceed due to the bidder failing to satisfy conditions precedent. The amount of the deposit is intended to cover the Town's costs should the bidder fail to meet the conditions precedent or withdraw prior to funds being submitted into the Town's account.

Risk of failure to operate the Airport

There also exists the potential risk on bidder default for failing to operate the Airport. This is mitigated by the high hurdle levels in the selection criteria which has ensured only high quality financially secure bidders have been included the process. In addition, the lease will contain requirements in respect of the ongoing operation of the Airport, material failure of which will result in a default leading to termination. The lessee must also comply with all statutory and regulatory requirements in respect of the operation of the Airport.

Risk of not obtaining fair value

The Town has conducted a public tender process in order to obtain a market response to the value of the long term lease. Nine bidders participated in the expression of interest phase.

The risk that the Town would receive or accept an undervalued bid has been mitigated through detailed modelling to ensure Council is aware of the fair value of Port Hedland International Airport. The Town is also working with WATC on further financial modelling on future fair value analysis to ensure robust decision making in this area.

Retained risk by the Town

It is not possible in transactions of this type to fully transfer all risk to the lessee in respect of pre-existing land conditions. The lease will provide that the Town will retain risk in respect of pre-existing land conditions that could not have been known to the lessee when it was preparing its bid.

Decision not lease the airport

If the Town chooses to not lease the airport the Town would potentially be exposed to a number of risks including:

- revenue uncertainty on TWA lease renewal
- airport operational risks
- the airport's financial risks associated with the mining cycle
- capital works program completion risks (financial, timing, fit for purpose)

STATUTORY AND POLICY IMPLICATIONS

The Transaction is a disposal of property under the Local Government Act 1995. The lease must be granted in accordance with section 3.58 of the Act.

It is usual for transactions of this type that the opportunity to acquire the lease and the associated business opportunity is tendered to market in order that the Town can obtain the best price from a competitive process and proceed to assess and select the most acceptable tender to it. Tendering is one of the permitted methods of disposing of property (section 3.58(2)(b) of the Act).

The Transaction is a major land transaction and, in addition to tendering the opportunity for the lease, the Town must prepare and advertise a business plan in accordance with the requirements of section 3.59 of the Act. The business plan is attached (attachment 3) and has been advertised in accordance with the requirements of section 3.59 of the Act, noting the following:

- the decision to advertise the business plan occurred at the same time as a decision by Council to proceed to commence a tender process for a potential lease of the airport. The Act contemplates that the business plan can be advertised prior to the conclusion of the tender process; and
- public submissions were received, are summarised in the 'Public Comments' section above and, pursuant to section 3.59(5) of the Act, are to be considered by Council as part of its consideration of this report and whether to proceed with the major land transaction.

The Local Government Act (1995) section 5.70 (2) An employee who has an interest in any matter in respect of which the employee is providing advice or a report directly to the council or a committee must disclose the nature of the interest when giving the advice or report. It is noted that to ensure impartiality a tender assessment panel of internal officers and external independent advisors has been established to complete the tender 05/15 assessment.

The Town has met with and written to the Department of Local Government and Communities on its proposed program and process, and has liaised with the Department throughout the transaction program. The Department has confirmed that, in its view, the Town has complied with the requirements of the Act.

The Town advised the Department that it has engaged in a process of calling for EOIs and then inviting all of those who submitted EOIs to submit detailed tenders. The Town further advised that all those who submitted EOIs were in turn invited to submit bids. Given that all bidders who submitted an EOI were invited into the non-binding bid phase, the Department's view was that the requirements of section 3.58 of the Local Government Act have been complied with.

The Town engaged Protiviti, a probity advisory service, in order to have assurance that all steps in the processes that the Town was undertaking, and the step decisions made, would meet probity requirements. Protiviti have provided the following interim statement, acknowledging that a full Probity Report will be provided at the end of this process.

"Regarding the process to be followed, I refer to your email to me, dated 13 August, 11.53 am, and our phone discussion this morning. I can confirm that I am satisfied that the proposed process meets probity requirements. Once I have received and reviewed the Recommendation Report I will be able to provide you with a probity letter to confirm my validation of the process."

The Town's Strategic Community Plan, Section 2.2.1 outlines a strategy to 'Advance Port Hedland's sea, air and road transport infrastructure as the main logistics hub for the Pilbara, including developing Port Hedland International Airport as the gateway to the North West'. The granting of a lease of the airport will facilitate the airport's expansion and development consistent with this strategy.

ATTACHMENTS

1. Communications Program (Under Separate Cover)
2. Business Plan Public Submissions (Under Separate Cover)
3. Business Plan
4. Lease Boundary Plan
5. Land Use Plan
6. Port Hedland International Airport Community Perceptions Survey Research (Under Separate Cover)

21 August 2015

ATTACHMENT 3 TO ITEM 7.1.1



Business Plan

A PROPOSAL BY THE TOWN OF PORT HEDLAND TO ENTER INTO A MAJOR LAND TRANSACTION FOR THE LONG TERM LEASE OF PORT HEDLAND INTERNATIONAL AIRPORT

Local Government Act 1995 (WA)
(Section 3.59)

Town of
Port Hedland



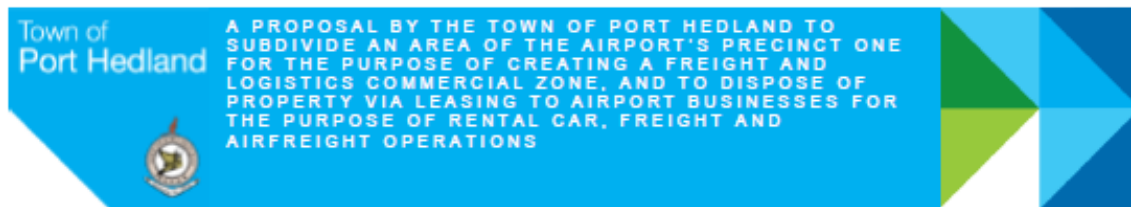
A PROPOSAL BY THE TOWN OF PORT HEDLAND TO SUBDIVIDE AN AREA OF THE AIRPORT'S PRECINCT ONE FOR THE PURPOSE OF CREATING A FREIGHT AND LOGISTICS COMMERCIAL ZONE, AND TO DISPOSE OF PROPERTY VIA LEASING TO AIRPORT BUSINESSES FOR THE PURPOSE OF RENTAL CAR, FREIGHT AND AIRFREIGHT OPERATIONS



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1.0 Introduction

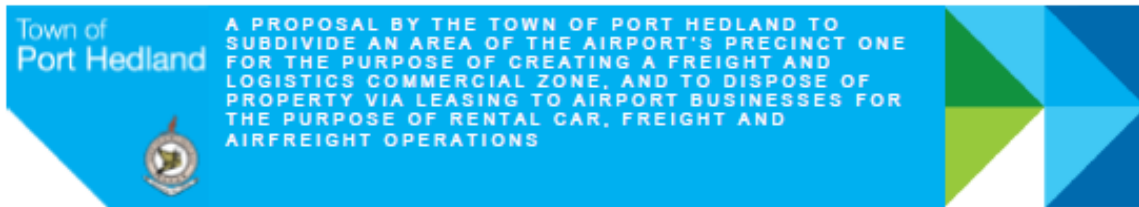
Port Hedland International Airport (**Airport**) is the gateway to Western Australia's North West and the strongly growing Pilbara region.

In the year ending June 2014, 512,000 passengers arrived and departed from the Airport, following increases of 75% and 21% over the last 5 and 10 years respectively. The Airport has nearly 70 flights a week, including daily flights to Perth and direct weekly flights to Brisbane, Melbourne and Bali. The Town of Port Hedland (**Town**) has planned for substantial investment over the next five years to create a modern and well-serviced airport that will provide a welcoming gateway to the North West.

The redevelopment plans include redevelopment of the Terminal and surrounding precinct, infrastructure upgrades, new subdivisions and new business opportunities. The new Terminal precinct will have a future capacity for more than 700,000 passengers per year. Plans are also in place to expand the Airport's regional, national and international flights with more airlines, more routes and more services.

Given these future plans, the Town is considering the granting of a long-term lease (**Lease**) over the Airport to a private sector party (**Lessee**) (the **Proposed Transaction**) so as to bring the appropriate funding capacity to the Airport and to transfer risk to the private sector. The Airport will continue to be owned by the Town. The Town has appointed The Airport Group as the advisor who is retained to guide the Town through the Proposed Transaction.

The Proposed Transaction will be considered a "major land transaction" for the purposes of the *Local Government Act 1995 (WA)* (**Act**). This Business Plan has been prepared in accordance with the requirements of Section 3.59 of the Act, which is required where a local government intends to enter into a major land transaction. The purpose of this Business Plan is to provide members of the public with the opportunity to consider the Proposed Transaction and provide comments to the Town during the six week public consultation period, prior to formal determination by the Town as to whether to proceed with the Proposed Transaction.



2.0 Background

2.1 Airport

The Airport is situated along Great Northern Highway between Port Hedland and South Hedland due east of Wedgefield industrial Estate.

The main point of entry is Waldren Drive which links the various Airport related facilities and incidental land uses including parking areas.

The land is currently zoned "Airport" under the Town of Port Hedland's Town Planning Scheme No. 5 and forms part of the Airport Development Plan Area.

"Airport" is a commercial zone and the objective of the Airport precinct is to:

- a) Protect options for future airport infrastructure within the precinct;
- b) Ensure that development within the precinct meets prevailing noise and height limitation standards associated with the operation of aircraft; and
- c) Ensure that any commercial development reinforces the transportation functions of the Airport.

2.2 Property Information

The Airport consists of four main precincts and designated airside facilities, which are as follows:

- Precinct one – Terminal & Regular Public Transport precinct. This is the most developed component of the Airport and includes a variety of land uses. Most are directly or incidentally related to the function of the runway and terminal, including car hire, terminal services, Royal Flying Doctor Service and Bureau of Meteorology, as well as freight and general aviation.
- Precinct two – Transient Worker Accommodation precinct. This precinct has been predominantly developed with two Transient Workforce Accommodation developments; the Mia Mia Airport site, and the 1200 person Port Haven Village site. Airservices Australia's navigation and communications infrastructure and Telstra's communications infrastructure is also located within this precinct.
- Precinct three – The ARFFS and Control Tower is located in this precinct, and it is expected that a portion of the Kingsford Smith Business Park may be included in this precinct as part of the Lease.
- Precinct Four – This precinct is located at the junction of Great Northern Highway and Port Hedland Road. This precinct is bounded by the Great Northern Highway, which effectively "wraps" around the precinct, and both runways. This precinct is undeveloped.



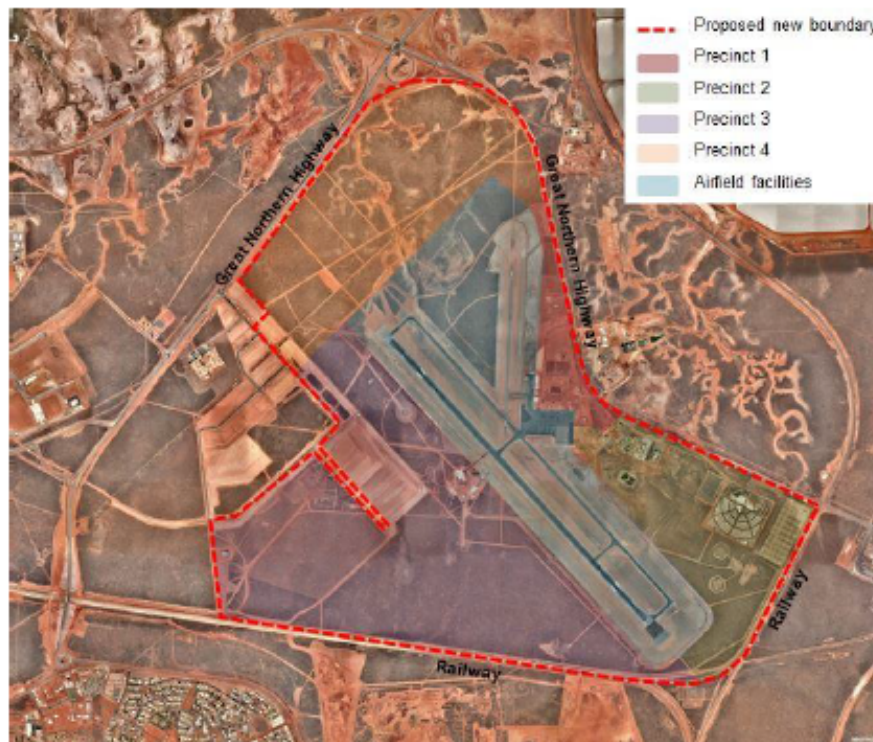


- Airside facilities – consisting of the existing airfield movement areas and comprises of two runways and adjoining taxiways. The main runway 14/32 is 2500m long and 45m wide with turning bays at each end. Runway 18/36 is 1000m long and 18m wide.

The land on which the Airport is located is owned in freehold by the Town. The Airport is largely contained on portions of Lots 15, 16, 29, 436, 9000, 9001, 9002 and 9003 as shown indicatively on Deposited Plan 402661 (version 2).

2.3 Lease Area

The proposed area of the Airport that will be the subject of the Lease is shown in red below. The Transient Workforce Accommodation sites, whilst included in the area shown below, may be excluded from the lease area in the final Lease documentation.




The marking on the map is indicative only.


2.4 Description of the Proposed Transaction

The Town is proposing to grant a long term lease to a private sector party for fair value. The Town may enter into a profit sharing arrangement with the Lessee.

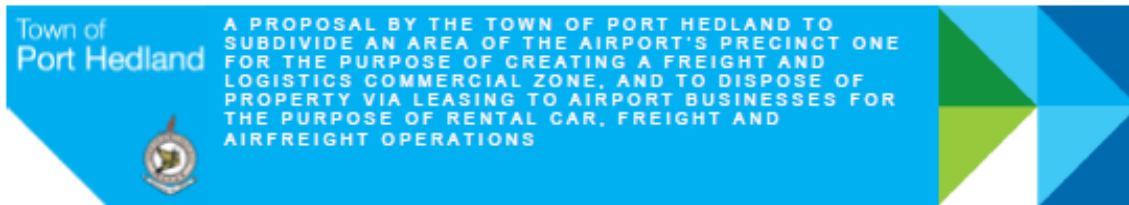
Town of
Port Hedland



A PROPOSAL BY THE TOWN OF PORT HEDLAND TO SUBDIVIDE AN AREA OF THE AIRPORT'S PRECINCT ONE FOR THE PURPOSE OF CREATING A FREIGHT AND LOGISTICS COMMERCIAL ZONE, AND TO DISPOSE OF PROPERTY VIA LEASING TO AIRPORT BUSINESSES FOR THE PURPOSE OF RENTAL CAR, FREIGHT AND AIRFREIGHT OPERATIONS



The Town would be looking to the Lessee to fund the future infrastructure and redevelopment of the Airport as passenger numbers grow, and to take responsibility for the operations and maintenance of the Airport. The Proposed Transaction will enable the Town to fund other priority public infrastructure over time. The Town may reserve certain rights in relation to land use, planning and potential commercial outcomes. The Town will retain land use planning control in accordance with the current Town of Port Hedland Planning Scheme.



3.0 Local Government Act 1995 Requirements

3.1 Creation of a Business Plan

Section 3.59 of the Act and Part 3 of the *Local Government (Functions and General) Regulations 1996* set out the requirements for Local Government in or entering into a major land transaction. A Business Plan must be prepared by the Town to include an overall assessment of the major trading undertaking or major land transaction and is to include details of:

- a) Its expected effect on the provision of facilities and services by the Local Government;
- b) Its expected effect on other persons providing facilities and services in the district;
- c) Its expected financial effect on the Local Government;
- d) Its expected effect on matters referred to in the Local Government's forward plan;
- e) The ability of the Local Government to manage the performance of the transaction; and
- f) Any other matter prescribed for the purpose of the subsection.

3.2 Expected Effect on the Provision of Facilities and Services by the Local Government 3.59 (3)(a)

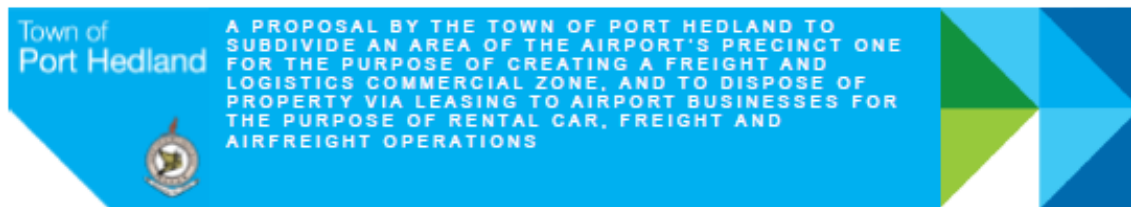
The Town will no longer be responsible for providing facilities and services at the Airport. Such services include management oversight of the Airport, airport operational and compliance management, all Airport administrative matters and financial management of the Airport. The Lessee will provide those services.

On this basis, it is expected that the Town will be released from the administration and running of the Airport.

The Town does not expect that the effects of the release of its operational and administrative obligations will be of an adverse nature.

3.3 Expected Effect on Other Persons Providing Facilities and Services in the District 3.59 (3)(b)

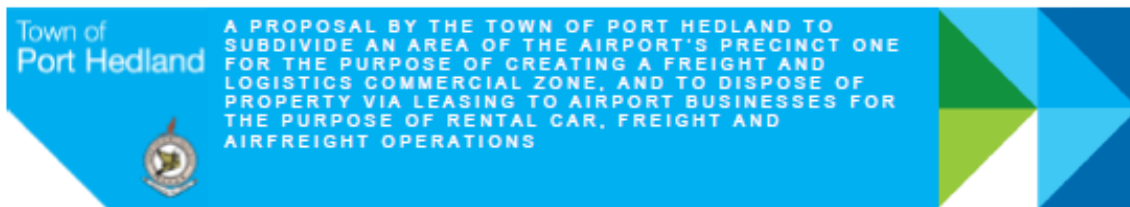
It is not anticipated that the Proposed Transaction will have any adverse impact on other persons who provide services and facilities within the Town. The current service providers at the Airport (who are engaged by the Town) will have the opportunity to continue providing those services under the Lessee. The development of land at the Airport will continue to be controlled under the current Town planning framework. In addition, the Proposed Transaction will not affect the development of other areas within the Town.



3.4 Its Expected Financial Effect on the Local Government 3.59 (3)(c)

The Proposed Transaction will have the following financial effects on the Town:

1. Remove the responsibility of operation of the Airport from the Town. As part of the Proposed Transaction the responsibility for the day to day operation of the Airport will transfer to the Lessee. This will include airport management oversight, airport operational and compliance management, all airport administrative matters and financial management. The costs of this ongoing administrative oversight will no longer be met by the Town and will become the responsibility of the Lessee.
2. Remove the revenue streams that are derived from Airport operations. The current dividends and internal revenue transfers that are provided from Airport operations will cease under the Lease. These revenue streams will be replaced by a different set of revenue streams. These may include the receipt by the Town of a one off capital payment for the granting of the Lease, or a combination of a one off capital repayment, periodic rent and a share of profits. These may also include the payment of rates and other outgoings by the Lessee.
3. As described above, it is expected that a substantive capital payment will also be brought to account on the Town's balance sheet.
4. Shift the obligation for ongoing long term capital investment from the Town to the private sector. Under the terms of the Lease, the responsibility for future capital investment in the Airport (including redevelopment and asset upgrades) will be shifted to the Lessee. This should have the net effect of freeing up future capital and Town resources for other community based projects.
5. Removes the obligation of transferring revenue received through the sale of land from the Kingsford Smith Business Park to the Airport reserve, (initial \$40 million in sales revenue).
6. Allow for the leverage of investment from the private sector, including the provision of investment opportunities that the Town is unable to currently access, and the attraction of business to the Airport. This may include future commercial and business development opportunities, which would generate further economic development opportunities for the Town.
7. Transfer the risk of operations away from the Town. Under the Lease, the Airport operational risks would be transferred to the Lessee. This will release the Town and its rate payers from future risk obligations that may arise from running the Airport.



3.5 Its Expected Effect on Matters Referred to in the Local Government's Current Forward Plan 3.59 (3)(d)

Town of Port Hedland *Strategic Community Plan 2012-2024*

Section 5.56 of the Act requires that a Local Government is to plan for the future of the district.

In accordance with this provision, the Town has developed the *Strategic Community Plan 2014-2024* which articulates the Council's strategic direction to 2024 and acts as the foundation to building an integrated planning and reporting framework. The Proposed Transaction will contribute directly to achieving the following 1-4 year Council priority set out in the plan.

Strategic Community Plan 2014-2024

- *2 Supporting a Diverse Economy – 2.2 a nationally significant gateway city and destination*
- *developing Port Hedland International Airport as the gateway to the North West.*

The Proposed Transaction will have the effect of supporting, and helping to achieve, a diverse economy. For example, as noted above, the leverage of investment from the private sector, including access to investment opportunities that the Town is unable to currently access, should generate further economic development for the Town, and contribute to a more diverse and robust economic base.

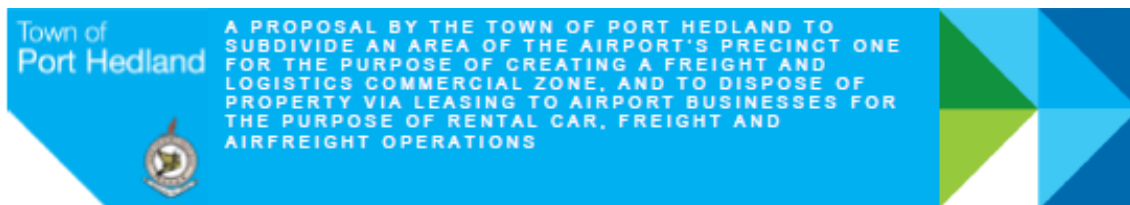
The Town of Port Hedland *Strategic Community Plan 2014-2024* can be sourced from the Town of Port Hedland website www.porthedland.wa.gov.au.

3.6 The Ability of the Local Government to Manage the Undertaking or the Performance of the Transaction 3.59 (3)(e)

The management of the Proposed Transaction is within the resources and capacity of the Town.

The Town has contracted the necessary expertise and resources to assist it in the management of this project.





3.7 Other matters 3.59 (3)(f)

At the same time as the public consultation for the major land transaction, the Town will commence a tender process for the procurement of the Lessee. The proposed process has two stages, with the first stage inviting expressions of interests and the second stage inviting tenders (to be conducted in two parts – the submission of non-binding tenders, followed by the selection of the two most acceptable tenderers who will submit binding tenders). The Town has retained the ability to discontinue the procurement process if the Council decides not to proceed with the Proposed Transaction.

The Town is not aware of any other matters that are relevant to the Proposed Transaction.

3.8 Public Consultation

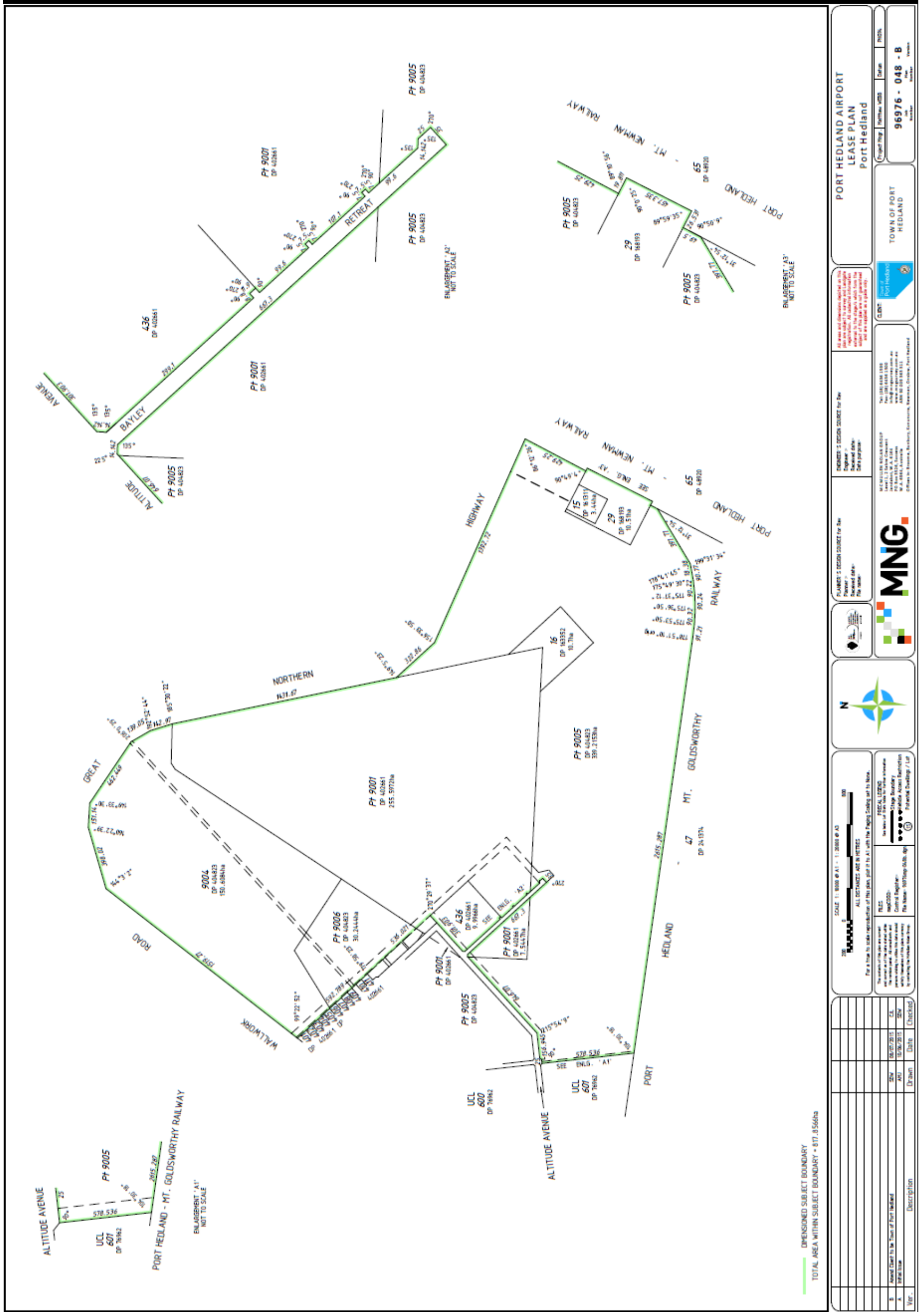
The Act requires the public consultation period is to be undertaken for a minimum period of six (6) weeks. Submissions received by the Town during the consultation period are to be considered by the Council at a meeting on 24 June 2015, prior to any determination being made to proceed.

3.9 How to Make Public Submissions

Members of the public are invited to provide feedback to the Town on this proposal by 2:30pm on Monday 8 June 2015. All public submissions must be in writing and addressed to:

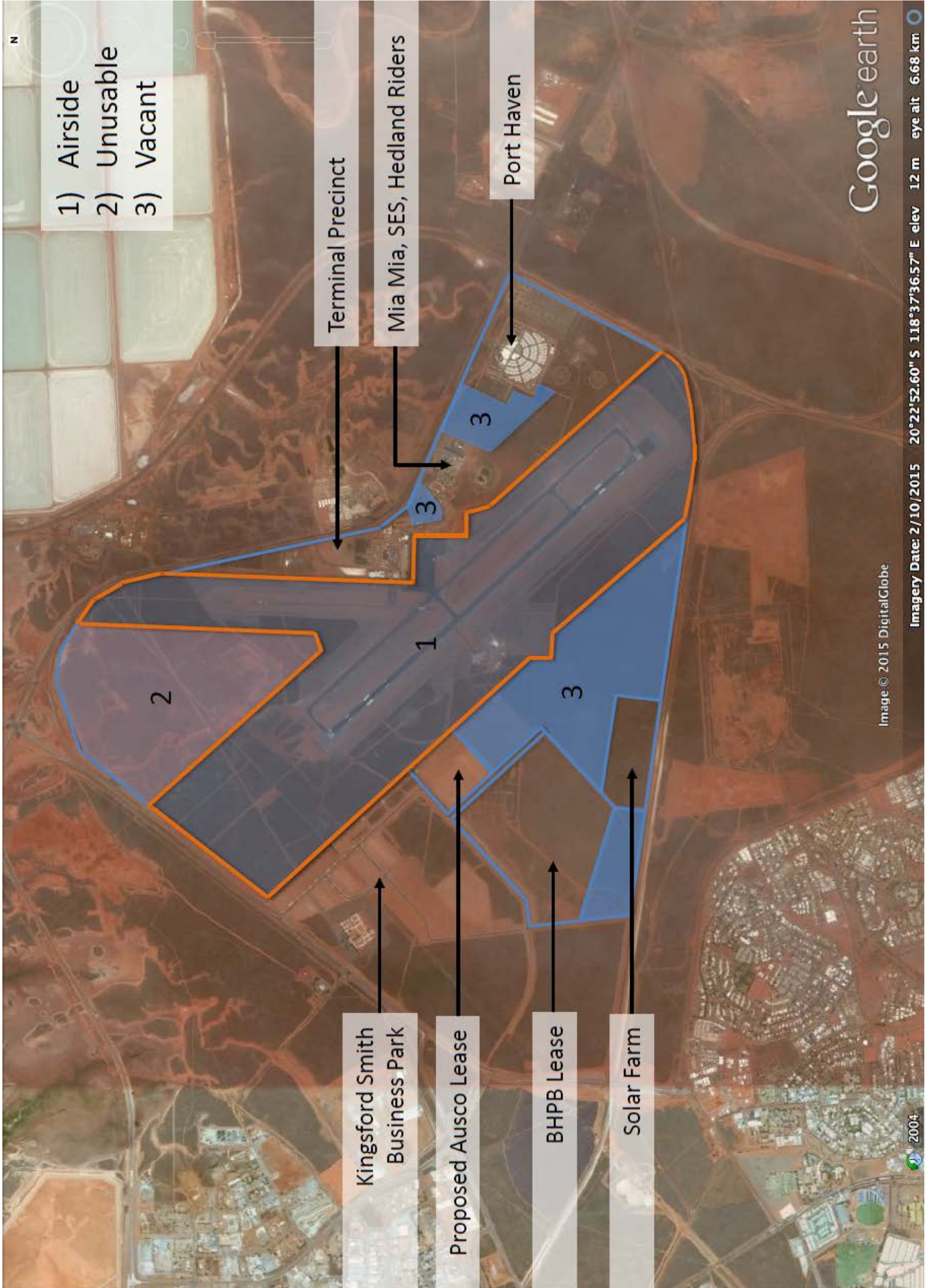
M.J. (Mal) Osborne
Chief Executive Officer
Town of Port Hedland
RE: Port Hedland International Airport
PO Box 41
Port Hedland WA 6721

Submissions may also be received via email:
council@porthedland.wa.gov.au



— DIMENSIONED SUBJECT BOUNDARY
 TOTAL AREA WITHIN SUBJECT BOUNDARY = 817.8566ha

<p>SCALE 1: 8000 @ A1 - 1:2000 @ A3 ALL DIMENSIONS AND DISTANCES ARE IN METRES</p>		<p>PROJECT: 96976 - 048 - B TOWN OF PORT HEDLAND PORT HEDLAND AIRPORT LEASE PLAN Port Hedland</p>	
<p>DATE: 18/07/2015 DRAWN: ANU CHECKED: CCL</p>		<p>PROJECT: 96976 - 048 - B TOWN OF PORT HEDLAND PORT HEDLAND AIRPORT LEASE PLAN Port Hedland</p>	
<p>DATE: 18/07/2015 DRAWN: ANU CHECKED: CCL</p>		<p>PROJECT: 96976 - 048 - B TOWN OF PORT HEDLAND PORT HEDLAND AIRPORT LEASE PLAN Port Hedland</p>	
<p>DATE: 18/07/2015 DRAWN: ANU CHECKED: CCL</p>		<p>PROJECT: 96976 - 048 - B TOWN OF PORT HEDLAND PORT HEDLAND AIRPORT LEASE PLAN Port Hedland</p>	



7.1.2 Long-Term Lease (Award of Tender 05/15 Long-Term Lease of Port Hedland International Airport)

Mal Osborne, Chief Executive Officer
File No. 30/12/0013.

DISCLOSURE OF INTEREST BY OFFICER

201516/024 RECOMMENDATION 1/ COUNCIL DECISION

MOVED: CR JACOB

SECONDED: CR HOOPER

That Council:

1. **Receive this report from the Chief Executive Officer on the outcomes of Tender 05/15 Port Hedland International Airport long-term lease;**
2. **Note that throughout the tender and transaction process the Town has received advice from:**
 - a. **Herbert Smith Freehills**
 - b. **McLeods Barristers and Solicitors**
 - c. **Protiviti**
 - d. **Department of Local Government and Communities**
 - e. **Greenwoods and Herbert Smith Freehills**
 - f. **Western Australian Treasury Corporation**
 - g. **The Airport Group**
3. **Note one tender bid was received at close of tenders on 11 August 2015;**
4. **Note that the Town's legal advisors (Herbert Smith Freehills) have confirmed that, as the bid was received by close of tenders, it is capable of acceptance by the Town in accordance with the terms and conditions in the Request for Tender;**
5. **Note that the Town's appointed probity advisor (Protiviti) has confirmed compliance with the tender probity protocols and will provide a full report in due course;**
6. **Note that Agreement for Lease, Lease and Tripartite Deed have been prepared by Herbert Smith Freehills and peer reviewed by McLeods Barristers and Solicitors.**

CARRIED 8/0

RECOMMENDATION 2

That Council:

1. **Award Tender 05/15 Port Hedland International Airport long-term lease to AMP Capital Investors Limited and Infrastructure Capital Group Limited (the Consortium) including the following terms:**

- a. The Lease area of 817.8971 hectares consisting of:
 - i. the whole of Lot 9004 on Deposited Plan 404823, being 150.6084 hectares;
 - ii. the whole of Lot 435 on Deposited Plan 404824, being 60 hectares;
 - iii. the whole of Lot 436 on Deposited Plan 402661, being 9.9966 hectares;
 - iv. the whole of Lot 437 on Deposited Plan 404824, being 3.3349 hectares;
 - v. the whole of Lot 438 on Deposited Plan 404824, being 3.3405 hectares;
 - vi. the whole of Lot 439 on Deposited Plan 404824, being 3.3349 hectares;
 - vii. the whole of Lot 16 on Deposited Plan 163352, being 10.7 hectares;
 - viii. the whole of Lot 15 on Deposited Plan 161311, being 3.44 hectares;
 - ix. the whole of Lot 29 on Deposited Plan 168193, being 10.51 hectares;
 - x. part of Lot 9006 on Deposited Plan 404823, being 30.2831 hectares;
 - xi. part of Lot 9007 on Deposited Plan 404824, being 245.8909 hectares; and
 - xii. part of Lot 9008 on Deposited Plan 404824, being 286.4578 hectares, - Attachment 1
- b. Sale of the Plant and Equipment to be transferred pursuant to the Agreement for Lease, being the plant and equipment located on the land and owned and used by the Town in conjunction with the operation of the Airport and the domain name for the Airport, and the grant of an exclusive licence to the plans and manuals relating to the construction, operation and maintenance of the Airport and Trademarks described in the Agreement for Lease
- c. A Lease value of \$205M comprised of up-front payment of \$165M and capital requirement of \$40M, which may be subject to an adjustment to take into account a change in interest rates between signing and completion
- d. A Lease term of fifty (50) years commencing on the date of the grant of the Lease, following the satisfaction of the conditions precedent in accordance with the Agreement for Lease
- e. There is no option provided for a Lease extension
- f. The Lease area is for the permitted use of operating an airport and associated commercial activities
- g. A commitment by the lessee to undertake \$40M in capital redevelopment works in the first five (5) years
- h. A special purpose vehicle or vehicles, and any of their direct or indirect holding entities, is able to be formed by the Consortium to hold the grant of the lease, provide finance and/or to operate the Airport

2. Authorise the Mayor and Chief Executive Officer to finalise the drafting of the Agreement for Lease; Lease; and associated transaction documents referred to in those documents (Transaction Documents), and to make further non-material changes to the Transaction Documents as the Mayor and Chief Executive Officer consider are required.
3. Authorise the Mayor and Chief Executive Officer to execute the Transaction Documents, including the fixing of the Town of Port Hedland Common Seal.

201516/025 AMENDED RECOMMENDATION 2/ COUNCIL DECISION**MOVED: CR JACOB****SECONDED: CR HUNT****That Council:**

1. Award Tender 05/15 Port Hedland International Airport long-term lease to AMP Capital Investors Limited and Infrastructure Capital Group Limited (the Consortium) including the following terms:
 - a. The Lease area of 817.8971 hectares consisting of:
 - i. the whole of Lot 9004 on Deposited Plan 404823, being 150.6084 hectares;
 - ii. the whole of Lot 435 on Deposited Plan 404824, being 60 hectares;
 - iii. the whole of Lot 436 on Deposited Plan 402661, being 9.9966 hectares;
 - iv. the whole of Lot 437 on Deposited Plan 404824, being 3.3349 hectares;
 - v. the whole of Lot 438 on Deposited Plan 404824, being 3.3405 hectares;
 - vi. the whole of Lot 439 on Deposited Plan 404824, being 3.3349 hectares;
 - vii. the whole of Lot 16 on Deposited Plan 163352, being 10.7 hectares;
 - viii. the whole of Lot 15 on Deposited Plan 161311, being 3.44 hectares;
 - ix. the whole of Lot 29 on Deposited Plan 168193, being 10.51 hectares;
 - x. part of Lot 9006 on Deposited Plan 404823, being 30.2831 hectares;
 - xi. part of Lot 9007 on Deposited Plan 404824, being 245.8909 hectares; and
 - xii. part of Lot 9008 on Deposited Plan 404824, being 286.4578 hectares, - Attachment 1

- b. Sale of the Plant and Equipment to be transferred pursuant to the Agreement for Lease, being the plant and equipment located on the land and owned and used by the Town in conjunction with the operation of the Airport and the domain names for the Airport, and the grant of an exclusive licence to the plans and manuals relating to the construction, operation and maintenance of the Airport and Trademarks described in the Agreement for Lease
 - c. A Lease value of \$205M comprised of up-front payment of \$165M and capital requirement of \$40M, which may be subject to an adjustment to take into account a change in interest rates between signing and completion
 - d. A Lease term of fifty (50) years commencing on the date of the grant of the Lease, following the satisfaction of the conditions precedent in accordance with the Agreement for Lease
 - e. There is no option provided for a Lease extension
 - f. The Lease area is for the permitted use of operating an airport and associated commercial activities
 - g. A commitment by the lessee to undertake \$40M in capital redevelopment works in the first five (5) years
 - h. A special purpose vehicle or vehicles, and any of their direct or indirect holding entities, is able to be formed by the Consortium to hold the grant of the lease, provide finance and/or to operate the Airport
3. Authorise the Mayor and Chief Executive Officer to execute the Transaction Documents, including the fixing of the Town of Port Hedland Common Seal.
4. Authorise the Mayor and Chief Executive Officer to negotiate and finalise changes to the Transaction Documents in respect of:
 - a) the Town's responsibility for remediation of contamination that existed before the commencement date of the Lease;
 - b) in addition to the capital works program and meeting its safety and regulatory requirements, the Lessee is required to further develop the Airport during the Term to meet demand and provide services, having regard to (among other things) good business practice, quality standards for similar airports and the commercial feasibility of the development; and
 - c) restrictions in relation to a proposed disposal of the Town's interest in the Land during the term of the Lease.
 - d) further non-material changes as the Mayor and Chief Executive Officer consider are required.

CARRIED 8/0

EXECUTIVE SUMMARY

Council has previously endorsed a review of Port Hedland International Airport's governance structure to determine if a more efficient and economically viable operating model is available. This review determined that a long-term lease was the most beneficial approach.

The Town of Port Hedland has through a tender process, sought expressions of interest, non-binding, and then binding bids from suitable parties to enter a long-term lease agreement for the Airport and land.

The Town also released a Business Plan for a major land transaction in accordance with section 3.59 of the Local Government Act 1995 for Port Hedland International Airport long-term lease. The business plan is the subject of a separate paper in this agenda.

The review of the governance structure identified a number of key foundation objective principles that Council wished to achieve from the long term lease of the Airport and land.

The Council endorsed the Chief Executive Officer (or delegate) to seek binding bids from shortlisted bidders and two short listed bidders were invited to submit binding bids accordingly. Binding bids were required to be submitted on 11 August 2015. One binding bid was received that complied with the Tender conditions. A further bid was received after the Tender close time and, in accordance with the tender conditions, cannot be considered.

The Town's legal advisors (Herbert Smith Freehills) have confirmed that, as the bid was received by close of tenders, it is capable of acceptance by the Town in accordance with the terms and conditions in the Request for Tender

The binding bid received is:

- from AMP Capital Investors Limited and Infrastructure Capital Group Limited (the Consortium);
- a bid which meets all of the pre-agreed Council objectives;
- above the benchmark fair market value established at the end of the non-binding bid process;
- from a well-credentialed investor in terms of funding capacity, operational capability, and suitability as a long term operator of the Airport; and
- ready and able to be completed in a timely manner.

Attachment 2 provides a detailed overview of the consortium.

The Town engaged a probity adviser, Protiviti, to ensure that the Town's proposed process satisfied all probity requirements. The Town will receive a completed probity audit report from Protiviti at the end of the process.

The Town requested a progress statement from Protiviti to confirm that all processes to date have been in accordance with probity requirements. Protiviti has communicated to the Town confirming that this is the case.

This report:

- Outlines the binding bid that has been received through tender 05/15
- Outlines the program and next steps.

DETAILED REPORT

Background

Pursuant to the requirements of the *Local Government Act 1995* for a disposal of land, the Town:

- embarked on a tender process to select a preferred partner to enter into a long term lease for the Port Hedland International Airport and land; and
- prepared a business plan and invited public comment on the major land transaction.

Tender 05/15 required interested parties to:

- lodge an Expression of Interest; and if invited
- submit a Non Binding Bid; and finally if invited
- submit a Binding Bid.

On 24 June 2015, Council endorsed the CEO (or delegate) to seek binding bids from two short listed bidders. Binding bids were required to be submitted on 7 August 2015. During the binding bid process one of the bidders requested an extension of time. An extension of time to the 11th of August 2015 was granted to both bidders after consultation with the probity advisor and the Town's legal counsel.

On 11 August 2015 one binding bid was received. A further bid was received after the Tender close time and, in accordance with the tender conditions, cannot be considered.

Governance Structure Objectives

The original review identified that any new governance structure should meet the following minimum objectives. The following points have been determined as clarification and endorsed outcomes from progressing with the Major Land Transaction and Long Term Lease of the Port Hedland International Airport:

- The transfer of some or all of the airport development, operational and financial risks from the local government:
 - i) Airport management report to the independent Lessee company Board, with the Town retaining strategic oversight through the lease and/or a presence on the Board
 - ii) Business planning and budgeting for the Airport be the sole responsibility of the Lessee company Board based on advice from airport management
 - iii) Any debt finance underpinning the lease remains the sole responsibility of the Lessee Company Board.
- Terms and conditions of any airport lease to provide the Town with adequate protections and ensure:

- i) A commercial focus in the way the Airport is developed, operated and managed;
 - ii) The Airport meets all regulatory insurance and licensing requirements;
 - iii) The Town is able to terminate the lease if the Airport fails to operate effectively as an airport;
 - iv) Essential services are maintained, including the Royal Flying Doctor Service, emergency services, airfreight and postal services;
 - v) General airport facilities continue to meet community expectations; and
 - vi) The quality of airport management expertise is maintained and wherever possible enhanced.
- The Airport maximises the use and the return from the existing land and facilities through planning and the efficient use of airport infrastructure. The Town would receive fair value from the Lessee for the Airport based on:
 - i) The Airport operates as a stand-alone entity;
 - ii) Prevailing market conditions;
 - iii) Committing the Lessee to undertake prescribed capital expenditure and other strategic requirements of the Town;
 - iv) The transfer of operational risks to the Lessee;
 - v) The ownership structure of the lease and the possibility of Town retention of an economic interest; and
 - v1) The level of supervision and transparency the Town is entitled to during the term of the lease

Any private sector partner will need to have a demonstrated experience that they recognise and understand the responsibility of managing transport infrastructure, as well as the financial resources to meet the development needs of the Airport over the long term.

The governance objectives have formed the basis for the development of the transaction documents for the long term lease and the conduct of the tender process to identify a lessee.

The bid that has been received meets all of the governance objectives. An analysis of the bidder's proposal against the Town's governance objectives is attached at Attachment 4.

The Agreement for Lease also includes for the transfer to the lessee of plant and equipment that the Town owns and uses for the operation of the Airport and the transfer of the domain name for the Airport, as well as a grant of an exclusive licence to use the name 'Port Hedland International Airport' and the Airport logo and the plans and manuals used to construct, operate and maintain the Airport. A list of plant and equipment to be transferred is attached (Attachment 5).

Expressions of Interest Process

The Town sought expressions of interest (EOI) from suitably qualified experienced organisations to provide proposals for the long-term lease of the Airport. The invitation for expressions of interest was advertised on 24 April 2015 and closed on 14 May 2015. Public notices were placed in the West Australian on 24 April 2015 and North West Telegraph on 29 April 2015 and 6 May 2015.

It was indicated in the scoping study report that, given the potential breadth of potential investors, a range of criteria should be included in the EOI that should be taken into account in assessing the suitability of a lessee for the grant of a lease of the airport. Accordingly, the criteria in the EOI were:

- *financial capability*: bidders were required to demonstrate the capacity and willingness to make the level of financial commitment that will be required both under the Lease and to fund the ongoing operations and development of the Airport;
- *community engagement and corporate responsibility*: bidders were required to demonstrate previous experience of managing community stakeholder issues and a willingness to play a positive role in the community and engage with the community on an on-going basis;
- *relevant experience*: bidders were required to demonstrate a strong track record of investing in infrastructure and property assets, preferably transport assets; and
- *conflicts of interest*: bidders were required to identify any actual or potential conflicts of interest and their proposed strategy managing any such conflict.

It is noted that 52 parties downloaded the EOI documentation and the Town received nine EOI's.

Each bidder who submitted an EOI was judged against all of these objective criteria and a recommendation whether to invite each bidder to proceed to the non-binding bid phase was made.

The Airport Group, as the Town's appointed subject matter expert, completed an initial evaluation and scoring of the expressions of interest, and then met with Town's internal evaluation team (Director Corporate Services, Director Works and Services, Director Community and Development Services, Manager Financial Services) to consider their evaluation and recommendations. The evaluation team reviewed the recommendations and confirmed that a recommendation report of the proposed acceptable bidders to be invited to submit non-binding tenders be prepared for final approval by the CEO.

Given the high quality of EOIs, all nine bidders were subsequently invited to submit non-binding tenders.

The non-binding process closed on 19 June 2015 and four non-binding bids were received from well-credentialed investors.

Bidders were assessed against the following objective criteria:

- *Identity of the Tenderer*: bidders were required to show that they had a robust structure and were supported and will continue to be supported by key organisations;
- *Price*: bidders were required to provide a purchase price that demonstrated value for money to the Town;
- *Financing arrangements*: bidders were required to show demonstrated financial capacity to finance the Transaction with capital investing with a long term investment horizon.

- *Time to completion:* bidders were required to demonstrate a reasonable and achievable timeframe for achieving financial completion of the transaction, with low risk for the Town;
- *Management and development of the Airport:* bidders were required to demonstrate a robust structure, suitable to operate the Airport and undertake the future development of the Airport;
- *Acceptance and amendments to the Transaction Documents:* bidders were required to accept the transaction documents and commercial principles or accept them, subject only to amendments which the Town is able to accept, having regard to the Town's preferred risk profile.

Each bidder who submitted a non-binding bid was judged against all of the objective criteria and a recommendation to invite two preferred parties to proceed to the binding bid phase was made.

The Airport Group, as the Town's appointed subject matter expert, completed an initial evaluation and scoring of the non-binding bid responses, and then met with the Town's internal evaluation team to consider their evaluation and recommendations. The evaluation team reviewed the recommendations and confirmed that a recommendation report of the two shortlisted parties to be invited to submit final binding tenders be prepared for final approval by the CEO.

The two parties were each invited to submit a final binding bid by 7 August 2015. This timeframe was subsequently extended by advising both parties and with the CEO's approval to 11 August 2015.

Only one bidder submitted a bid by the deadline. The second bidder submitted a bid after the deadline and, in accordance with the tender conditions, cannot be considered.

The shortlisted bidders were required to respond to the same evaluation criteria as for the non-binding bids but with further information and detail, in order to make their non-binding bids into a binding bid. The bidder who submitted a binding bid was judged against all of the objective criteria and a recommendation to appoint the preferred bidder has been made.

The Airport Group, as the Town's appointed subject matter expert, completed an initial evaluation and scoring of the binding bid, and then met with Town's internal evaluation team to consider their evaluation and recommendations. The evaluation team reviewed the recommendations and confirmed that a recommendation report to appoint the bidder as preferred be prepared for final approval by the CEO.

The final bid document was referred to the Town's legal advisors, Herbert Smith Freehills, to confirm compliance with the request for tender document. Herbert Smith Freehills have confirmed that, as the bid was received by close of tenders, it is capable of acceptance by the Town in accordance with the terms and conditions in the Request for Tender.

The Town's appointed probity advisor (Protiviti) has confirmed compliance with the tender probity protocols and will provide a full report in due course.

Binding Bid

The preferred bidder comprises AMP Capital Investors Limited (AMP Capital), on behalf of its managed funds and clients, supported by Infrastructure Capital Group Limited (ICG), on behalf of its managed funds and clients, (together, as the Consortium bid).

The binding bid received is:

- A bid which meets all of the pre-agreed Council objectives; Above the benchmark fair market value established at the end of the non-binding bid process;
- From well-credentialed investors in terms of funding capacity, operational capability, and suitability as a long term operator of the Airport;
- The Consortium has a successful track record of completing infrastructure investment transactions with staff having previously been board members of Perth Airport, Northern Territory Airports, Queensland Airports Corporation and Federal Airports Corporation
- The Consortium are experienced in overseeing the successful delivery of large scale capital works programs, including the recent \$100 million new entry road to Melbourne Airport, and Newcastle Coal Infrastructure Group's major terminal development works at the Port of Newcastle. Both of these projects have been completed successfully ahead of schedule and below budget; and
- Ready and able to be completed within a reasonable time frame.

A copy of the evaluation report is attached as Confidential Attachment 3. In summary:

- Identity of the Tenderer. The Consortium has demonstrated a robust structure; and is supported by key organisations. The Consortium are experienced airport and infrastructure investors with over \$160B in funds under management globally including airport and other infrastructure investments.
- Purchase price. The Consortium has provided a transaction value (\$205M) that demonstrates value for money for the Town. The total transaction value offered by the Consortium is well in excess of the Fair Value assessment of the airport provided by Western Australia Treasury Corporation (\$115M); the Fair Value assessment undertaken by the Town's advisors (\$137-\$157M); and the Fair Value assessment of the aggregation of the land, infrastructure, plant and equipment, and building assets undertaken by registered valuers, Asset Val (\$106M). The transaction value is approximately \$50M more than the highest fair value assessment.
- Financing Arrangements. The Consortium have provided evidence their bid is fully funded including the funding for the mandatory capital works expenditure to be undertaken in the first five years of the lease.
- Approvals. The Consortium have deep experience in owning and managing airports and other infrastructure assets in Australia and around the world and have experience in gaining all necessary approvals associated with these assets. The Consortium have confirmed they have the requisite internal approvals to undertake the transaction.
- Time to Completion. The Consortium are experienced and sophisticated infrastructure investors. They have demonstrated a reasonable and

achievable timeframe for achieving financial completion. Subject to the satisfaction of the conditions precedent (which include Western Australia Planning Commission approval to the grant of a lease in excess of 20 years), the Consortium are in a position achieve financial close by November / December 2015. The Consortium have also provided a draft transition plan, that will be used to facilitate the orderly transfer of the Airport's operations and management from the Town to the Consortium. A transition agreement will be negotiated between the Consortium and Town for the Town to provide transition support for a fee for a period following the grant of the lease.

- Management and Development of the Airport. The Consortium has demonstrated a robust structure, suitable to operate the Airport and undertake the future development of the Airport. The Consortium Airport governance structure includes an independent board, sub committees, and asset management support provided to the Port Hedland International Airport management team from its own in-house highly experienced airport, construction, property, and infrastructure management teams.
- Acceptance & amendments to Transaction Documents. The Transaction documents have been agreed between the Town and the Consortium in all significant respects and are at a stage that enables the Town to make a decision in respect of the documents. The parties will continue to negotiate the minor drafting changes to be approved via a delegation to the Chief Executive Officer and the Mayor, as noted below. The matters of significance discussed with the Consortium are described in Attachment 5 – Lease summary report

NEXT STEPS

Should the Council decide to appoint the Consortium as the Preferred Tenderer and authorise the Mayor and Chief Executive Officer to finalise the Transaction Documents, the Mayor and Chief Executive Officer will finalise the outstanding non-material issues on the Transaction Documents and all other items, as they consider are necessary, for the Town to enter into the long-term lease for the Port Hedland International Airport.

Once the documents have been executed by the parties, a process will be implemented to ensure the conditions precedent to the lease are met before the lease is granted and the airport lessee company becomes the airport operator. Once these conditions have been satisfied, financial close will occur and the Town will receive the lease proceeds.

FINANCIAL IMPLICATIONS

The advertised Business Plan indicated the following expected financial effects on the local government:	Now that the value and full detail of the proposed land transaction is known, additional comment is provided as follows:
Remove the responsibility of operation of the Airport from the Town. As part of the Proposed Transaction the responsibility for the day to day operation of the Airport will transfer to the Lessee.	The Airport Lessee proponent has requested the Town to provide administrative support for a period of no more than two years under a Transitional Services Agreement commercial principle. The Town would

<p>This will include airport management oversight, airport operational and compliance management, all airport administrative matters and financial management. The costs of this ongoing administrative oversight will no longer be met by the Town and will become the responsibility of the Lessee.</p>	<p>receive a payment of \$750k per annum for these services. The Lessee will seek to scale back and “insource” the Towns service scope progressively during that 2 year period and will seek to adjust the charge accordingly. After this period, the Town will be totally removed from the administration of the Port Hedland International Airport.</p>
<p>Remove the revenue streams that are derived from Airport operations. The current dividends and internal revenue transfers that are provided from Airport operations will cease under the Lease. These revenue streams will be replaced by a one off capital payment for the granting of the Lease.</p>	<p>The Town has remodelled its 2015/16 Budget to assess the financial impact of novating the Airport to a private party:</p> <ol style="list-style-type: none"> 1. Total Operating Revenue will reduce from \$70,149,377 to \$46,316,614. This impacts mainly in fees and charges revenue (reduction of \$15,881,604), and other revenue being the loss of the airport dividend to municipal funds and TWA lease revenues from Port Haven, Mia Mia and BHPB Lease area (reduction of \$7,451,158) 2. Total Operating Expenditure will reduce from \$69,722,925 to \$60,259,283. This impacts mainly in the following areas: <ul style="list-style-type: none"> • Employee costs – reduction of \$1,998,566 • Materials/Contracts – reduction of \$4,762,235 • Insurance expense – reduction of \$332,841 3. A budget shortfall of \$8,292,692 will eventuate due to the loss of recurrent municipal revenue streams as follows: <ul style="list-style-type: none"> • Airport dividend to Muni \$3,383,415 • Precinct 3 lease revenue \$3,795,258 • Port Haven lease revenue \$1,275,292 • Mia Mia lease revenue \$195,982 4. This revenue stream will be replaced by a recurrent return to the Town from the investment of the lease proceeds. The Town has engaged the Western Australian Treasury Corporation to assist in the development of an appropriate wealth management framework

	<p>which will include the creation of a stabilisation fund. Illustrative models have been presented to the Community and Council indicating a sustainable revenue stream to the Town over the life of the lease.</p> <p>5. Proceeds from the sale of lots at Kingsford Smith Business Park will be returned to municipal funds rather than the Airport Reserve. The forward Budget does rely on \$2.8m in annual proceeds to support municipal services; any proceeds over and above \$2.8m annually can be considered by Council for investment in the community or as a transfer to Reserve funds.</p>
The assessed fair value of the Airport's land and the depreciated value of the Airport assets will be taken off the Town's balance sheet under the Proposed Transaction.	The Town will seek advice from its auditors RSM Bird Cameron and the Department of Local Government and Communities on the appropriate accounting treatment for the disposal of the Port Hedland International Airport by way of long-term lease.
A substantive capital payment (the lease premium) will be brought to account on the Town's balance sheet.	It is proposed that Council establish a Reserve Fund titled Port Hedland International Airport Long Term Lease Proceeds for the purpose of accounting for the lease proceeds on the Towns balance sheet and to disburse funds as per the wealth management framework once finalised.
Shift all of the obligation for ongoing long term capital investment from the Town to the airport lessee company. Under the terms of the Lease, some of the responsibility for future capital investment in the Airport (including redevelopment and asset upgrades) will be shifted to the Lessee. This will have the net effect of freeing up future capital and Town resources for other community based projects.	The draft lease term sheets include a requirement for the Airport Lessee to spend \$40M on capital improvements over the first 5 years of the lease. This includes work on apron extensions, runway 18/36 rebuild, runway resheets, CCTV network, plant and equipment, security upgrades, car park ground transport reconfiguration and terminal redevelopment. The Town is committed to a \$19.6m capital spend on the Port Hedland International Airport over the next three financial years, with approx. \$8.5m budgeted to be expended in 15/16 on a Solar Farm, water and sewer services, apron strengthening, security fencing and crash gates, and other security upgrades. The balance of \$11.125m will be expended on water and sewer services. After this time, the

	Town will have no further capital obligations with respect to the Port Hedland International Airport, and the remaining balance of the Airport Reserve (estimated \$3m) will be available to be moved to the municipal fund once approved by Council.
Allow for the leverage of investment from the private sector, including the provision of investment opportunities that the Town is unable to currently access, and the attraction of business to the Airport. This may include future commercial and business development opportunities, which would generate further economic development opportunities for the Town.	
Transfer the risk of operations away from the Town. Under the Lease, the Airport operational risks would be transferred to the Lessee. This will release the Town and its rate payers from future risk obligations that may arise from running the Airport.	

The Consortium has provided a transaction value (\$205M) that demonstrates value for money for the Town. The total transaction value offered by the Consortium is well in excess of the Fair Value assessment of the airport provided by Western Australia Treasury Corporation (\$115M); the Fair Value assessment undertaken by the Town's advisors (\$137M-\$157M); and the Fair Value assessment of the aggregation of the land, infrastructure, plant and equipment, and building assets undertaken by registered valuers, Asset Val (\$106M). The transaction value is approximately \$50M more than the highest fair value assessment.

Transaction Fees

Council has previously endorsed the potential transaction costs to the Town of Port Hedland leading to the binding bid phase as being approximately \$1.2m.

In addition to these costs, Council resolved to accept the Transaction advisory Tender with fees being as follows:

- At the December 2014 OCM (decision 201415/147), Council resolved to award phase two of Tender 14/17 Port Hedland International Airport Governance Review and Long Term Lease Advisor to The Airport Group for a transaction value fee to be calculated based on 2% of the eventual transaction value with a performance fee to be negotiated by the Chief Executive Officer or his delegate.

- The Transaction Value of the binding bid is \$200m, consisting of a \$165m up-front cash premium and a \$35m capex commitment (being the net present value of the committed \$40m of capex over 5 years). The total fee payable to TAG under the agreed fee arrangements is \$4.75m, consisting of a \$4m base fee and a \$0.75m performance fee. However, the CEO has subsequently negotiated a fee discount such that the total fee payable to TAG is \$4.5m (excluding GST).

	Amount \$	Comments
Total Transaction Value	\$ 205,000,000	This is the total transaction value of the tender bid received
Less: Capital Expenditure	-\$ 40,000,000	The lease requires the lessee to invest \$40M in capital expenditure in the first 5 years of the lease
Lease Premium	\$ 165,000,000	This is the upfront cash payment (lease premium) the Town will receive if the lease were to go ahead
Less: Transaction Costs	-\$ 4,500,000	This is the fee payable to the Town's transaction advisor as per above commentary.
Net Funds available investment	\$ 160,500,000	This is the amount that will be invested into the recommended stabilisation fund

RISKS

The key risks can be summarised as:

The conditions precedents are not met and the preferred bidder cannot settle.

- If the transaction does not proceed, the Town will still be liable for its own transaction costs estimated to be \$1.2million.
- On acceptance of the binding bid, the Town will receive a deposit which is retained should the preferred bidder not settle due to their actions. There are certain conditions precedent that are beyond the bidder's control, such as obtaining WAPC consent to the grant of the long term lease. If these conditions precedent are not met, then the deposit is repaid to the bidder and each party must bear its own costs.

The Airport Lessee does not operate the airport to the appropriate standards.

- The lease contains specific mechanisms whereby the lease can be terminated should the Airport Lessee fail to rectify certain material defaults, after the appropriate notification by the Town and a failure to rectify. The lessee must also comply with all statutory and regulatory requirements in respect of the operation of the Airport.

The Airport Lessee doesn't undertake the capital works program.

- This is a default under the lease. The Town has the option of requiring a payment of the amount that was required to be invested by the lessee.

Risks under Lease

- The key matters that have been negotiated under the lease are described in Attachment 5 – Lease Summary Report
- It is not possible in transactions of this type to fully transfer all risk to the lessee in respect of pre-existing land conditions. The lease will provide that the Town will retain risk in respect of pre-existing land conditions that could not have been known to the lessee when it was preparing its bid.
- The Town has also given limited warranties to the Lessee about the Airport, the land and the transaction. Should any of the warranties be legally proven to be incorrect, the Town may have a liability to the lessee.

Interest rate risk

It should be noted that the base up-front payment may be subject to an adjustment for movements in interest rates between the date the transaction is signed and the date of financial close. These adjustments could be either up or down, depending on the movement of interest rates. It being noted that financial close can occur any time after signing within the specified 6 month timeframe.

Probity Advisor

The Town engaged Protiviti, a probity advisory service, in order to have assurance that all steps in the processes that the Town was undertaking, and the step decisions made, would meet probity requirements. Protiviti have provided the following interim statement, acknowledging that a full Probity Report will be provided at the end of this process.

“Regarding the process to be followed, I refer to your email to me, dated 13 August, 11.53 am, and our phone discussion this morning. I can confirm that I am satisfied that the proposed process meets probity requirements. Once I have received and reviewed the Recommendation Report I will be able to provide you with a probity letter to confirm my validation of the process.”

STATUTORY AND POLICY IMPLICATIONS

The Transaction is a disposal of property under the Act. The lease must be granted in accordance with section 3.58 of the Act.

It is usual for transactions of this type that the opportunity to acquire the lease and the associated business opportunity is tendered to market in order that the Town can obtain the best price from a competitive process and proceed to assess and select the most acceptable tender to it. Tendering is one of the permitted methods of disposing of property (section 3.58(2)(b) of the Act).

The Transaction is a major land transaction and, in addition to tendering the opportunity for the lease, the Town must prepare and advertise a business plan in accordance with the requirements of section 3.59 of the Act. The business plan and the submissions received are the subject of a separate report to Council.

The outcomes from the non-binding and binding bid phase of the Tender have been deemed confidential in accordance with the Local Government Act (1995) section 5.23 part 2(e)(iii) so as to protect commercial advantages for Council as it seeks to finalise the transaction.

The Local Government Act (1995) section 5.70 (2) An employee who has an interest in any matter in respect of which the employee is providing advice or a report directly to the council or a committee must disclose the nature of the interest when giving the advice or report. It is noted that to ensure impartiality a Tender assessment panel of internal officers and external independent advisors has been established to complete the Tender assessment. Senior officers involved in the Tender process all completed Declaration Forms in May 2015 declaring whether they had any conflicts in relation to this process. Copies of these forms are in Attachment 7.

The Town has met with and written to the Department of Local Government and Communities on its proposed program and process, and has liaised with the Department throughout the transaction program. The Department has confirmed that, in its view, the Town has complied with the requirements of the Act.

The Town's Strategic Community Plan, Section 2.2.1 outlines a strategy to 'Advance Port Hedland's sea, air and road transport infrastructure as the main logistics hub for the Pilbara, including developing Port Hedland International Airport as the gateway to the North West'. The granting of a lease of the airport will facilitate the airport's expansion and development consistent with this strategy.

ATTACHMENTS

1. Overview of Preferred Bidder (Under Separate Cover)
2. Compliance with Council's stated objectives
3. Evaluation of the Binding Bid (Confidential Attachment Under Separate Cover)
4. Summary of Transaction Documents
5. List of plant and equipment to be transferred (Under Separate Cover)
6. Senior Officers' Declaration of Interest (Under Separate Cover)

21 August 2015

ATTACHMENT 2 TO ITEM 7.1.2

Compliance with Council's Stated objectives.

The original review identified that any new governance structure should meet the following minimum objective.

Council Objectives	Outcome
1. The transfer of some or all of the airport development, operational and financial risks from the local government:	The structure of the airport lease transfers complete responsibility for operating, maintaining and developing the airport to the Airport Lessee.

Airport management report to the independent Lessee company Board, with the Town retaining strategic oversight through the lease and/or a presence on the Board

Independent Board. The Consortium's proposed organisation structure outlined in their tender is below. Refer to the Confidential attachment, *Overview of the Preferred Bidder and Transaction Structure* for a more detailed discussion. The Board of Directors of the managing entity will comprise representatives from the airport lessee's shareholding group represented by AMP Capital Investors Limited and Infrastructure Capital Group. The board will be supported by a number of sub committees and asset management support from the shareholder's other businesses.

The Consortium has significant experience in effective corporate governance across infrastructure assets and it is expected to bring best practice governance to the management of the Airport

The roles of the Board, sub committees and asset management support functions proposed by the bidder in their tender submission are outlined below.

Board

The board's key functions:

- Governance oversight;
- Leading alignment between investors and the Town in terms of strategic and master planning;
- Regular budget and business plan reviews; and
- General Manager appointment and performance monitoring.

Board sub-committees

The board subcommittees' key functions:

- Committees represented by management and investors; and
- Focused on giving attention and further analysis to specific board responsibilities, such as audit, remuneration, finance and capital management.

Asset management support

The board and management will be supported by the asset management capabilities of AMP Capital and ICG:

- Assistance with development of strategic plan and budgets; and

Leverage airport portfolio expertise across key value drivers and risk management including regulatory compliance, capital program management, retail, property and financing.

Town retaining strategic oversight.

The airport lease requires the airport lessee to report to the Town on a 6 monthly basis on a range of matters including:

1. Compliance with the Lease;
2. Capital investment;
3. Regulatory compliance (including in respect of the Civil Aviation and Safety Authority and the Office of Transport Security);
4. Aerodrome technical inspection;
5. Achievement of development milestones;
6. Efficiency, quality of service and infrastructure capacity at the Airport;
7. Infrastructure maintenance;
8. Annual insurance certificates;
9. General operations including passenger numbers and aircraft movements;
10. The environment;
11. Compliance with its operational and development obligations;
12. Progress against any approved Upgrade Plan;
13. The progress of the Capital Works Program (until it is completed);
14. Progress against the current master plan; and
15. Progress against creation of the terms of reference and establishment of the community consultation group.

Business planning and budgeting for the Airport be the sole responsibility of the Lessee company Board based on advice from airport management

The lease transfers all day-to-day management responsibility to the lessee.

Following completion, the Lessee will work with the Airport General Manager (to be appointed) and Airport management team (mainly transferring existing employees) to develop and agree a business plan, setting out the key priorities and key performance indicators for management to achieve.

The Consortium's asset management teams will oversee and assist with the execution of the business plan and implementation of strategic initiatives.

The Consortium have indicated the business plan will be updated on an annual basis and approved by the Airport Lessee board.

Any debt finance underpinning the lease is quarantined from impacting on the Council's balance sheet.

There is no recourse to the Town regarding any debt facilities the Airport Lessee may have in place regarding the airport, other than if the Town terminates the lease. In that case, in accordance with standard practice, the amount of the termination payment is calculated by references to

<p>Terms and conditions of any airport lease to provide the Town with adequate protections and ensure:</p>	<p>the debt owed, capped at the market value of re-leasing the Airport for the remainder of the Term or the amount that the Town receives by re-leasing the Airport for the remainder of the Term.</p> <p>The airport lease transfers all operational and compliance obligations and liabilities to the Airport Lessee. The Airport lessee is required to have adequate insurances in place that protect the airport asset. The lease has termination provisions in place so that if the Airport Lessee is not fulfilling certain material obligations the Town has the right to Terminate the Airport Lease (subject to any cure provisions contained within the Lease and the Tripartite Deed) .</p>
<p>A commercial focus in the way the Airport is developed, operated and managed;</p>	<p>The Consortium is focused on delivering improved commercial returns to the investors in the Airport, many of whom are Australian superannuation funds.</p>
<p>The Airport meets all regulatory insurance and licensing requirements;</p>	<p>This requirement brings a commercial focus to the development of the airport including improving airport services, improved terminal facilities, encouraging competition, and facilitating development of the airport land.</p> <p>The Airport Lessee takes full responsibility for operational and compliance obligations and liabilities of the Airport. The Airport Lease requires the Lessee to have adequate and current insurance in place for the term of the Lease and report to the Town on a six monthly basis on a range of matters including compliance and insurance.</p>
<p>The Town is able to cancel the lease if, after an appropriate cure period for financiers, the Airport fails to operate effectively as an airport;</p>	<p>The insurances the Lessee is required to put in place include;</p> <ul style="list-style-type: none"> <input type="checkbox"/> Industrial special risks; <input type="checkbox"/> Public and products liability; <input type="checkbox"/> Motor vehicle third party liability; and <input type="checkbox"/> Airport owners and operators liability. <input type="checkbox"/> Workers compensation; . <p>The Lessee also proposes to put in place the following additional insurances:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Contract works material damage; <input type="checkbox"/> Business interruption; <input type="checkbox"/> Directors and officers liability; and <input type="checkbox"/> Environmental impairment liability. <p>The Airport lease provides for the Town to terminate the lease if the Lessee defaults (and does not rectify) under certain circumstances including; maintaining access, failing to meet material maintenance or repair obligations, insolvency and cancellation of a major approval. The right to terminate is subject to the lessee and its financiers having cure rights and the associated cure periods expiring. Upon termination, a termination payment is payable, but capped at the amount that the Town gets for re-letting the</p>

Essential services are maintained, including the Royal Flying Doctor Service, emergency services, airfreight and postal services

airport for the residual of the term (or the valuation of re-leasing for the residual term).

The airport lease requires the lessee at all times to operate the airport and

1. provide for the use of the Land as an airport;
2. provide for access to the Airport by international, interstate and intrastate air transport;
3. provide for access to the Airport by general aviation;

General airport facilities continue to meet community expectations;

The lease requires the lessee to continue the Town's practice of providing an annual rebate to the RFDS of its annual landing fees for the term of RFDS's lease. Within the first three years of the lease the lessee must undertake the feasibility into the development of a freight hub.

Required to maintain and invest in the airport. The lease requires the land and structures are kept in good and substantial repair at all times in accordance with Good Operating and Maintenance Practice.

The quality of airport management expertise is maintained and wherever possible enhanced;

The existing PHIA staff will be offered the opportunity for employment with the Airport Lessee.

Both shareholders have extensive experience in Airport ownership and management including; Perth Airport, Northern Territory Airports, Queensland Airports Corporation, Federal Airports Corporation Melbourne Airport and Launceston Airport in Australia, and Newcastle Airport in the United Kingdom.

Upon completion, the Lessee will put in place a best practice corporate governance framework to oversee the strategic direction of the Airport and ensure effective management going forward.

The framework will comprise:

☐☐☐ Establishment of an independent board constituted by majority experienced non-executive directors with broad and relevant skillsets;

☐☐☐ Appointment of an independent chairman to the Board;

☐☐☐ Establishment of relevant board subcommittees with specific functions; and

☐☐☐ Asset management teams of AMP Capital and ICG to work collaboratively with the Airport at board and management levels to implement and execute strategic initiatives.

The Airport maximizes the use and the return from the existing land and facilities through planning and the efficient use of airport infrastructure.

The Town would receive fair value from the Lessee for the Airport. Fair value for the Airport lease be assessed on the following criteria:

The Airport operates as a stand-alone entity

Prevailing market conditions are taken into account;

A fully constituted financial model of long term discounted cash flows likely to be generated by the Airport is used to calculate fair value;

The consideration structure in which the Lessee intends to provide the Town with fair value for granting the lease;

Committing the Lessee to undertake prescribed capital expenditure and other strategic requirements of the Town;

The transfer of operational risks to the Lessee;

The roles of the board, sub committees and asset management teams and organisation structure has been outlined in section 1 above.

The Airport Lessee must comply with and abide by the Town of Port Hedland Town Planning scheme.

The Airport Lessee is required to invest a minimum of \$40m in upgrading the terminal and other airport improvement projects.

In addition by nature of the shareholding of the Lessee's entity and their requirements to generate returns on their investments the airport lessee is incentivised to invest further capital to continue to develop the airport, attract business, undertake initiatives that will increase passenger numbers.

The total transaction value of the offer from the preferred bidder is in excess of the fair market assessments undertaken by;

- (i) Registered valuer's AssetVal Pty Ltd (\$106m); and
- (ii) WATC (\$115m).

The Airport Lease will be held by a special purpose vehicle . The Consortium will be the ultimate holding entities of this special purpose vehicle .

The offer of the lease of Port Hedland Airport was widely exposed to the market, through a three staged, open market tender process. There were 52 downloads of the invitation for expressions of interest document, from which 9 EOI's were received from domestic and off shore investors, 4 non binding bids, and 1 binding bid.

TAG prepared a detailed financial model comprising long-term cash flows to determine the assessment of fair market value. The Western Australian Treasury Corporation have built their own model to determine their assessment of the Value of the airport to the Town.

The bidder has proposed a cash lump sum up front payment of \$165m, and committed to investing a further \$40m over 5 years in terminal redevelopment and other airport improvement works.

An essential term of the lease is that the lessee must invest \$40m into developing the airport within the first 5 years of the lease. The Lessee must report to the Town on the progress of such investment every 3 months.

A strategic requirement of the CAPEX investment is that the Airport Terminal must be upgraded to a minimum standard.

The airport lessee must undertake a feasibility study into the development of the Airport Freight Hub within the first three years of the Airport Lease.

All operational risks of the airport are transferred to the Airport Lessee. The Airport Lessee takes full responsibility

<p>The ownership structure of the lease and the possibility of Town retention of an economic interest; and</p> <p>The level of supervision and transparency the Town is entitled to during the term of the lease.</p>	<p>for operational and compliance obligations and liabilities of the Airport.</p> <p>The W.A. Local Government Act prohibits the Town from holding or acquiring an interest in a body corporate.</p>
<p>Any private sector partner will need to have a demonstrated experience that they recognise and understand the responsibility of managing transport infrastructure, as well as the financial resources to meet the development needs of the Airport over the long term.</p>	<p>The Town retains oversight into the operations and development of the airport. The airport lessee must meet with the Town every 6 months and report on a range of items that have been outlined above.</p> <p>The Town retains full town planning control as the local government planning authority for the region. Any development on airport requires the Town approval through the normal Town planning process and procedures.</p> <p>The Town retains the rights to inspect the airport upon reasonable notice, and the Lessee is required to provide any information that the Town reasonably requires.</p> <p>Both shareholders have experience in managing transportation infrastructure.</p> <p>Both AMP Capital and ICG are experienced in overseeing the successful delivery of large scale capital works programs, including the recent \$100 million new entry road to Melbourne Airport, and Newcastle Coal Infrastructure Group's major terminal development works at the Port of Newcastle.</p> <p>Both shareholders have significant financial resources: AMP Capital manages over A\$7.3 billion in infrastructure equity globally; ICG is a specialist independent infrastructure funds management firm with over A\$1.4 billion across investments in the transport, power, commodity and social infrastructure sectors.</p>

ATTACHMENT 4 TO ITEM 7.1.2
Summaries of transaction
documents

SUMMARY OF TRANSACTION DOCUMENTS REPORT

1 Structure

1.1 Corporate structure

The Consortium is proposing to acquire the Airport under a fairly complex structure, which has a flow on effect to the transaction documents.

In summary:

- the Town would lease the whole airport site to an "Asset Trust" which is indirectly owned by some or all of the Investors (through an interposed "Asset Hold Trust").
- the Asset Trust would sub-lease some of the airport site – ie the "core airport" part of it – to an "Operating Co" (through an interposed "Hold Co"). The Operating Co would be indirectly owned by some or all of the Investors.
- the Operating Co would be the actual operator of the airport. It would be the entity which dealt with airlines and airport users. Airport employees would be employed by this company.
- the Asset Trust would separately sub-lease other parts of the broader airport site to other users – eg the leases for the TWA's and presumably any other future developments outside the "core airport" functions.
- the Investors (or some of them) would also indirectly own a "Finance Co" (through two layers of interposed trusts called "Finance Hold Trust" and "Finance Trust"), which is the entity which would borrow senior debt and on-lend it to the other entities in the group. We expect that the terms of finance would require all entities in the broader structure to grant security to the financiers.

The "Asset Trust / Operating Co" structure is fairly common in recent privatisations, except for the fact that the sublease to Operating Co will not cover the entire airport site. That said, the matters in the dot-point list below need to be resolved satisfactorily to make the structure work before the Transaction Documents are executed.

1.2 Securitisation structure

The Consortium has also used a securitisation structure. That means that under Lease, the Asset Trust will pay rent to the Town for the term of the Lease. The Town will sell this rental stream to the Finance Trust in return for payment by the Finance Trust to the Town of a purchase price equal to the value of that rental stream. Although the purchase price is paid on the day that the Lease is granted, the rent payments are assigned to the Finance Trust over the term of the Lease as they arise. The Town would have no further interest in the rental stream (and would not need to chase rental payments or take any other sites) – the Finance Trust would inherit all of these responsibilities. In other words, the Town would receive an agreed up-front payment but would not receive rental income over time. The purchase price paid to the Town is not refundable by the Town to the Finance Trust if the lease is terminated earlier than planned (even though the rental stream purchased would not be paid in that circumstance).

Securitisation structures are commonly used for State infrastructure developed under public private partnerships. It should be noted that the "securitised lease" structure is not common in the context of the privatisation of existing assets.

The Town will enter into a Receivables Purchase Deed and a Payment Directions Deed to give effect to this structure.

2 Agreement for Lease

Clause		Summary
2, 22.3	Deposit	<p>A deposit of 5.5% of the overall purchase price will be payable upon execution of the Agreement for Lease.</p> <p>The deposit will be forfeited to the Town if Completion does not occur because a Lessee Party fails to fulfil an obligation under the Agreement for Lease or repudiates the agreement. The deposit will be refunded if completion does not occur for any other reason.</p>
3	Conditions Precedent	<p>There a number of conditions precedent to the commencement of the Lease. These include the attainment of all required operational and other approvals (including WAPC approval) and execution of all transaction documents.</p>
3.7	Destruction or damage	<p>If the Airport or the land is destroyed or damaged by fire, storm or any other cause, the Lessee may unwind the Agreement for Lease (if the damage renders the Airport substantially incapable of operation for a certain period) or the amount payable by the Lessee is reduced by an amount equal to the resultant reduction in value.</p>
4	Adjustment	<p>The Agreement for Lease contains a mechanism to adjust the purchase price both before and completion, to take account of things such as prepayments and accruals, interest rates and accrued annual leave.</p>
5	Completion	<p>Completion will occur once all of the conditions precedent have been satisfied. At completion, the parties will exchange all documents (including the executed transaction documents). The Town will deliver the assets to be transferred and hand over operation of the Airport. The Lease will commence on the day of completion.</p>
7	Records Shed Sublease	<p>Following execution of the Agreement for Lease, the Lessee must enter into a sublease with the Town with respect to the records shed on the Land (in an already agreed form).</p>
8	New Hedland Riders Sublease	<p>The Lessee is required to use all reasonable endeavours to agree new sublease with the Hedland Riders Association Inc. and a new sublease</p>

	and New SES Sublease	with the State Emergency Services as soon as reasonably practicable after Completion, each in accordance with terms annexed to the Agreement for Lease.
9	Title and risk	The transferring assets and the operation of the Airport remain at the risk of the Town until 12pm on the commencement date of the Lease.
11	Town Employees	OpCo must make written offers of employment to all of the Town's employees engaged at the Airport on terms and conditions substantially similar to and no less favourable than their current terms and conditions.
13	Period before Completion	<p>The Town has certain obligations from the execution of the Agreement for Lease until completion to ensure continuity of business at the Airport, including to operate and maintain the Airport in the usual and ordinary course.</p> <p>The Town is prohibited from undertaking certain actions without the Lessee's consent, such as accepting a termination of or amendment to an existing sublease. The Town can only employ any new employees at the Airport or make material changes to the terms and conditions of employment in the ordinary course of business, unless it obtains the Lessee's consent.</p>
16	Duty	The Lessee must pay all duty in respect of the Lease and OpCo must pay all duty in respect of the remaining transaction documents.
17	Indemnity	The Lessee and OpCo indemnify the Town for loss arising from the Lessee's and OpCo's use of the land or the Airport (except for where it relates to the negligence or wilful act or omission of the Town or its personnel). OpCo indemnifies the Town against any loss arising from a failure to make a required offer of employment or an act or omission of OpCo after completion.
18	Lessee Warranties	The Lessee and OpCo give warranties in respect of their ability to enter into and perform the Agreement for Lease and their solvency.
19/Schedule 9	Town Warranties	<p>The Town gives a limited number of warranties, including in relation to its authority to enter into the transaction documents, disclosures made, the assets to be transferred, the land, the relevant Town employees, the existing subleases, the intellectual property rights that will be licenced, litigation against the Town and the Town's compliance with laws.</p> <p>The Lessee and OpCo can only make a claim for a breach of warranty where that claim exceeds \$100,000. The maximum liability of the Town for a claim in connection with a warranty is:</p> <ul style="list-style-type: none"> for claims in respect of certain fundamental warranties relating to the title to the land – the total of the purchase price; and

- for all other warranty claims - \$20,000,000.

20	Confidentiality obligations	The Lessee and OpCo have confidentiality obligations with respect to all information relating to the Town, its business, the Agreement for Lease and the other transaction documents.
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3 Lease

Clause		Summary
N/A	Term	The Lease is over the entire Airport site and is for a term of 50 years commencing on the day of completion under the Agreement for Lease.
2	Grant of lease	The Lease is granted as a lease concurrent to the existing subleases.
2.4	Retention of purchase price	If the Lease is terminated early, the Town will be entitled to retain the whole of the purchase price.
4	Release and indemnity	<p>The Lessee will release the Town from all claims by the Lessee in respect of an act or omission by the Town as lessor (save for certain circumstances where the Town or its personnel have contributed to that loss).</p> <p>The Lessee will also indemnify the Town against certain losses the Town suffers as a result of the Lessee not acting in accordance with the terms of the Lease and its use, operation and occupation of the land during the term (save for certain circumstances where the Town or its personnel have contributed to that loss).</p>
5	Existing and future tenancies	<p>The Lessee will assume responsibility for all existing tenancies.</p> <p>The Town will continue to receive community contributions under the TWA leases. The Lessee must obtain approval from the Town to any new lease in respect of a TWA facility.</p>
5.6	Solar Farm Sublease	The Town can require the Lessee to enter into a sublease with respect to the proposed solar farm at any time during the first five years of the term. This sublease will be for a term of 19 years and 11 months for a "peppercorn" rent.
6	Competing facility	The Town agrees not to permit the development of another airport facility within the Town district in direct competition with the Airport (to

the extent the Town's approval is required and to the extent permitted by law).

7	Licencing and Approvals	The Lessee must (or procure that the Airport Manager must) maintain all necessary approvals and comply with all relevant laws.
9	IP licence	The Town will retain ownership of the intellectual property and the plans and manuals relating to the Airport and grant the Lessee an exclusive licence (which can be passed on to OpCo) to use this intellectual property.
10	Capital Works Program	The Lessee must incur capital expenditure of \$40 million within the first 5 years of the term (subject to any extension because of a delay caused by the Town). This capital expenditure must include a redevelopment of the terminal to a prescribed standard. The Lessee is required to prepare an initial master plan within the first 2 years of the term that outlines the capital works to be undertaken.
11	Master Plans	The Lessee is required to prepare a master plan every 10 years from the approval of the initial master plan. Each master plan will relate to a period of 20 years.
13	Environmental obligations	<p>The Lessee is required to maintain the environment of the land in accordance with its obligations at law.</p> <p>The Town will take responsibility for remediation of contamination that existed before the Commencement Date and is identified in a baseline environmental report. The Town is only required to remediate this pre-existing contamination if necessitated by the severity of the contamination and the development activities of the Lessee (as and when development occurs).</p> <p>The Lessee is responsible for remediation of all other contamination.</p>
13.6	Aboriginal Site	The Lessee will be responsible for the management and preservation of Aboriginal Sites. The Lessee will prepare a Cultural Heritage Management Plan setting out how it intends to manage any Aboriginal heritage issues (to be approved by the Town).
14	Operations	<p>The Lessee is responsible for all operational services on and associated with the Land. The Lessee can outsource the management of the Airport, however must obtain the Town's approval in certain circumstances (not to be unreasonably withheld). The Town gives its consent to the appointment of OpCo as the initial Airport Manager under the Lease.</p> <p>The Lessee will, when procuring goods or services in connection with the Airport that exceed \$50,000, use reasonable endeavours to engage a regional supplier or make a request for tender or quotes (and in the latter case, is required to apply the price discounts set out in the Regional Price Preference Policy of the Town current at the time).</p>

15	Maintenance obligations	<p>The Lessee accepts the full and sole responsibility for the condition, operation, repair, replacement, maintenance and management of the land and the structures during the term.</p> <p>The Lessee must notify the Town (as soon as practicable after it becomes aware) of certain defects. If the Town forms the opinion that the Lessee has not complied with certain maintenance obligations, the Town may give a notice requiring the Town to remedy the default within a specified period.</p>
16	CCTV	<p>The Town will have use of the CCTV control room in the Airport and rights to maintain and operate the Town's CCTV network on the land for the first ten years of the Lease. If the Lessee (acting reasonably) considers that the CCTV control room needs to be relocated within the first 10 years to facilitate development works, the parties will work together to relocate the CCTV control room on the land.</p>
18	Town Works	<p>The Town is required to use reasonable endeavours to procure that the upgrade works to its core network services (currently being undertaken by third parties) are completed.</p>
19	Naming rights	<p>The Town has reserved the right to name and rename roads and terminals on the land.</p>
20	Insurances	<p>The Lessee will be required to take out insurances on terms and conditions acceptable to the Town.</p>
21	Rates	<p>The Lessee must pay all rates and taxes. If the Town imposes rates over any part of the land which is not used for a commercial purpose (as defined) and not rated as at the commencement of the Lease, the Town is required to reimburse to the Lessee a sum equivalent to the amount of the relevant portion of rates.</p>
23	Assignment and subletting	<p>The Lessee cannot assign or otherwise deal with its interest in the Lease without the Town's prior written consent except in certain limited circumstances.</p> <p>A change in control of the Lessee or OpCo is taken to be an assignment (other than a change in control where control directly passes to one or more affiliates (as defined) of the Lessee).</p>
24	Solar Farm	<p>During the first five years of the term, the Town may request that the Lessee enters into a power purchase agreement in respect of the solar farm, which must include a provision for a 10% discount on power.</p>
25	Freight hub	<p>The Lessee is required to undertake a feasibility study at its own cost for a freight hub within three years of commencement of the Lease.</p>

26	Community consultation and development	<p>The Lessee is required to undertake proactive and timely consultation with the community (on matters that can be reasonably expected to affect the community) and establish a community consultation group.</p> <p>The Lessee is also required to continue the Town's practice of providing an annual rebate to the Royal Flying Doctors Service (to the value of its landing fees).</p>
27	Force Majeure Events	<p>A force majeure event is an event that directly prevents or delays a party from performing its obligations under the Lease, where it is beyond that party's reasonable control and that party has taken reasonable steps to mitigate the effect of the event.</p> <p>The Lessee is excused from performance of its covenants under the Lease to the extent that (and for the period that) a force majeure event prevents them from meeting its obligations. The Lessee must take all reasonable steps in a timely manner to rectify the force majeure event. The Town may elect to require the Lessee to provide a cure plan for the force majeure event. If the Lessee fails to give effect to an approved cure plan, the Town may give effect to that plan at the Lessee's costs.</p>
29	Termination	<p>The Town has the right to terminate, subject to appropriate cure periods, in circumstances including</p> <ul style="list-style-type: none"> • the Lessee breaches certain core covenants in a material respect; • the Lessee is in default of a material repair or maintenance obligation; and • the Lessee fails to complete the Capital Works Program and fails to pay to the Town the balance of the \$40 million that has not been spent.
31	Change in Law	<p>If a law changes in a manner that affects the position of the parties, the parties will use reasonable endeavours to agree on variations to the Lease to restore the relative commercial positions of the parties.</p>
35	Handover	<p>The Lessee must hand back all leased assets in a prescribed minimum condition. The Town has the option of purchasing the non-fixed plant and equipment at the end of the Lease for market value.</p> <p>The Lessee cannot demolish or remove structures in the last 10 years of the term with the Town's consent.</p>
36	Reporting	<p>The Lessee must provide written reports every six months on a range of matters, including in relation to compliance with the Lease, capital investment, regulatory compliance and the outcome of community consultation.</p>

4 Tripartite deed

4.1 Overview of document

The parties to the Tripartite Deed are the Town, the Lessee, Finance Co and National Australia Bank, as "Security Trustee".

The Security Trustee enters into the Deed (and acts) on behalf of the lenders to the Lessee for this transaction. Finance Co is a related entity of the Lessee and the entity that will borrow the funds to finance the Lessee's entry into and performance of the Lease. There are a number of finance documents that set up the Consortium's financing arrangements that the Town will not be a party to (Finance Documents).

The Lessee proposes to grant security over its rights under and interest in the Lease to the Security Trustee to secure the amounts owing under the Finance Documents. This security is referred to as the "Senior Security" and includes mortgages and security agreements over the interest of the Lessee in the Lease and transaction documents.

The purpose of the Tripartite Deed is to recognise the Senior Security and other matters that the parties have agreed in relation to the Lease, such as the exchange of notices and the Security Trustee's rights to remedy defaults of the Lessee under the Lease and, if the Lease is terminated, to provide for the payment of a termination amount to the financiers to the Lessee group (as described further below).

4.2 Key terms

Clause		Summary of clause
2.1	Town consent	The Town consents to the creation of the Senior Security (and the encumbrances under that Senior Security) over the Lease.
2.3	Restrictions on Security Trustee	The Security Trustee must observe requirements under the Lease in relation to assignment and handover.
3	Insurance Proceeds	There is an acknowledgement by the parties that all insurance proceeds paid out for the damage or destruction of Structures must be used in accordance with the Lease provisions on insurance proceeds.
4 & 5	Notices and information	<p>The Security Trustee must provide the Town with a copy of any notice of a breach of, or default under, the Finance Documents or any notice in respect of any enforcement of the Senior Security with respect to the Lessee or the Lessee's assets.</p> <p>If any of the above events occur, the Security Trustee must provide the Town with further relevant information (including information that the Town reasonably requires to determine if the relevant circumstances also constitute a default under the Lease).</p>
6	Lease default and cure rights	The Town must provide the Security Trustee with a copy of any notice of a default under the Lease.

Clause	Summary of clause
7	Step-in and step-out
<p>The Security Trustee may (but it not obliged to) take steps to remedy (or procure another party to remedy) that default.</p> <p>The period during which the default must be remedied is the period (if any) allowed for remedy or cure of that Lease Default under the Lease, but commencing from the date on which the Security Trustee received a copy of the notice relating to that default from the Town.</p>	
<p>The Security Trustee may exercise its "step in rights" under the Senior Security, being the right to appoint an external administrator to the Lessee (or some of the secured property), enforce a security or take possession of secured property. The Security Trustee may engage an "enforcing party" (e.g. a receiver or an administrator) to exercise these rights.</p> <p>If this occurs, the enforcing party will be obliged to perform all of the Lessee's obligations and enforce all rights under the Lease for the step-in period as if it were the Lessee under the Lease.</p> <p>The step-in period expires upon notice by the Security Trustee. The Town may terminate the Lease if, when that notice is provided, the Lessee is suffering an insolvency event or any other Lease default is continuing.</p>	
8	Enforcement by Security Trustee
<p>If the Security Trustee proposes to assign, novate, transfer or otherwise dispose of the Lessee or the Lessee's interest in the Lease in accordance with the Finance Documents, the Security Trustee must obtain the Town's prior written consent to the proposed purchase.</p> <p>The Town must not unreasonably withhold its consent if it satisfied as to a number of matters, including that the proposed transferee has the necessary financial, commercial and technical capacity, the disposal would not result in any adverse effect on the Town under the Lease, and the transferee is not (and is not intending to be) a Key User during the term of the Lease.</p>	
9	Release
<p>The Security Trustee releases the Town from certain liabilities in connection with the occupation of the Airport Site and indemnifies the Town against any liability arising by reason of an act or omission of, the performance of the transaction documents by, and the use, possession, operation or occupation of the Airport Site by an enforcing party.</p>	
10, 11 and 12	Termination of Lease
<p>If the Town terminates the Lease before the expiry of the Term, the Town must make a termination payment to the Security Trustee.</p> <p>The amount of the termination payment is the lesser of the debt owed to the Lessee's financiers, and the amount recoverable by the Town by re-leasing the facilities for the residual term (or the independently determined value of re-leasing for the residual term, if the Town elects not to do so). If the new lease price is greater than the outstanding debt, the Town can keep the excess. If the new lease price or valuation is less than outstanding debt, the Town only needs to pay the amount</p>	

Clause		Summary of clause
		of that lease price or valuation to the Security Trustee (and the Security Trustee bear the risk of the difference from outstanding debt).
14	Caveats	The Security Trustee is prohibited from lodging any caveats over the Airport Site without the Town's prior written consent. The Town cannot unreasonably withhold its consent if the caveat refers only to the Security Trustee's interest under the Lease.
16	Representations and warranties	Each party gives limited representations and warranties to each other party in relation to entry into and enforceability of its obligations under the deed.
18	Termination	The deed terminates on the first to occur of discharge of the Senior Security, the Lessee becoming entitled to have the Senior Security discharged or the termination of the Lease (without prejudice to rights accruing as a consequence of the termination).

7.1.3 Long-Term Lease Recommendations (Port Hedland International Airport Long-Term Lease – Wealth Management Strategy Framework)

Mal Osborne, Chief Executive Officer
File No. 30/12/0013.

DISCLOSURE OF INTEREST BY OFFICER

Not Applicable

201516/026 RECOMMENDATION/ COUNCIL DECISION

MOVED: CR JACOB

SECONDED: CR MELVILLE

That Council:

1. Note that Tender 05/15 Long Term Lease of the Port Hedland International Airport was awarded to AMP Capital Investors Limited and Infrastructure Capital Group Limited (the Consortium) at the Special Council Meeting of 25 August 2015 for a total transaction value of \$205M, including an upfront payment \$165M, which may be subject to an adjustment to take into account a change in interest rates between signing and Completion and normal settlement adjustments, and a capital expenditure commitment of \$40m over the first five years of the lease;
2. Note the Town convened a working group to consider options for the a wealth management for the lease proceeds and request the Chief Executive Officer to thank members of the working group for their significant contribution;
3. Note the Town will require replacement revenue of approximately \$8.2M per annum from the lease proceeds to offset the loss of recurrent revenue streams from the Port Hedland International Airport and Transient Worker Accommodation facilities as follows:
 - i. Airport dividend to municipal fund \$3,383,415
 - ii. Precinct 3 lease revenue \$3,795,258
 - iii. Mia Mia lease revenue \$195,982
 - iv. Port Haven lease revenue (Inc. Carpark) \$1,275,292

(Note: the Town has made other adjustments to its Annual Budget so the Town does not require the total sum of the above revenues)

4. Note that the Town has engaged Western Australian Treasury Corporation to assist in the development of a wealth management framework for the lease proceeds;
5. Authorise the Town of Port Hedland to receive the lease proceeds from the Port Hedland International Airport long term lease transaction which are to be dealt with as follows:

- a. Settlement funds following Completion under the Agreement for Lease are to be transferred into the Town of Port Hedland Municipal Bank Account with no funds to be accessed or disbursed by the Town for any purpose other than in accordance with paragraph (b);
 - b. Authorise the CEO to liaise with the Western Australian Treasury Corporation to establish an agreement to immediately invest all of the funds into an interest bearing account in accordance with section 6.14 of the *Local Government Act 1995 (WA)*, with the following disbursement arrangements:
 - i. Transaction fees totalling \$4,500,000 (excluding GST) are to be paid to The Airport Group as per engagement terms with the Town of Port Hedland;
 - ii. Interest earnings on the fund are to be transferred to the Town of Port Hedland Municipal Bank Account on a monthly basis (in arrears);
 - iii. No further funds can be accessed until the Council has resolved on a wealth management framework which is to include rules on how funds are to be disbursed in the future and what the authorisation mechanisms are for release of funds.
6. Note the Town's proposed model of a stabilisation fund to be considered in the wealth management framework is presented as Appendix 1 to this report and summarised as follows:
- a. 100% of net lease proceeds are to be invested in the stabilisation fund;
 - b. The stabilisation fund is to be depleted over the life of the 50-year lease to ensure consistent investment back into the community on a periodic basis i.e. every 5 years;
 - c. Disbursements are proposed as follows:
 - i. Annual disbursement from the fund paid into the Town's Municipal Bank Account, commencing at \$8.2M in year 1 and depleting by 2% per annum each year thereafter;
 - ii. Disbursement from the fund paid into the Town's Strategic Reserve (Development Fund), commencing at \$10M in year 1, with disbursements in years 5, 10, 15, 20, 25, 30, 35, 40 and 45, increasing by a \$1M increment every five years;
 - iii. Annual disbursement from the fund paid into the Town's Municipal Bank Account for the purpose of additional funding for community grants and projects, administered under the Town's existing Funding and Donations Policy (as replaced from time to time), commencing at \$150,000 in year 1 and indexed for 3% inflation each year thereafter.
7. Note the illustrative example provided in Appendix 1, with the net proceeds from the long term lease of the Port Hedland International Airport providing for an indicative total direct investment sum of circa \$172M (in nominal dollars) back into the Port Hedland community over a 50 year period, based on the assumption of a \$160M principal investment sum, annual interest returns of 5%, and disbursements made as per point 6 above;

8. **Note the illustrative example provided in Appendix 1, with the net proceeds from the long term lease of the Port Hedland International Airport providing for an indicative total disbursement to the Town of Port Hedland of circa \$216M (in nominal dollars) over a 50 year period for the purpose of maintaining services to the community, based on the assumption of a \$160M principal investment sum, annual interest returns of 5%, and disbursements made as per point 6 above;**
9. **Request that the CEO commence a community engagement process post the October 2015 local government elections to seek input into the structure of the wealth management framework inclusive of the Town's proposed model/structure of the Stabilisation Fund, as per point 6 above.**
10. **As part of the Wealth Management Framework that Council consider how a model for rate relief could be supported under the structure of the stabilisation fund.**

CARRIED 8/0

201516/027 RECOMMENDATION/ COUNCIL DECISION

MOVED: CR JACOB

SECONDED: CR HOOPER

11. **In order to account for the Port Hedland International Airport long term lease proceeds on the Town's Balance Sheet, pursuant to section 6.11 of the Local Government Act 1995, resolve to establish a Reserve Account titled Port Hedland International Airport Long Term Lease Proceeds. The purpose of the Reserve is to account for the lease proceeds from the long term lease of the Port Hedland International Airport and disburse funds as per the wealth management framework once finalised.**

CARRIED BY ABSOLUTE MAJORIT VOTE 8/0

EXECUTIVE SUMMARY

The Town of Port Hedland has, over a staged process, sought expressions of interest, non-binding, and then binding bids from suitable parties to enter into a long-term lease agreement for the Port Hedland International Airport. The Town has also released a Business Plan for a major land transaction in accordance with section 3.59 of the Local Government Act 1995 for Port Hedland International Airport long-term lease.

Should the Town choose to proceed with the major land transaction following consideration of submissions in response to the Business Plan and also accept the binding bid recommendation from the tender process (05/15) the Town will need to determine the most appropriate structure to manage the lease proceeds received.

The Western Australian Treasury Corporation (WATC) has been engaged to provide the Town with advice on potential structures and investment options. On the advice of the WATC, the Town is also seeking legal and tax advice on the structure and governance arrangements for the proposed fund for the lease proceeds.

DETAILED REPORT

Investment of Lease Proceeds

In addition to the appointment of WATC a working group was formed to help develop an initial framework on the Town's administration of the long-term lease proceeds. Given the size of the potential lump-sum payment, it was considered prudent for the Town to determine how and where the funds will be used and quarantined.

Some of the questions the Town needs to consider include:

- What are the goals for the use of the lease proceeds?
- What are the relevant requirements under the Local Government Act 1995 (WA) and Local Government (Financial Management) Regulations 1996?
- Over what timeframe should the funds be used?
- Where will investments be made?
- Current market risks?
- Risk tolerance levels?
- Transparency of investments?
- Is the fund structure appropriate for the Town's needs?
- Who has ultimate control of the funds?

The Town will consider these questions in the establishment of key governance principles for the management and establishment of a framework for the prudential stewardship of the lease proceeds. The current governing principles under consideration will involve the establishment of a wealth/stabilisation fund.

An illustration is provided below to demonstrate how such a model would work; and to highlight that there is a significant financial benefit to be achieved by receiving a lump sum payment and investing this principal over the long term.

Illustrative Stabilisation Fund: The model is underpinned by the following assumptions:

- a. 100% of net lease proceeds are to be invested in the stabilisation fund;
- b. The stabilisation fund is to be depleted over the life of the 50-year lease to ensure consistent investment back into the community on a periodic basis i.e. every 5 years;
- c. Disbursements are proposed as follows:
 - i. Annual disbursement from the fund paid into the Town's Municipal Bank Account, commencing at \$8.2M in year 1 and depleting by 2% per annum each year thereafter;
 - ii. Disbursement from the fund paid into the Town's Strategic Reserve (Development Fund), commencing at \$10M in year 1, with

disbursements in years 5, 10, 15, 20, 25, 30, 35, 40 and 45, increasing by a \$1M increment every five years;

- iii. Annual disbursement from the fund paid into the Town's Municipal Fund for the purpose of funding community grants and projects, administered under the Town's existing Funding and Donations Policy, commencing at \$150K in year 1 and indexed for 3% inflation each year thereafter.

Year	Principal Sum	Interest Earnings	Draw Down			Closing Balance
			Recurrent - Return to Town - Municipal Fund	Development Fund - Strategic Reserve	Community Grants/Projects - Community Grants Reserve	
		5.00%				
1	160,000,000	8,000,000	-8,200,000	-10,000,000	-150,000	149,650,000
2	149,650,000	7,482,500	-8,036,000		-154,500	148,942,000
3	148,942,000	7,447,100	-7,794,920		-159,135	148,435,045
4	148,435,045	7,421,752	-7,561,072		-163,909	148,131,816
5	148,131,816	7,406,591	-7,334,240	-11,000,000	-168,826	137,035,340
6	137,035,340	6,851,767	-7,114,213		-173,891	136,599,003
7	136,599,003	6,829,950	-6,900,787		-179,108	136,349,059
8	136,349,059	6,817,453	-6,693,763		-184,481	136,288,267
9	136,288,267	6,814,413	-6,492,950		-190,016	136,419,715
10	136,419,715	6,820,986	-6,298,162	-12,000,000	-195,716	124,746,823
11	124,746,823	6,237,341	-6,109,217		-201,587	124,673,360
12	124,673,360	6,233,668	-5,925,940		-207,635	124,773,453
13	124,773,453	6,238,673	-5,748,162		-213,864	125,050,099
14	125,050,099	6,252,505	-5,575,717		-220,280	125,506,607
15	125,506,607	6,275,330	-5,408,446	-13,000,000	-226,888	113,146,603
16	113,146,603	5,657,330	-5,246,192		-233,695	113,324,046
17	113,324,046	5,666,202	-5,088,807		-240,706	113,660,736
18	113,660,736	5,683,037	-4,936,142		-247,927	114,159,703
19	114,159,703	5,707,985	-4,788,058		-255,365	114,824,265
20	114,824,265	5,741,213	-4,644,416	-14,000,000	-263,026	101,658,036
21	101,658,036	5,082,902	-4,505,084		-270,917	101,964,937
22	101,964,937	5,098,247	-4,369,931		-279,044	102,414,209
23	102,414,209	5,120,710	-4,238,833		-287,416	103,008,670
24	103,008,670	5,150,434	-4,111,668		-296,038	103,751,397
25	103,751,397	5,187,570	-3,988,318	-15,000,000	-304,919	89,645,730
26	89,645,730	4,482,286	-3,868,669		-314,067	89,945,281
27	89,945,281	4,497,264	-3,752,609		-323,489	90,366,447
28	90,366,447	4,518,322	-3,640,030		-333,193	90,911,546
29	90,911,546	4,545,577	-3,530,830		-343,189	91,583,104
30	91,583,104	4,579,155	-3,424,905	-16,000,000	-353,485	76,383,870
31	76,383,870	3,819,194	-3,322,158		-364,089	76,516,817
32	76,516,817	3,825,841	-3,222,493		-375,012	76,745,153
33	76,745,153	3,837,258	-3,125,818		-386,262	77,070,330
34	77,070,330	3,853,516	-3,032,043		-397,850	77,493,953

35	77,493,953	3,874,698	-2,941,082	-17,000,000	-409,786	61,017,782
36	61,017,782	3,050,889	-2,852,850		-422,079	60,793,742
37	60,793,742	3,039,687	-2,767,264		-434,742	60,631,423
38	60,631,423	3,031,571	-2,684,246		-447,784	60,530,964
39	60,530,964	3,026,548	-2,603,719		-461,218	60,492,576
40	60,492,576	3,024,629	-2,525,607	-18,000,000	-475,054	42,516,544
41	42,516,544	2,125,827	-2,449,839		-489,306	41,703,226
42	41,703,226	2,085,161	-2,376,344		-503,985	40,908,058
43	40,908,058	2,045,403	-2,305,054		-519,104	40,129,303
44	40,129,303	2,006,465	-2,235,902		-534,678	39,365,189
45	39,365,189	1,968,259	-2,168,825	-19,000,000	-550,718	19,613,906
46	19,613,906	980,695	-2,103,760		-567,239	17,923,601
47	17,923,601	896,180	-2,040,647		-584,257	16,194,878
48	16,194,878	809,744	-1,979,428		-601,784	14,423,409
49	14,423,409	721,170	-1,920,045		-619,838	12,604,697
50	12,604,697	630,235	-1,862,444	-10,734,055	-638,433	-0
			-			
			215,847,651	-155,734,055	-16,919,530	

Based on the assumptions included in the model, the following value is demonstrated:

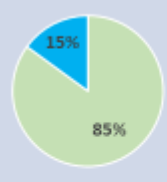

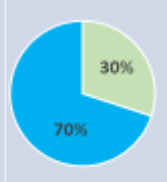

1. The net proceeds from the long term lease of the Port Hedland International Airport provides for an indicative total direct investment sum of circa \$172M (in nominal dollars) back into the Port Hedland community over a 50 year period, based on the assumption of a \$160M principal investment sum, annual interest returns of 5%, and disbursements as indicated.
2. The net proceeds from the long term lease of the Port Hedland International Airport provides for an indicative total disbursement to the Town of Port Hedland of circa \$216M (in nominal dollars) over a 50 year period for the purpose of maintaining services to the community, based on the assumption of a \$160M principal investment sum, annual interest returns of 5%, and disbursements as indicated.
3. Total growth in the fund of circa \$228M (in nominal dollars) based on the assumption of a \$160M principal investment sum, annual interest returns of 5%, and disbursements as indicated.

An interest rate of 5% has been applied in the above illustrative model. WATC have provided an overview of potential investment returns based on different investment mixes (see below table):

- Cash 2.9%
- Conservative 4.2%
- Balanced 5.7%
- Growth 6.2%

A return of 5% sits in the mid-range between the conservative and balanced portfolios. The objective of the wealth management framework should be to maximise the interest returns on the fund, within an approved risk-tolerance threshold, as a higher return has a compounding effect on the balance of the fund. Using the illustrative example above, if an interest rate of 6.2% was applied (as per the WATC expected returns on a growth investment portfolio), and assuming the same method and level of disbursement, the balance of the fund would grow to circa \$450M (in nominal dollars) by year 50. This could potentially provide for over \$800M of investment in the Port Hedland community.

Investment Mix

	Growth	Balanced	Conservative	Cash
Expected Return	6.2%	5.7%	4.2	2.9%
Volatility	High	Medium	Low	Very Low
Expected loss	4-5 years in 20	4 years in 20	0-1 years in 20	0 in 20 years
Investment Mix	85% Shares and property 15% Cash or bonds	70% shares and property 30% cash or bonds		100% Cash or Cash equivalents
				

Source: ASIC

WESTERN AUSTRALIAN
TREASURY CORPORATION

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The final fund structure will be ultimately determined by:

- The Town's objectives for the funds under management. That is what types of community projects, income streams and financial planning needs would the Town like to use the funds for?
- The protections put in place to safeguard the fund's monies. What should the funds governance structure look like? Who should be tasked with ensuring that that the funds are used appropriately? ;
- What risk and return targets that the Council feel comfortable with allowing the fund to undertake.
- Relevant requirements under the *Local Government Act 1995 (WA)* and *Local Government (Financial Management) Regulations 1996 (WA)* and the Town's Investment Policy.

WEALTH STRUCTURE NEXT STEPS

Should Council resolve to enter a long-term lease arrangement for the airport, a large body of work to establish an appropriate wealth management framework needs to be put into place. To enable the Town and Council the time to consider the most appropriate prudential management structure, it is proposed that the lease proceeds be invested with the Western Australian Treasury Corporation.

It is proposed that the following arrangements apply to provide for the preservation of the lease proceeds, pending the establishment of key governance principles for the management and establishment of a framework for the prudential stewardship of the lease proceeds:

- a. Settlement funds are to be transferred into the Town of Port Hedland Municipal Bank Account with no funds to be accessed or disbursed by the Town for any purpose;
- b. The CEO (or delegate) to liaise with the Western Australian Treasury Corporation to establish an agreement to immediately invest all of the funds into an interest bearing account in accordance with section 6.14 of the Local Government Act 1995 (WA), with the following disbursement arrangements:
 - i. Transaction fees totalling \$4.5M (excluding GST) are to be paid to The Airport Group as per engagement terms with the Town of Port Hedland;
 - ii. Interest earnings on the fund is to be transferred to the Town of Port Hedland Municipal Bank Account on a monthly basis (in arrears);
 - iii. No further funds can be accessed until the Council has resolved on a wealth management framework which will include rules on how funds are to be disbursed in the future and what the authorisation mechanisms are for release of funds.

The CEO will seek to establish an agreement with WATC under which WATC will manage the investment of the funds until the required Council decision is made. The funds will be invested in cash instruments by WATC. It is anticipated that these cash instruments will have a rate of return similar to the reserve bank's cash rate target. The current cash rate target is 2%. The Town has enquired with the WATC and the major banks as to the level and cost of investment services. WATC has offered to provide investment services at no cost to the Town.

It is envisaged that no final investment structure is agreed until after the coming Town elections and after new councillors are fully briefed on the options available to them. It is also recommended that the CEO commence a community engagement process post the October 2015 local government elections to seek community input into the structure of the wealth management framework inclusive of Town's proposed model/structure of the Stabilisation Fund.

The Western Australian Treasury Corporation (WATC) has been engaged to provide the Town with advice on developing investment guidelines for the proposed ToPH wealth fund. Legal, tax and accounting advice will also be sought on the structuring of any future wealth fund parameters.

The next steps for the Town include:

- If the Town resolves to proceed with the long term lease of the airport , that the gross lease proceeds be managed and invested by the WATC under an agreement with the Town;
- The Town Executive continues to work with the WATC and other advisors to develop options for the wealth fund's structure, governance arrangements and investment guidelines;

- Following the upcoming Council elections the Town's Executive present the newly formed Council with a full briefing on the wealth fund options available with the purpose of obtaining agreement for the establishment of a ToPH wealth fund to manage the lease proceeds received from the airport lease.
- Following the upcoming Council elections, that the Town commence a community engagement process to receive community input into the structure of the wealth management framework inclusive of Town's proposed model/structure of the Stabilisation Fund;
- As part of the community engagement process that council consider the potential for a rate relief model under the structure of the stabilisation fund.

FINANCIAL IMPLICATIONS

Should the Town finalise a long term lease the funds will be held by the WATC and invested in cash instruments. It is anticipated that these cash instruments will have a rate of return similar to the reserve bank's cash rate target. The current cash rate target is 2%.

The final wealth management framework will need to provide for an annual return back to the Town of Port Hedland to offset the lost revenue streams as a result of the long term lease of the Port Hedland International Airport (inclusive of the two Transient Worker Accommodation facilities). Recommendation 3 identifies this requirement. It is envisaged that the amount required by the Town would diminish by 2% each year as the Town achieves efficiency gains by either reducing costs or securing alternative revenue streams.

Transaction Fees

Council has previously endorsed the potential transaction costs to the Town of Port Hedland leading to the binding bid phase as being approximately \$1.2m.

In addition to these costs, Council resolved to accept the Transaction advisory Tender with fees being as follows:

- At the December 2014 OCM, Council resolved to award phase two of Tender 14/17 Port Hedland International Airport Governance Review and Long Term Lease Advisor to The Airport Group for a transaction value fee to be calculated based on 2% of the eventual transaction value with a performance fee to be negotiated by the Chief Executive Officer or his delegate.
- The Transaction Value of the binding bid is \$200m, consisting of a \$165m up front cash payment and a \$35m capex commitment (being the net present value of the committed \$40m of capex over 5 years). The total fee payable to TAG under the agreed fee arrangements is \$4.75m, consisting of a \$4m base fee and a \$0.75m performance fee. However, the CEO has subsequently negotiated a fee discount such that the total fee payable to TAG is \$4.5m (excluding GST).

RISKS

Financial investments naturally have a number of risks associated with them. As part of the WATC's remit it will provide the new Council with a detailed outline of the types of risks involved in setting up a wealth fund and will also provide the Town a suite of options which are aimed at mitigating these risks. Any investment will also need to comply with *the Local Government (Financial Management) Regulations 1996 (WA)* and the Town's own Investment Policy.

The table below provides an initial broad list of the types of risks that the proposed wealth fund structure will need to address.

Type of Risk	
Adequacy	Longevity risk – will the fund meet the long term goals
Market Price Risk	Market fluctuations which can cause the value to rise and fall
Market Timing Risk	Timing of investment decision that exposes the investment to risk of lower returns or loss of capital due to negative price impacts
Inflation	Investment returns don't grow enough above inflation to meet long-term objectives
Currency	Movements in exchange rates can impact investment returns
Interest Rate	Movements in interest rates can impact returns <ul style="list-style-type: none"> - Low interest rates usually good for the economy - But lower returns on cash investments
Liquidity	Risk that investment can't be sold when you need the cash
Agency	Risk that fund manager does not behave as expected
Credit	Counterparty risk

The TWA leases for Port Haven and Mia Mia expire in 2019 and the BHPB Lease in Precinct 3 expires in 2022, with a 5 year option exercisable by BHPB. The proposed long term lease of the Port Hedland International Airport effectively provides for a prepayment of these revenue streams (at a premium) meaning that the Town is able to immediately de-risk itself from a reliance on these recurrent revenue streams.

STATUTORY AND POLICY IMPLICATIONS

All money received or receivable by the Town must be held in its municipal fund or, if required, the trust fund (section 6.7 of the *Local Government Act 1995* (WA)). Money in the municipal fund can be quarantined in a reserve account that has been set up for a specific purpose under s.6.11 of the *Local Government Act 1995*. The money held in a reserve account may be invested in accordance with section 6.14 of the Act, including in accordance with regulation 19C of the *Local Government (Financial Management) Regulations 1996* (WA), which allows for the depositing of money with the WATC.

The Town's Strategic Community Plan, Section 2.2.1 outlines a strategy to 'Advance Port Hedland's sea, air and road transport infrastructure as the main logistics hub for the Pilbara, including developing Port Hedland International Airport as the gateway to the North West'. The granting of a lease of the airport will facilitate the airport's expansion and development consistent with this strategy.

ATTACHMENTS

1. Illustrative Investment Model

21 August 2015

ATTACHMENT 1 TO ITEM 7.1.3

Year	Principal Sum	Interest Earnings	Draw Down			Closing Balance
			Recurrent - Return to Town - Municipal Fund	Development Fund - Strategic Reserve	Community Grants/Projects - Community Grants Reserve	
		5.00%				
1	160,000,000	8,000,000	-8,200,000	-10,000,000	-150,000	149,650,000
2	149,650,000	7,482,500	-8,036,000		-154,500	148,942,000
3	148,942,000	7,447,100	-7,794,920		-159,135	148,435,045
4	148,435,045	7,421,752	-7,561,072		-163,909	148,131,816
5	148,131,816	7,406,591	-7,334,240	-11,000,000	-168,826	137,035,340
6	137,035,340	6,851,767	-7,114,213		-173,891	136,599,003
7	136,599,003	6,829,950	-6,900,787		-179,108	136,349,059
8	136,349,059	6,817,453	-6,693,763		-184,481	136,288,267
9	136,288,267	6,814,413	-6,492,950		-190,016	136,419,715
10	136,419,715	6,820,986	-6,298,162	-12,000,000	-195,716	124,746,823
11	124,746,823	6,237,341	-6,109,217		-201,587	124,673,360
12	124,673,360	6,233,668	-5,925,940		-207,635	124,773,453
13	124,773,453	6,238,673	-5,748,162		-213,864	125,050,099
14	125,050,099	6,252,505	-5,575,717		-220,280	125,506,607
15	125,506,607	6,275,330	-5,408,446	-13,000,000	-226,888	113,146,603
16	113,146,603	5,657,330	-5,246,192		-233,695	113,324,046
17	113,324,046	5,666,202	-5,088,807		-240,706	113,660,736
18	113,660,736	5,683,037	-4,936,142		-247,927	114,159,703
19	114,159,703	5,707,985	-4,788,058		-255,365	114,824,265
20	114,824,265	5,741,213	-4,644,416	-14,000,000	-263,026	101,658,036
21	101,658,036	5,082,902	-4,505,084		-270,917	101,964,937
22	101,964,937	5,098,247	-4,369,931		-279,044	102,414,209
23	102,414,209	5,120,710	-4,238,833		-287,416	103,008,670
24	103,008,670	5,150,434	-4,111,668		-296,038	103,751,397
25	103,751,397	5,187,570	-3,988,318	-15,000,000	-304,919	89,645,730
26	89,645,730	4,482,286	-3,868,669		-314,067	89,945,281
27	89,945,281	4,497,264	-3,752,609		-323,489	90,366,447
28	90,366,447	4,518,322	-3,640,030		-333,193	90,911,546
29	90,911,546	4,545,577	-3,530,830		-343,189	91,583,104
30	91,583,104	4,579,155	-3,424,905	-16,000,000	-353,485	76,383,870
31	76,383,870	3,819,194	-3,322,158		-364,089	76,516,817
32	76,516,817	3,825,841	-3,222,493		-375,012	76,745,153
33	76,745,153	3,837,258	-3,125,818		-386,262	77,070,330
34	77,070,330	3,853,516	-3,032,043		-397,850	77,493,953
35	77,493,953	3,874,698	-2,941,082	-17,000,000	-409,786	61,017,782
36	61,017,782	3,050,889	-2,852,850		-422,079	60,793,742
37	60,793,742	3,039,687	-2,767,264		-434,742	60,631,423
38	60,631,423	3,031,571	-2,684,246		-447,784	60,530,964
39	60,530,964	3,026,548	-2,603,719		-461,218	60,492,576
40	60,492,576	3,024,629	-2,525,607	-18,000,000	-475,054	42,516,544
41	42,516,544	2,125,827	-2,449,839		-489,306	41,703,226
42	41,703,226	2,085,161	-2,376,344		-503,985	40,908,058
43	40,908,058	2,045,403	-2,305,054		-519,104	40,129,303
44	40,129,303	2,006,465	-2,235,902		-534,678	39,365,189
45	39,365,189	1,968,259	-2,168,825	-19,000,000	-550,718	19,613,906
46	19,613,906	980,695	-2,103,760		-567,239	17,923,601
47	17,923,601	896,180	-2,040,647		-584,257	16,194,878
48	16,194,878	809,744	-1,979,428		-601,784	14,423,409
49	14,423,409	721,170	-1,920,045		-619,838	12,604,697
50	12,604,697	630,235	-1,862,444	-10,734,055	-638,433	-0
			-215,847,651	-155,734,055	-16,919,530	

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ITEM 8 CONFIDENTIAL ITEMS

Nil

ITEM 9 CLOSURE**9.1 Date of Next Meeting**

The next Ordinary Meeting of Council will be held on Wednesday 26 August 2015, commencing at 5:30pm.

9.2 Closure

There being no further business, the Mayor declared the meeting closed at 10:04pm.