

BUSINESS CASE

AFFORDABLE HOUSING
FOR ESSENTIAL WORKERS
IN THE TOWN OF PORT HEDLAND



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Glossary of terms

In the context of this document -

Business case means the information prepared in support of the project.

Deliverables means the expected outputs, outcomes and productivity benefits from the project.

Local Government means a regional Western Australian Local Government Authority.

IBC means Investment Business Case, an instrument used by the National Australia Bank to determine whether a project is bankable or otherwise.

IM means Information Memorandum, an instrument for communicating with institutional investors.

Option means a feasible, alternative delivery mechanism to the project which was considered when preparing the business case proposal.

Output means the end product of the project.

Outcome means the intended consequence(s) of the project.

Project means the works proposed in the business case.

Stakeholder means a party with an interest in or who is affected by the Project.

1. EXECUTIVE SUMMARY

It is readily acknowledged that the availability of affordable housing is a significant barrier in efforts to normalise Pilbara communities.

Both essential and social services workers struggle to secure accommodation in the face of enormous demand driven by the resources sector in this region.

Rents of more than \$2,500 per week are not uncommon in the Pilbara, sometimes exceeding the entire gross salary of many of these essential and social services workers.

The lack of affordable housing stifles growth and marginalizes sections of the community that are not directly employed within the resources sector, despite the reliance of this sector on the services provided by the broader communities.

This is not a business case with 'options'. Many alternative solutions have been proposed, however none have achieved the scale or support of the single option being proposed within this business case.

The outcome of the proposed affordable housing project will be more than four hundred beds within 18 months that are specifically designed and constructed for essential services workers within the Town of Port Hedland

Whilst this will not 'fix' the demand for housing in the Shire, it will have a significant and measurable impact on a marginalized segment of the community, and enable the provision of a range of extended community services that are currently unavailable in the Town of Port Hedland.

This proposed affordable housing project is unique in that it utilizes a structured public-private partnership to deliver maximum value to the region at only nominal risk and cost.

Significantly, the private partner will commit to performance clauses within the contract, and will underwrite patronage liability risk for the life of the project. More details are provided on the risks and benefits elsewhere within this business case.

The project is proposed as an all-encompassing infrastructure project in collaboration between the Public and Private Sectors, adhering to strict principals under a Public Private Partnership however without the need for an ongoing financial commitment from the State. The investment will be repaid solely through rent receipts and NRAS payments and is not reliant on capital growth or the sale of the properties.

Under this project business case:

The Town of Port Hedland will not be required to commit funds to this project

The Private Sector will fully fund the upfront cost of land servicing if required, construction of the properties, and undertake to operate and maintain the accommodation under guidelines set by Local Government in a concession style arrangement for a period of up to 40 years.

No other current or proposed housing project has this scale or can guarantee rental affordability

This project includes performance guarantees from the Consortium to deliver an agreed number of beds within an agreed timeframe negotiated with the Town of Port Hedland CEO.

Local Government will retain project oversight having the power (but not the responsibility) to select tenants and set rental levels whilst ensuring maintenance is kept at the highest possible levels throughout the life of the project.

Almost all project risk lies with the Consortium partners, not the Shire

The contingent liability of occupancy risk will be assumed by a consortium of highly rated institutional investors seeking to take part in the project in a philanthropic capacity (the Regional Partners). This is a defining feature that the consortium will bring and will allow for finance to be raised at the most competitive rates. The project will also be conducted by one of the largest financial institutions in Australia.

Risk	Traditional Procurement		Proposed Structure		
	Govt	Private Sector	Govt	Regional Sponsors	Project Sponsors
Cost	◆				◆
Design	◆	Penalties on construction contractor			◆
Construction	◆	Penalties on construction contractor			◆
Approvals	◆		◆		◆
O&M	◆	Penalties on O&M contractor			◆
Lifecycle costs	◆				◆
Rent Collection	◆			◆	◆
Government Subsidies	◆				
Finance	◆				◆
Occupancy	◆			◆	◆
Contingent Subsidy				◆	
Land Availability	◆		◆		

The Town of Port Hedland retains ownership of land AND benefits from rates collection

Ownership of the housing units will be transferred back to Local Government at the end of the concession period, whilst the concession holder will pay Local Government rates and charges for the life of the project. In order to provide the most affordable accommodation to the region and minimise household financial stress, rents will be set as a percentage of the tenant's income and not based on a percentage of regional median rent. It is therefore envisaged that the rental levels for the Project will be set significantly below the prevailing market rate and as such the project will be eligible for NRAS allocation. In line with the project's commitment to a zero dollar government financial contribution, the State Government portion of NRAS will be rebated to the State in the form of a lease payment in return for the concession of the land.

The project is not dependent on the availability of serviced land

Other projects are dependent on the provision of serviced land for feasibility. Under the InvigorateNorth model, land servicing can be modelled into the project. One of the critical factors this consortium will bring is the certainty of delivery – notwithstanding the current uncertain economic climate, these beds will be delivered. Funds will be raised for the entire project from major institutions, including NAB – and be fully underwritten.

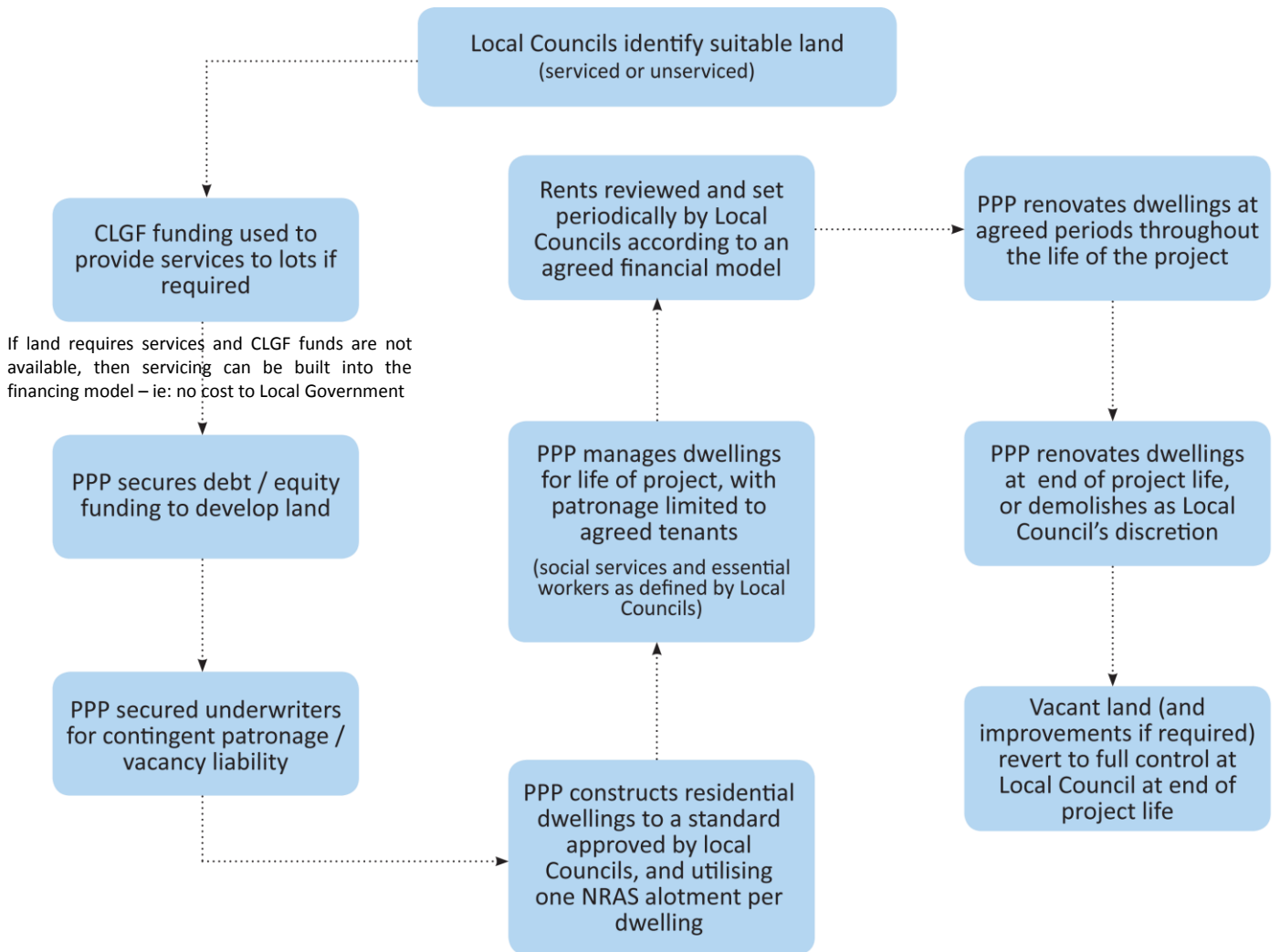
The proposed project has been in planning for many months and is well advanced with a potential target start date of mid-2012 subject to the endorsement of the Town of Port Hedland

The revitalised Pilbara Regional Council has demonstrated that it is able to discharge projects of this nature efficiently and with high standards of governance and accountability – ensuring value for money in public sector procurement and robust attention to timeframes and deliverables. This will be the first time such a project has been undertaken in the region and may form a model for further affordable housing projects of significant scale across the Pilbara.

What is required from Council to get started?

For this project to get underway, it requires that Council endorse the project despite requiring no upfront financial commitment. Once NAB have received endorsement, they will finalise the feasibility model, draft a short Information Memorandum for the Regional Partners, and develop the bankable model. From this point, the PRC will conduct a project governance review and then take the project to Council for a final decision. It is anticipated that Council would be seeking suitable land for this project as early as December 2012, with approvals, servicing and construction commencing immediately after.

Project flow diagram:



2. PROJECT SCOPE AND EVALUATION

2.1. Project Objectives

The objective of this project is to deliver a minimum of 405 additional residential beds across the Town of Port Hedland within the next 18 months that are specifically designated for essential and social services workers.

Additionally, two of Western Australia's largest disability service providers have committed to establishing a service presence in the Town of Port Hedland if affordable housing can be made available to accommodate staff.

The Pilbara Regional Council is currently preparing for a business plan to determine the optimal mix of residential, commercial, retail and community installations for each jurisdiction. The business plan will be tailored to deliver a bespoke lifestyle solution for each community and will incorporate the delivery of community services alongside the development of affordable housing stock to ensure an optimal lifestyle mix is struck for residents.

The business plans will incorporate a number of different accommodation types to be delivered to meet the needs of each community. The final mix of accommodation will be determined upon completion of the business plan however may include the following residential types:

- Essential Worker Housing: affordable housing designed for low income workers delivering essential services to the community (for example not-for-profit organisations). Accommodation to be delivered in one, two and three bedroom format to allow flexibility for singles, couples and families.
- Service Professional Housing: One, two and three bedroom format accommodation designed specifically for non-mining service professionals (eg doctors, nurses, accountants etc).
- Lifestyle and Retirement Housing: Retirement villages and aged care facilities offering safe, secure, lifestyle and retirement options for seniors within the region.
- Transitional Housing: Hostel / boarding style accommodation for secondary and post compulsory students from remote and disadvantaged areas moving from home to school to work.

All housing options will be of high quality and designed to deliver the lowest possible rental cost to tenants. All leasing activity will be overseen by the Town of Port Hedland and will be conducted at a significant discount to the prevailing market rent. Delivery of property management services is encompassed within the consortium financial model, and the Shire will have an oversight role in this delivery.

2.2. Background

In 2010, the Pilbara Regional Council commenced discussions with Blue Zoo (a Western Australian advisory firm) to address the seemingly intractable problem of affordable housing in the Pilbara.

Over a period of twelve months, the Pilbara Regional Council and Blue Zoo established a working party to consider various alternative models for the delivery of affordable housing.

Two potential models were identified, and initial discussions held with both a local financier and with a global procurement firm. As a result of these discussions and extensive consultation, the locally-financed option was identified as preferable.

Since this time:

- a suitable investment and underwriting strategy has been developed;
- commercial partners have been sourced;
- provisional private-sector debt and equity financing has been secured;
- underwriters have been sourced; and
- a business cases has been developed for the Town of Port Hedland.

The project is now ready to proceed, pending Town of Port Hedland endorsement and the availability of land - **the subject of this business case.**

2.3. Policy and Strategic Framework

Objective	Details
Building capacity in regional communities	<p>This project is specifically targeted towards capacity-building in the Pilbara region, enabling the sustainable provision of non-mining community facilities and resources.</p> <p>Capacity is underpinned by the requirement for people to service it. This currently represents a significant challenge in the Pilbara region, as unsustainable rents ensure that capacity shortages exist in all areas not directly related to minerals and resources activities.</p> <p>The delivery of a large stock of quality affordable housing into the region will enable normalised community initiatives – the capacity to service the elderly and people with disabilities, the capacity to foster and support entrepreneurship and the SME sector, the capacity to deliver essential services, the capacity to attract and retain a permanent as opposed to itinerant workforce. Each of these components is underpinned by affordable housing, the purpose of this project.</p>
Retaining benefits in regional communities	<p>The Pilbara region already suffers (and enjoys) a degree of geographical remoteness from large population centres in the rest of the country. As an enormous net exporter and commensurate contributor to the Australian economy, the Pilbara is somewhat accustomed to ‘benefits’ flowing out of the regional community to some extent, indeed, it is this net outflow that is recognised and addressed by the Royalties for Regions scheme, specifically designed to return some of these</p>

Objective	Details
	<p>benefits to the regions from which they were derived.</p> <p>In addition to the most important aspect of providing a substantial stock of affordable housing, this particular project will drive substantial local benefit in the form of construction labour where available, facilities management, ongoing repairs and maintenance of the assets, and the implementation of a unique financing program that will allow for other similar capital developments in the region.</p>
Improving services to regional communities	<p>A significant challenge exists in the region for organisations wishing to provide services to the broader community. Three large Western Australian disability services providers have raised business cases in the past 12 months to establish a point of presence in the Pilbara region to meet significant demand for their services. In each instance, these business cases have failed to get up due to the exceptionally high cost of housing for staff. In all other respects, these business cases were able to be supported.</p> <p>Should this project proceed, both Rocky Bay and Interchange have signed a memorandum of understanding stating that they will establish a point of presence in the Shire or Ashburton for the provision of their services subject to the availability of staff housing at near-metropolitan rents. With two significant social services organisations making this commitment, others will be enabled to follow, particularly if either of these organisations establishes a community hub for the provision of ancillary services by other providers.</p>
Attaining sustainability	<p>A multitude of studies and reports indicate that residential rents in the Pilbara region are not sustainable at their current levels for all bar the minerals and resources companies and their ancillary entities.</p> <p>For the Town of Port Hedland to be truly sustainable, it must be able to offer and deliver a full range of community services independent of subsidy or Government support, and in a manner that is not markedly different from those offered in the capital cities of Australia.</p> <p>Any measurement of sustainability needs to include consideration of social issues. The significance of social</p>

Objective	Details
	<p>sustainability as a component of the sustainability equation has been recognised around the world as essential in building cohesive communities.</p> <p>This project will support the Town of Port Hedland in adequately delivering community services to a standard commensurate with other larger population centres around the country.</p>
Expanding opportunity	<p>There are particular challenges in the provision of ‘opportunities’ beyond the immediate minerals and energy economy.</p> <p>Opportunity takes many forms, whether it be the ability to pursue hobbies and activities of interest, perhaps quality tertiary education, or even access to basic services for disadvantaged sections of the community that require additional support to enjoy a reasonable quality of life.</p> <p>Many of these types of opportunities require more than ‘cash’ to enable them – they require people. People who are employed in organisations that are not able to afford mining salaries. To attract and retain these people, and hence offer these community ‘opportunities’, requires the availability of affordable housing that will encourage non-mining staff to reside in the region. The very same people that are able to facilitate these opportunities, are also attracted by other opportunities in the community, and thus the cycle becomes self-sustaining once the essential building blocks are in place. For the Town of Port Hedland, affordable housing is the most central of these building blocks.</p>
Growing prosperity	<p>Whilst the importance of the significant Australian export revenue is acknowledged, it is not without some social challenges.</p> <p>Prosperity for the Town of Port Hedland should be measured in more than just economic return to Australia as a whole. Prosperity is the ability to build a vibrant community that supports the majority of the needs of its citizens in health, education, employment, social services, and quality of community living.</p> <p>Prosperity measures that are underpinned by the project</p>

Objective	Details
	<p>include:</p> <p>Human capital – supporting education levels, skills and health status of individuals and populations by enabling affordable housing for the staff that support these mechanisms.</p> <p>Natural capital – supporting the natural resource base (land, water, trees) by enabling affordable housing for the staff that support these mechanisms.</p> <p>Physical capital - assets brought into existence by economic production, in this case the houses themselves.</p> <p>Social capital - social networks and associations in which people participate, and from which they can derive support by enabling affordable housing for the staff that support these mechanisms..</p> <p>Financial capital – Access to financial instruments in order to purchase production or consumption goods. This project delivers a unique financing model for affordable housing in the Town of Port Hedland that offers a low-risk, low-cost community-driven approach to the provision of this essential capacity.</p> <p>This project will provide an enabler to support and grow prosperity in the Shire, allowing community organisations and essential services employers to establish and grow their presence in the region.</p>

2.4. Deliverables

Deliverables	Description	Performance Measures	Impact Measures
Rent normalisation	The normalisation of rents within the Town of Port Hedland through the delivery of a substantial quantity of affordable housing stock.	Rents across the quantity of proposed residential stock offered at a substantial discount (>50%) to prevailing market rents.	Residential rents in the 'affordable' segment reduced across the Town of Port Hedland by 10%.
Access to housing	To provide some of the most at need members of the Town of Port Hedland community with immediate access to affordable accommodation via a tenant allocation program overseen by Local Government	Controlled access to housing for essential and social services workers that is not available to for-profit corporations and their staff unless the property(s) would otherwise be vacant.	Greater than 405 residential beds made available to essential and social services workers.
Asset maintenance	To maintain the properties to the highest possible standard through the application of a privately funded capital expenditure program with the provision for major maintenance upgrades over the life of the project.	Properties maintained to a standard commensurate with the requirements of the Town of Port Hedland.	Asset value preserved or enhanced over the life of the project.
Minimised cost to the Town of Port Hedland	A zero dollar financial commitment from the Town of Port Hedland with any ongoing liabilities of the project to be assumed by the Private Sector (except	No requirement for Federal/State/Local Government contribution to the project beyond the allocation of land. Some CLGF funds may be secured to assist with land	Town of Port Hedland budget able to be preserved for other community initiatives in the region.

Deliverables	Description	Performance Measures	Impact Measures
	failure to proceed and reuse of IP)	servicing if available.	

2.5. Stakeholder Identification

Stakeholder	Description
Pilbara Regional Council	The Pilbara Regional Council has led this initiative from commencement.
Town of Port Hedland	The Town of Port Hedland will receive approximately 405 beds across a mix of new dwellings for essential and social services workers in the region. The Shire will own both the land and improvements at the conclusion of the project life.
National Australia Bank	National Australia Bank has developed the detailed investment strategy and secured sufficient debt and equity investment to cover the construction and maintenance of the over the life of the project. National Australia Bank has also secured underwriter(s) for contingent patronage liability over the life of the project.
Blue Zoo	Blue Zoo formulated the initial concept, identified and approached potential investment partners, and structured the public-private partnership model to enable this project.
Construction Company(s)	The project will contract the services of Western Australian construction companies to deliver a large quantity of housing to the region, bolstering local companies and employment opportunities.
Facilities Manager(s)	A facilities manager will be appointed by the Consortium to manage and maintain the assets to an agreed standard.
Individual Communities	Individual communities will have access to affordable housing for essential services workers, and the broader community will

Stakeholder	Description
	have access to an extended and expanded range of social and community services.
Social Services Providers	Social services providers will be able to address the single largest impediment to establishing or growing a presence in the Pilbara – staff housing.

2.6. Critical Assumptions

Assumption	Detail
Demand for affordable housing in the Town of Port Hedland	This business case will not spend a great deal of time nor offer detailed demand analysis of the requirement for affordable housing in the Town of Port Hedland. Significant work has already been done in this area by other Agencies, and it is broadly recognised that the lack of affordable housing is creating marginalised communities and is stifling sustainable growth in the region.
Land Availability	The proposed affordable housing project is contingent on the availability of suitable land for development and construction. Packages of land have been identified in collaboration with Landgate, and the PRC, and a list of these is attached to this business case for the reference of Town of Port Hedland planners.
Financial Feasibility	Whilst pre-feasibility analysis has been favourable and both investment partners and underwriters secured, NAB have committed a further \$2.5M towards developing the detailed financial feasibility model.

2.7. Economic and Financial Analyses

Outcome	Detail
Reduction of reliance on FIFO labour	<p>There is currently little incentive for FIFO workers to remain in the region during off-shift period, and even less incentive for them to relocate families to the region. There is a perceived lack of community infrastructure that remains impossible to address in the absence of suitable affordable housing.</p> <p>The mining companies have recognised the intractable nature of this issue, and addressed it to their economic benefit with the establishment of large and sophisticated ‘camps’ that bolster shareholder value but do little to address the core community challenges.</p>
Enhancement of essential services in the Town of Port Hedland	<p>The effect of delivering more than 400 beds specifically targeted for community and essential services workers into the Town of Port Hedland will be substantial. At least two large NFP community services organisations will establish an immediate point of presence for the delivery of their services, and other organisations will be able to plan and deliver services both more efficiently and with a higher degree of reliability.</p>
No real cost to the Town of Port Hedland	<p>Under this proposed project model, the only direct cost to the Town of Port Hedland is approvals.</p>
Ownership of underlying asset remains with the Town of Port Hedland	<p>Throughout this project the ownership of land and improvements lies with the Town of Port Hedland, with control vested in the concession holder for the life of the project.</p> <p>At all times, the Town of Port Hedland controls approvals, sets rent levels, and regains control of land and improvements (or vacant land) at the end of the project life.</p>

2.8. Summary of Options

Whilst a number of alternative options have been proposed for the provision of affordable housing in the Town of Port Hedland, none have been able to offer the scale and immediacy of this PPP, with such a correspondingly small degree of risk.

2.9. Preferred Option

The PPP proposal put forward by the National Australia Bank represents the only option that has the capacity to deliver a large quantity of affordable housing into the region at very little cost to the Town of Port Hedland, with a positive yield in terms of rateable income and returning the reconditioned asset to Government at end of project life.

2.10. Budget and Funding Strategy

2.10.1. Project Budget

Item of Expenditure	Cost (\$)	Source of Funds
InvigorateNorth Investment Consortium (led by NAB)	85 M	Private Equity
Total direct investment in Town of Port Hedland	85 M	

2.10.2. Cash Flow Timing

If Council endorsement is secured, then the NAB will commission the full feasibility study with focus on specific packages of land that may be used for development.

Once feasibility is complete, the development applications will be put to the Town of Port Hedland for approval subject to capital raising. It is anticipated that this capital raising would occur between July and December 2013.

2.11. Project Timeframe and Key Milestones

Activity / Milestone	Milestone Date	Responsibility
Develop pre-feasibility model	Achieved	NAB / Blue Zoo
Confirm project appetite	Achieved	PRC
Develop Town of Port Hedland business case	Achieved	PRC / Blue Zoo

Activity / Milestone	Milestone Date	Responsibility
Develop Regional Council business case	Achieved	PRC
Approval by Regional Council	April 2012	PRC
Approval by Town of Port Hedland	April 2012	Town of Port Hedland
Finalise feasibility model	July 2012	NAB
Draft short IM for Regional Partners	August 2012	NAB
Finalise bankable model / full IM	August 2012	NAB
Project Governance Review	September 2012	Blue Zoo
Final project decision	September 2012	PRC
Securing/provision of suitable land	December 2012	Town of Port Hedland
Servicing of land if required	March 2013	NAB
Begin tendering process for construction	March 2013	NAB
Construction Completed	December 2013	NAB
Facilities Management	Ongoing	NAB

2.1.2 Benefits Analysis

Deliverables	Description	Performance Measures	Impact Measures
Rent normalisation	The normalisation of rents within the Town of Port Hedland through the delivery of a substantial quantity of affordable housing stock.	Rents across the quantity of proposed residential stock offered at a substantial discount (>50%) to prevailing market rents.	Ability to increase the supply of affordable housing and regulated rents rather than market based rents regulated for high income households.
Access to housing	To provide some of the most at need members of the Town of Port Hedland with immediate access to affordable accommodation via a tenant allocation program overseen by Local Government	Controlled access to housing for essential and social services workers that is not available to for-profit corporations and their staff unless the property(s) would otherwise be vacant.	Ethical investments and partnerships are formed that contributes sustainably community growth and wellbeing.
Asset maintenance	To maintain the properties to the highest possible standard through the application of a privately funded capital expenditure program with the provision for major maintenance upgrades over the life of the project.	Properties maintained to a standard commensurate with the requirements of Town of Port Hedland.	Well directed maintenance expenditure will help preserve asset value and ensure appropriate amenity and safety for the community and tenants. Minimise ongoing residual costs over the life of the project.
Minimised cost to the State	A zero dollar financial commitment from the Town of Port Hedland with any ongoing liabilities of the project to be assumed by the Private Sector	No requirement for Town of Port Hedland financial contribution to the project beyond the allocation of land.	Town of Port Hedland budget is able to be preserved for other community initiatives in the region.

2.1.3 Risk Analysis

Risk	Level	Mitigation	Internal ²	External ³
	(low, medium, high) ¹			
Financial				
Design	High	Town of Port Hedland has control over the design and approval process		
<ul style="list-style-type: none"> Suitability of design 		Risk transference to National Australia Bank (NAB)		X
Construction	Medium			
<ul style="list-style-type: none"> Cost beyond budgeted levels 		Risk transference to National Australia Bank (NAB)		X
Lifecycle costs	Medium			
<ul style="list-style-type: none"> On-going cost management 		Risk transference to National Australia Bank (NAB)		X
Government subsidies	Medium	Allocation of National Rental Affordability Scheme (NRAS) – 1 per lot		X
Capital rising	Medium			
<ul style="list-style-type: none"> Inability to raise required equity 		Risk transference to National Australia Bank (NAB)		X
<ul style="list-style-type: none"> Inability to structure debt instrument 				
<ul style="list-style-type: none"> Debt servicing 				

¹ Levels of risk posed to the PRC.

² Internal risks that are within the control of the Town of Port Hedland.

³ External risks that are outside of the control of the Town of Port Hedland. Those risks are more difficult to predict and harder to control.

Risk	Level (low, medium, high) ⁴	Mitigation	Internal ⁵	External ⁶
Political				
Land availability <ul style="list-style-type: none"> • Land servicing • Site availability • Appropriate supply infrastructure 		Land servicing can be factored into financial model	X	
Complex Governance model <ul style="list-style-type: none"> • Complexity of the project structure • Diversity of the stakeholders • Inappropriate stakeholder engagement • Stakeholder dissociation • Multi-stakeholder environment 		The majority of these risks are under the management of the Consortium.	X	X
Reputation <ul style="list-style-type: none"> • Houses to be perceived of a poor 		Town of Port Hedland has control over the design and approval process National Australia Bank (NAB) has successfully completed a number of		X

⁴ Levels of risk posed to the PRC.

⁵ Internal risks that are within the control of the Town of Port Hedland.

⁶ External risks that are outside of the control of the Town of Port Hedland. Those risks are more difficult to predict and harder to control.

Risk	Level (low, medium, high) ⁴	Mitigation	Internal ⁵	External ⁶
standard/quality <ul style="list-style-type: none"> • Project not meeting time/cost milestones • Approved designed not well received by the community • Rapid asset de-valuation 		large scale commercial and residential commercial development across Australia Maintenance and repair manager appointed by the Consortium All properties maintenance and repairs expenses are included in the Consortium management agreement		
Approvals <ul style="list-style-type: none"> • Not obtaining appropriate approvals for the development application 		Town of Port Hedland has retains full control over the design and approval process	X	
Statutory compliance <ul style="list-style-type: none"> • Compliance with section 3.58 and 3.59 of the Local Government Act 		External advisors have been appointed by the Consortium to manage the on-going monitoring a compliance requirements	X	
Community resistance <ul style="list-style-type: none"> • Perceive threat to investment loss • Progress resistant lobby work 			X	X
Information leaks <ul style="list-style-type: none"> • Information disclosure to appropriate parties • Safeguarding the commercial sensitivity of information 		Periodic assessment of the management of information security requirements against ISO 27001	X	X

Risk	Level (low, medium, high) ⁴	Mitigation	Internal ⁵	External ⁶
Commercial				
Occupants / Tenants <ul style="list-style-type: none"> • Management Quality 		Property manager appointed by the Consortium Maintenance and repair manager appointed by the Consortium All properties maintenance and repairs expenses are included in the Consortium management agreement		X
Contingency patronage liability <ul style="list-style-type: none"> • Loss of rental income • Inappropriate or inability to collect rent • Drop in Occupancy rates below 98% 		Contingent patronage liability is underwritten by the regional partners. Entire risk transferred to Consortium. Property manager appointed by the Consortium. Entire risk transferred to Consortium. All properties lease and tenant management expenses are included in the Consortium management agreement. Entire risk transferred to Consortium.		X
Appropriate returns not realised		Structured agreement for equity and debt		X
Environment <ul style="list-style-type: none"> • Native titles issues • Other claims against the land 		Construction is only planned on existing vacant Town of Port Hedland reserves, vacant crown land, or other land nominated by the Town of Port Hedland	X	
Operation & Management <ul style="list-style-type: none"> • Inappropriate Project Management • Supply of skilled 		Maintenance and repair manager appointed by the Consortium All properties maintenance and repairs expenses are included in the Consortium management agreement		X

Risk	Level (low, medium, high) ⁴	Mitigation	Internal ⁵	External ⁶
labour availability				
End of project ongoing residual cost		<p>Performance measures are written within the contract</p> <p>National Australia Bank (NAB) has successfully completed a number of large scale commercial and residential commercial development across Australia</p> <p>Refurbishing of the properties before end of project</p> <p>Land can be returned to the Town of Port Hedland as cleared and vacant at Town of Port Hedland discretion if required.</p>	X	X

3. IMPLEMENTATION STRATEGY

3.1. Communication Plan

The Pilbara Regional Council will accept responsibility under the project for the communication requirements with the Town of Port Hedland.

The National Australia Bank will accept responsibility under the project for the communication requirements with equity/debt investors, with planning authorities, with the design and construction consortium, and with facilities manager. The purpose of this project is to deliver a turn-key outcome over the life of the project that transfers most of the risk to the private sector, including communication risks.

The rollout plan for the initial phases of this project encompasses:

3.2. Implementation Plan

3.2.1 Phase 1 - Development of the Detailed Investment Business Case

NAB Advisory's scope of work is to initially develop an IBC. NAB Advisory will assist with the following aspects of the IBC development:

1. Reviewing the strategic and economic cases made to date for the development of the Project, and refining objectives for all aspects of the Project, including community, economic, commercial and financial considerations;
2. Reviewing demand analysis undertaken to date to determine underlying levels of demand support for the Project;
3. Reviewing Town of Port Hedland Business Case for land availability;
4. Undertaking negotiations with Federal and State Governments to achieve NRAS support;
5. Re-engaging with Regional Partners to ascertain quantum and method of support;
6. Identifying, reviewing and assessing the implications of different ownership models for stakeholder management, commercial outcomes, risk allocation and financing certainty;
7. Preparing a base case financial model and undertake financial feasibility of the Project. In Phase 2 of the process, this financial model will form part of the IM to be sent out to potential financiers;
8. Running a market testing process to determine capital costs of the project.
9. Preparing an analysis of different funding models and capital structure options, including analysis of funding feasibility, impact on SPV budget and any accounting/tax implications;
10. Developing a short list of options that consider the technical, commercial and financial feasibility of delivery, with a view of selecting from the short list a proposal that will deliver the best "fit for purpose" economic outcome for the Town of Port Hedland, taking into account community, environmental and economic objectives of the Project;
11. Identifying the preferred option and developing a detailed business case for the preferred option, including sensitivity/risk analysis and identification of key investment and risk factors including the key drivers of tenant uptake; and

12. Assessing that the Preferred Option represents a sound Financial and Investment Decision (FID) for equity and debt investors and confirming appetite to proceed to Phase 2.

3.2.2 Phase 2 - Asset Procurement

1. Once a FID decision has been made to invest in the Project and the procurement methodology has been determined, NAB Advisory will develop a risk allocation framework and refine the financial model by undertaking the following tasks:
2. Finalising the demand analysis undertaken as part of Phase 1;
3. Finalising NRAS negotiations and securing allocation;
4. Finalising land leasing agreements and securing SPV access to land;
5. Development of the Concession Agreement which includes a framework for the return of Assets to the Town of Port Hedland at the conclusion of the Concession Period;
6. Developing term sheets for Regional Partner support;
7. Using the commercial risk allocation as the basis, developing Design/Construction (D&C) and Operations/Maintenance (O&M) term sheets to assist in identifying and selecting D&C and O&M contractors;
8. Assisting with the selection and appointment of due diligence advisors for the financiers, including the preparation of scopes of work for the following areas:
9. Technical;
10. Environmental and social impact;
11. Legal;
12. Accounting and tax;
13. Insurance; and
14. Model audit.
15. Updating the financial model to develop a 'base case' financial model for debt and equity investors;
16. Preparing an IM in relation to the Project based on the IBC, and any update thereof;
17. Preparing term sheets for the various sources of financing, including bank debt (on a non-recourse basis), leasing, debt capital markets and equity;
18. Seek expressions of interest from commercial banks and other financiers and investors with the aim of obtaining commitments for the required debt and equity requirements;
19. Co-ordinating and managing the financing roadshow, including the Project and due diligence presentations to project financiers;
20. Assisting with the development of the hedging protocols based on a hedging policy developed for the Project;
21. Assisting with the evaluation and selection of the funding offers received, and providing recommendations on the selection of funding alternatives (such as project finance, bank debt, leasing, hybrid and equity instruments) including pricing and terms;

22. Advising on the selection of financiers, including mandated lead arrangers for any required debt and equity raising;
23. Assisting and facilitating the credit approval and equity committee approval process for potential financiers by managing the question and answer process via an on-line data room and responding to their queries;
24. Assisting lawyers and technical consultants to negotiate and finalise documents (such as Transaction agreements, Regional Partner agreements, NRAS allocation agreements, license or lease of land, construction/operation contracts and financing documents); and
25. Achieving contractual and financial close, including the satisfaction of any conditions precedent prior to first drawdown of funding from any facility agreements.

3.3. Procurement Strategy

In order to provide the land for this affordable housing project, the Town of Port Hedland will dispose of existing serviced or unserviced land assets (or unserviced Crown land under a land-swap arrangement) by granting a 30-year concession to the Project Sponsors (refer to governance diagram elsewhere in this document). Such disposal is supported under Sec 3.58 and 3.59 of the Local Government Act 1995, with all relevant statutory obligations being met throughout the process.

The intent is for CLGF grant funding to be made available to service this land, or to purchase additional land up to the grant level sought, in order to provide the maximum available service land for the construction of affordable housing units. Note that this business case is not contingent on securing CLGF funding, however this is a 'nice to have'.

There are no other direct costs to the Town of Port Hedland associated with this unique project, and the assets (land and improvements or vacant land only at Town of Port Hedland discretion) are able to be returned to the Town of Port Hedland at end-of-life at no cost.

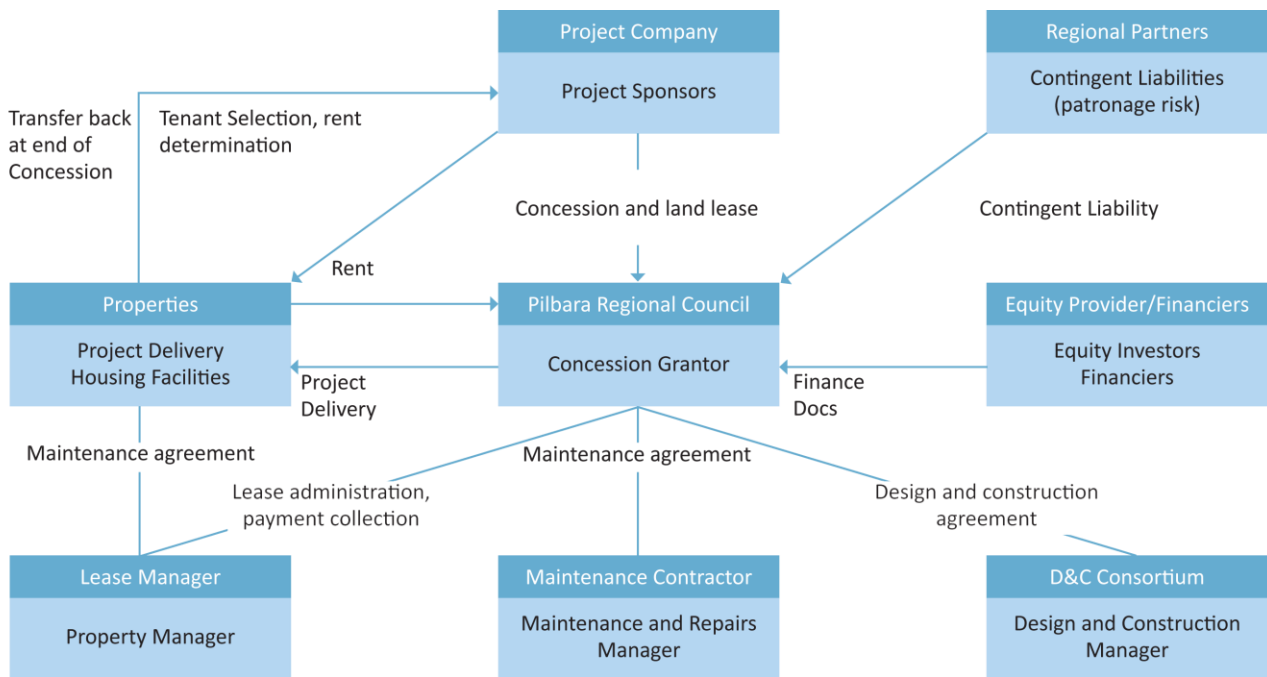
3.4. Governance

As a public private partnership, the majority of the risk lies with the investment consortium that will construct and subsequently manage this affordable housing.

The project governance model is detailed below, and is always subject to Town of Port Hedland procurement Statutes and Regulations, particularly Sec 3.58 and 3.59 of the Act.

The Pilbara Regional Council has a Memorandum of Understanding with Blue Zoo to review the project at defined milestones against their Project Governance Framework to ensure that all risks are being managed.

In addition to these external controls, the Pilbara Regional Council audit function will periodically review the project controls and performance throughout the life of the project.



3.5. Other Options Considered

There are few proposals that offer the degree of scale and de-risk that this PP offers.

A ‘similar’ model has recently been proposed by Questus, an ASX-listed funds and investment management business with a current market cap of \$3.2m. This model is indicative of several others currently in or approaching the market.

Questus is proposing to build up to 450 allotments of affordable housing throughout Northwest WA. Each allotment to consist of one 1 bedroom unit and one 3 bedroom house. The approximate cost to construct is \$800k per allotment.

It is proposed that retail investors (Mums and Dads) will provide capital funding for development with construction provided through a “Questus approved” builder.

Individual investors would retain ownership of the property and receive two NRAS incentives per allotment via a notional investment in the Questus Residential Investment Fund.

Individual investors would be responsible for property maintenance, ensuring buildings are in compliance with State building regulations and the appointment of a property and tenancy manager.

Individual investors have the ability to sell property at any point and opt out of the NRAS scheme.

Approved builders are yet to be confirmed but would be WA based.

Properties would be built to match investor appetite, ie not delivered in one project

Initial analysis suggests the proposal is cash flow negative. The ability to raise funds via the retail market is questionable given the reliance on capital growth and competing products in the market.

Viability. The project is solely reliant on retail investor funding, with no ability for Questus or the builders to provide an underwritten proposal.

Timing. The project is still in infancy. Indicative timing from Questus indicates 12 months till project start at best. There is no certainty around completion – ie properties developed as investors introduced.

Opt Out. There is the ability for investors to opt out of the NRAS scheme, remove tenants, or sell the property. The project therefore does not guarantee stabilised low rents in the Pilbara.

Non-Exclusivity. Demand for affordable housing in the Pilbara is such that the current proposed PPP and other projects (such as this Questus proposal) need not be mutually-exclusive. Rather, each should be considered on its merits as contributing to an overall solution for the region.

4. RECOMMENDATION

The Town of Port Hedland endorse the affordable housing project in public-private partnership with the National Australia Bank consortium of institutional investors.