

SOUTHERN METROPOLITAN REGIONAL COUNCIL



OFFICE ACCOMMODATION PROJECT AMENDED BUSINESS PLAN 2021 (DRAFT)

30 June 2021

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INTRODUCTION

1. Introduction

1. BACKGROUND

Southern Metropolitan Regional Council (SMRC) is a statutory local government authority consisting of four local governments in the southern part of metropolitan Perth.

Town of East Fremantle City of Fremantle

City of Kwinana City of Melville

The SMRC is responsible for developing environmentally sustainable waste management solutions and climate change abatement measures for the communities of the Participants.

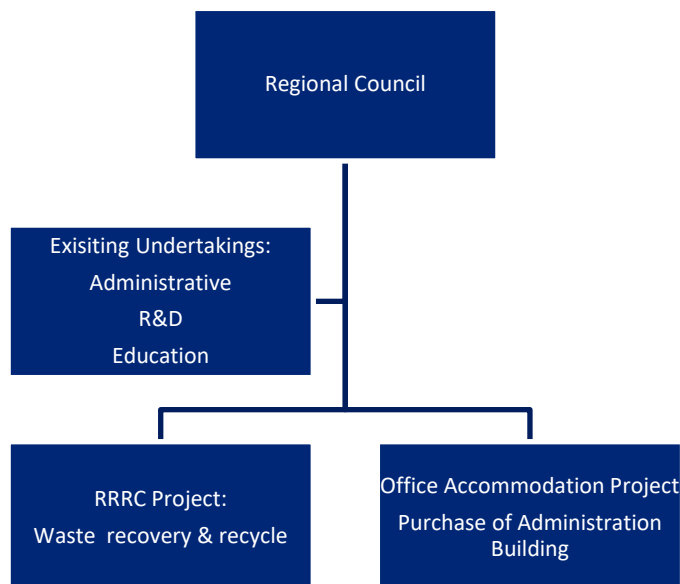
Underlying SMRC are two core projects, being;

1. the Regional Resources Recovery Centre (RRRC) Project (the RRRC Project) and,
2. the Office Accommodation Project (the Office Project).

Each of these projects was established via a separate project agreement, and not all Participants are parties to each project agreement. In addition to the two core projects, the support activities of SMRC, such as education and marketing, research and development and administrative activities, are referred to as Existing Undertakings.

Existing Undertakings include Education and Marketing, Research and Development and Administrative activities.

The following diagram illustrates the organisational structure of SMRC:



INTRODUCTION

2. CITY OF KWINANA WITHDRAWAL FROM THE PROJECT

Pursuant to a resolution of the City of Kwinana (City) on 24 June 2020, the City has given notice of its intention to withdraw from the SMRC Establishment Agreement and the Office Accommodation Project Agreement effective from 30 June 2021.

Clause 8.10 of the Establishment Agreement states that a Project Participant may, at any time, give notice of its intention to withdraw from the Project.

Clause 8.11 of the Establishment Agreement states the withdrawal of a Project Participant shall take effect:

- a) From the end of the financial year after the financial year in which notice under clause 8.10 has been given by the Project Participant to the Regional Local Government; or
- b) On any earlier date agreed by the Project Participants.

Upon withdrawal of a participant from a project, each project agreement stipulates that an Amended Business Plan is to be prepared for the related project. The Establishment Agreement further stipulates that upon withdrawal of a Participant from SMRC that the amount of any surplus funds or deficit be calculated as if SMRC was wound up. The winding up of SMRC includes:

- a) Winding up of each Project separately
- b) Winding up of each Existing Undertaking.

This Amended Business Plan addresses the Office Project and the withdrawal of the City from that project.

3. OFFICE ACCOMMODATION PROJECT

In May 2003, The Regional Council adopted the Office Project Business Plan for the purposes of purchasing office accommodation. All its Member Councils entered into a Project Participants Agreement as a joint investment venture.

In 2004 the SMRC purchased freehold land and building situated at 9 Aldous Place, Booragoon, Western Australia for its administration office.

The Office Project pertains to SMRC's office located at 9 Aldous Place, Booragoon, Western Australia.

The expenditure of the Office Project covers the following:

- Costs associated with financing, maintaining and operating (utilities and outgoings) the office accommodation.

The assets and liabilities that relate to the Office Project are the land and buildings and the associated loan facility.

The office accommodates 15 full time employees who are employed in relation to the Existing Undertaking and the RRRC Project (serving a variety of functions such as engineering services, administration and finance, business development and communications). The office has meeting rooms, a rear warehouse and garage.

INTRODUCTION

Current participants in the Office Project include:

- Town of East Fremantle
- City of Fremantle
- City of Kwinana
- City of Melville

(collectively, **the Project Participants** – the **Remaining Project Participants** is defined as all Project Participants excluding the City of Kwinana)

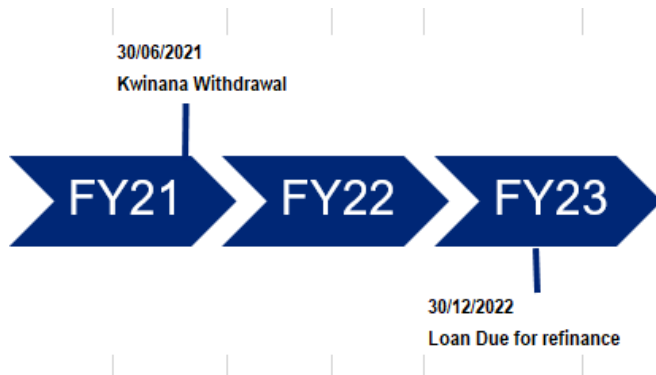
4. AMENDED BUSINESS PLAN

As outlined in the Office Project Agreement, this Amended Business Plan addresses the following:

- The effect of the withdrawal of the City of Kwinana
- Details of any changes to the annual contributions payable by the remaining Project Participants after the withdrawal takes effect.

Accordingly, this Amended Business Plan incorporates the outcome of a financial model which models the effect of the City of Kwinana's withdrawal on the Remaining Project Participants and further provides an indicative estimate of the proportional entitlement payable to the City of Kwinana, based on a notional winding up of the Office Project on 30 June 2021.

Figure 1. Office Project Events



EXECUTIVE SUMMARY

2. Executive Summary

1. ANNUAL CONTRIBUTIONS

The impact of the City of Kwinana's withdrawal is to change the proportion of annual participant contributions and spreads the City's contribution across the Remaining Project Participants proportionately.

The following table indicates the change in annual member contribution proportions to 30 June 2025 assuming prevailing interest rates are applicable for the term of the loan.

A fixed interest rate to 30 December 2022 is 0.35% + 0.70% govt guarantee fee.

For modelling purposes a forecast interest rate from 1 January 2022 is 1.5% + 0.70%.

Table 1

Project Expenses	01-Jul-20	01-Jul-21	01-Jul-22	01-Jul-23	30-Jun-24
	30-Jun-21	30-Jun-22	30-Jun-23	29-Jun-24	29-Jun-25
Loan Interest Payment	18,900	18,900	42,300	48,600	48,600
Participants' Contribution					
East Fremantle	795	1,045	2,334	2,334	2,334
Fremantle	3,153	4,165	9,335	9,335	9,335
Kwinana	4,574	-	-	-	-
Melville	10,378	13,690	30,631	30,631	30,631
Total Income	18,900	18,900	42,300	42,300	42,300

2. LOAN CAPITAL CONTRIBUTIONS

The change for the remaining Project Participants (percentage and dollar changes) for contingent liability for the \$1.8 million loan in FY22 is provided in the following table:

Table 2

Impact of Kwinana's withdrawal on loan liability proportionments				
	FY21		FY22	
	%	\$	%	\$
East Fremantle	4.21%	75,712	5.53%	99,537
Fremantle	16.68%	300,296	22.04%	396,701
Kwinana	24.20%	435,625	0.00%	-
Melville	54.91%	988,367	72.43%	1,303,762
Total	100.00%	1,800,000	100.0%	1,800,000

EXECUTIVE SUMMARY

3. NOTIONAL WINDING UP

The Project Agreement states that following the withdrawal of a project participant, SMRC shall determine the amount equal to the proportional entitlement or proportional liability payable to/collectable from the withdrawing project participant. Following quantification of the proportional entitlement or liability, SMRC is to distribute to or collect from the withdrawing project participant the relevant amount.

The notional winding up includes a sworn property valuation within six months prior to withdrawal, and costs associated with winding up the project at the withdrawal date, 30 June 2021.

1. An independent sworn market valuation dated 1 June 2021 values the property at \$1.8 million.
2. Notional winding up costs is estimated at \$135,000.

Conclusion:

1. In accordance with Clause 2.7, the SMRC has determined the amount equal to the value of all assets of the Office Project less the amount of all borrowings and other liabilities with respect to the Office Project is a surplus of \$136,252. The proportional entitlement of the withdrawing project participant is \$26,629 and the SMRC is to pay the withdrawing project participant the relevant amount less costs associated with the preparation of this plan.
2. In accordance with the Lending Agreement between Western Australian Treasury Corporation (WATC), SMRC and its remaining Participants shall:
 - a. Pass a resolution giving its consent to the City of Kwinana withdrawing from its obligations under the \$2 Million Secured Lending Facility Agreement (known as the Office Project Loan) (hereinafter referred to as “the Loan Agreement”) with the WATC with effect from 30 June 2021.
 - b. Accordingly the remaining Participants hereby requests that SMRC deliver a revised Exhibit B Certificate to WATC as required under the provisions of the Loan Agreement to notify WATC of the new percentages of the SMRC debt being apportioned to the remaining participants following the withdrawal of City of Kwinana from the SMRC effective 30 June 2021.

Southern Metropolitan Regional Council hereby certifies that as at the date hereof, the Share of the Facility (expressed as a percent) owed by each Participant is as follows:-

<u>Name of Participant</u>	<u>Old Share</u>	<u>New Share</u>
City of Fremantle	16.70%	22.04%
City of Melville	55.82%	72.43%
Town of East Fremantle	4.25%	5.53%
City of Kwinana	23.23%	0%
TOTAL⁽¹⁾	100.00%	100.00%

3 FINANCIAL MODEL

3 Financial Model

1. INTRODUCTION

The cost estimates provided in this Amended Business Plan are based on the SMRC's most recent estimates of ongoing loan interest payments. The assumptions with regards to the Amended Business Plan are discussed further below.

2. ASSUMPTIONS

Project length

The Office Project is an ongoing project and accordingly does not have a finite completion date. The project will cease when the building is sold. For the purpose of the Amended Business Plan the Office Project has been modelled over a two-year period to FY23, in line with the fixed borrowing and future transition plan of the SMRC.

Population growth

Data from the Australian Bureau of Statistics (ABS) combined with Forecast.ID growth rates has been used to estimate participants' population growth during the plan period. SMRC uses the ABS's Estimated Population by Local Government Region for calculating actual annual contributions.

Project income

There is currently no additional income received for this Project, other than member contributions.

Project expenses

- The annual loan interest payments are fixed to 31 December 2020 at \$58,500pa. Should the loan be re-financed after this period interest rates will be at the prevailing rates from December 2020.
- Major repairs & maintenance are to be funded from the purpose reserve fund. The building will require internal and external repainting, general repairs and maintenance and landscaping prior to any disposal of the building in the short-term.

Member proportions

The annual loan interest payments of the Office Project are to be shared amongst the Project Participants based on their proportional populations.

3 FINANCIAL MODEL

Reserve Fund

The Office Accommodation Reserve was established and maintained in accordance with section 6.11 of the Local Government Act 1995.

The purpose of the reserve is for funding capital renewal expenditure and non-recurrent maintenance expenditure for the SMRC property located at 9 Aldous Place Booragoon.

Table 3

Project Reserve Fund	01-Jul-20	01-Jul-21	01-Jul-22	01-Jul-23	30-Jun-24
	30-Jun-21	30-Jun-22	30-Jun-23	29-Jun-24	29-Jun-25
Office Accommodation Reserve					
Balance as at 1 July	271,252.	271,252.	271,252.	271,252.	271,252.
Transfers to Reserve					
Transfers from Reserve					
Balance as at 30 June	271,252.	271,252.	271,252.	271,252.	271,252.

3 FINANCIAL MODEL

3. OUTPUTS

Annual contributions

Pursuant to the Agreement, the Project Participants shall pay to the Regional Local Government:

- a. an annual contribution towards the cost of the acquisition of any asset of a capital nature for the Project; and
- b. an annual contribution towards all other expenditure relating to the Project including:
 - i. the cost of acquisition of any asset of a non-capital nature for the Project; and
 - ii. all operating expenditure, including administrative expenses, relating to the Project,

The annual contribution towards the Office Project are to be shared amongst the Project Participants based on their proportional populations.

The Office Project budget is in two parts;

1. Expenditure towards the cost of the borrowings for the acquisition of the assets. Eg Interest Expense. Participants pay this via an annual contribution forming part of the Governance Contribution.
2. Income and Expenses towards the running of the Asset eg, warehouse rent, maintenance, rates, rubbish charges, cleaning, utilities, etc.

Participants' indirectly pay the proportional net costs through allocations to the existing undertakings and the RRRC Project and is not an additional contribution payable by the remaining participants.

The financial model indicates that the following changes in participant contributions, by way of percentage contribution, will result following the withdrawal of the City of Kwinana:

Table 4

Impact of withdrawal on remaining participants' proportions					
Participants	FY21	FY22	FY23	FY24	FY25
East Fremantle	4.2%	5.5%	5.5%	5.5%	5.5%
Fremantle	16.7%	22.0%	22.1%	22.1%	22.1%
Kwinana	24.2%	0.0%	0.0%	0.0%	0.0%
Melville	54.9%	72.4%	72.4%	72.4%	72.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Table 5

Project Expenses	01-Jul-20	01-Jul-21	01-Jul-22	01-Jul-23	30-Jun-24
	30-Jun-21	30-Jun-22	30-Jun-23	29-Jun-24	29-Jun-25
Loan Interest Payment	18,900	18,900	42,300	48,600	48,600
Participants' Contribution					
East Fremantle	795	1,045	2,334	2,334	2,334
Fremantle	3,153	4,165	9,335	9,335	9,335
Kwinana	4,574	-	-	-	-
Melville	10,378	13,690	30,631	30,631	30,631
Total Income	18,900	18,900	42,300	42,300	42,300

3 FINANCIAL MODEL

4. LOAN CAPITAL CONTRIBUTIONS

SMRC has a \$1,800,000 loan owing to Western Australian Treasury Corporation relating to the original purchase and fit out of the office accommodation. The Project Participants each have a contingent liability in relation to their guarantee of repayment of their portion of the loan. Upon withdrawal of the City of Kwinana, the Remaining Project Participants are required under the Project Agreement to take on the guarantee for repayment of the loan in the revised proportions.

In accordance with the Participants' Agreement, a withdrawing participant no longer is liable for the borrowing and it is a requirement of the continuing participants to consent to the withdrawing participant's retirement from the loan obligations with the Western Australian Treasury Corporation.

Currently there is no requirement for the participants to pay annual capital contributions towards the repayment of the principal loan. Interest repayments are included in the operating annual contributions.

The loan is an interest only fixed borrowing and any reduction of the principal or loan balance will be in consultation with Project Participants.

The loan is fixed to 31 December 2022. At that date the loan can either be repaid or refinanced. Early retirement of the loan during its fixed period is allowable however, may attract lender discount charges.

The change in contingent liability in FY22 for the remaining Project Participants (percentage and dollar changes) is provided in the following table:

Table 6

	FY21		FY22	
	%	\$	%	\$
East Fremantle	4.21%	75,712	5.53%	99,537
Fremantle	16.68%	300,296	22.04%	396,701
Kwinana	24.20%	435,625	0.00%	-
Melville	54.91%	988,367	72.43%	1,303,762
Total	100.00%	1,800,000	100.0%	1,800,000

NOTIONAL WINDING UP OF PROJECT

4 Notional Winding Up of Project

1. INTRODUCTION

The Office Project Participants' Agreement outlines in clause 2.6 that in the event of the withdrawal of a project participant from the Office Project that SMRC shall prepare an amended business plan for that Project. The amended business plan is to have regard to the effect of the withdrawal of the project participant giving the notice.

Clause 2.7 further states that following the withdrawal of a project participant that SMRC shall determine the amount equal to the value of all assets of the Office Project less the amount of all borrowings and other liabilities with respect to the Office Project. The proportional entitlement of the withdrawing project participant is then to be applied to this amount. Following quantification of the proportional entitlement, SMRC is to distribute to or collect from the withdrawing project participant the relevant amount.

2. METHODOLOGY AND ASSUMPTIONS

- The percentage of the total contributions paid by the remaining participants since the commencement of the Project.
- A sworn property market value within six months prior to withdrawal date.
- The outstanding WATC loan is \$1.8 million.
- Office Accommodation Reserve \$271,252 million
- Winding up costs \$135,000

NOTIONAL WINDING UP OF PROJECT

The following table shows the annual contributions expressed as a percentage since the commencement of the Project.

The percentage of contributions have been adjusted following the withdrawal of Canning, Rockingham and Cockburn to determine a 100% share equity between the remaining four participants.

Table 6

OFFICE PROJECT								
Year of contribution	CANNING	COCKBURN	EAST FREMANTLE	FREMANTLE	KWINANA	MELVILLE	ROCKINGHAM	Total
FY	%	%	%	%	%	%	%	
2007	20.81%	18.75%	1.80%	7.11%	5.88%	25.80%	19.85%	100%
2008	20.81%	18.75%	1.80%	7.11%	5.88%	25.80%	19.85%	100%
2009	20.14%	19.40%	1.74%	6.47%	6.04%	24.23%	21.97%	100%
2010	20.14%	19.40%	1.74%	6.47%	6.04%	24.23%	21.97%	100%
2011		24.30%	2.18%	8.10%	7.57%	30.34%	27.51%	100%
2012		24.30%	2.18%	8.10%	7.57%	30.34%	27.51%	100%
2013		35.43%	2.92%	11.07%	11.47%	39.11%	0.00%	100%
2014		36.39%	2.79%	10.81%	11.98%	38.03%		100%
2015		36.63%	2.74%	10.74%	12.20%	37.69%		100%
2016		36.91%	2.71%	10.70%	12.52%	37.16%		100%
2017		37.09%	2.67%	10.70%	12.80%	36.74%		100%
2018		37.29%	2.65%	10.61%	13.22%	36.23%		100%
2019		37.67%	2.68%	10.52%	14.34%	34.79%		100%
2020			4.24%	16.76%	23.63%	55.36%		
2021			4.21%	16.68%	24.20%	54.91%		
			2.60%	10.13%	11.69%	35.38%		60%
Excl Canning, Rockingham, Cockburn			4.35%	16.94%	19.54%	59.16%		100%

NOTIONAL WINDING UP OF PROJECT

Table 7 – Excerpt of Sworn Valuation Report dated 1 June 2021

2105047619
9 Aldous Place, Booragoon WA 6154



10 Valuation

Subject to the conditions, limitations and qualifications contained within the body of this report, we assess the Market Value exclusive of GST of the subject property, for Internal Transfer purposes, as at 1 June 2021, to be:

Market Value – As Is

\$1,800,000

(ONE MILLION EIGHT HUNDRED THOUSAND DOLLARS)

Valuer Tony Gorman
FAPI CPV 64979
WA Licence No. 42002
Entity Acumentis (WA) Pty Ltd trading as Acumentis
Office Perth

Co-signatory Matthew Crofts
AAPI CPV 65149
WA Licence No. 44324
Position Director

Table 8 – Winding up costs

Winding Up costs		
Sale Agent Fees	2%	36,000.
Sale Marketing Fees		10,000.
Conveyancing		5,000.
External & Internal Painting		40,000.
General building repairs		20,000.
Landscaping for sale		5,000.
Relocation Costs		15,000.
Other		4,000.
Total		135,000.

NOTIONAL WINDING UP OF PROJECT

Table 9 - Proportional calculation:

2021 Market Valuation		1,800,000.
Office Reserve		271,252.
Less winding up costs		(135,000)
Less Loan		(1,800,000)
Balance		136,252.
Participants' Share		
Based on past contributions		
East Fremantle	4.36%	5,934.
Fremantle	16.94%	23,080.
Kwinana	19.54%	26,629.
Melville	59.16%	80,609.
Total Income	100.00%	136,252.

3. CONCLUSION

1. In accordance with Clause 2.7, the SMRC has determined the amount equal to the value of all assets of the Office Project less the amount of all borrowings and other liabilities with respect to the Office Project is a surplus of \$136,252. The proportional entitlement of the withdrawing project participant is \$26,629 and the SMRC is to pay the withdrawing project participant the relevant amount less costs associated with the preparation of this plan.
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<u>Name of Participant</u>	<u>Old share</u>	<u>New share</u>
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City of Kwinana	23.23%	0%
TOTAL⁽¹⁾	100.00%	100.00%