

MINUTES OF THE ORDINARY MEETING OF UPPER HUNTER SHIRE COUNCIL HELD ON THURSDAY 25 JUNE 2020 IN THE COUNCIL CHAMBERS, SCONE COMMENCING AT 5.30pm

PRESENT:

Cr Maurice Collison (Mayor), Cr Sue Abbott, Cr James Burns, Cr Ron Campbell, Cr Kiwa Fisher and Cr Lee Watts.

APOLOGIES:

RESOLVED that apologies from Cr Josh Brown and Cr Lorna Driscoll be accepted.

Moved: Cr R Campbell

Seconded: Cr K Fisher

CARRIED

IN ATTENDANCE:

Mr Steve McDonald (General Manager), Mr Kristian Enevoldson (Director Corporate Services), Mr Mathew Pringle (Director Environmental & Community Services), Mr Nicholas Havyatt (Director Infrastructure Services), Mr Wayne Phelps (Finance Manager), Mr Gavin Newton-Smith (Assets) Ms Daele Healey (Communications) and Mrs Karen Lee (Governance & Executive Support Officer).

DISCLOSURES OF INTEREST:

NIL

PUBLIC PARTICIPATION:

NIL

Draft

UPPER HUNTER SHIRE COUNCIL

Extraordinary Meeting - 25 June 2020

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Corporate Services

FINANCE REPORTS

F.06.1 **ROAD INFRASTRUCTURE BORROWINGS**

RESPONSIBLE OFFICER: Kristian Enevoldson - Director Corporate Services

AUTHOR: Wayne Phelps - Manager Finance

PURPOSE

The purpose of this report is to gain approval for proposed loan borrowings to facilitate the completion of current ongoing road infrastructure works at MR358 Willow Tree Road and provide Council with possible funding towards other major road infrastructure works.

RECOMMENDATION

That Council:

1. Resolve to execute the drawdown of the approved loan facility supplied by Treasury Corporation relating to Road Infrastructure works to the value of \$5,000,000.
2. Provide delegated authority to the Mayor and General Manager to approve any required loan documentation to facilitate the drawdown of the loan facility.

BACKGROUND

Council over the past 2 to 3 years has been successful in obtaining grant funding to develop and construct a number of major road infrastructure projects such as:

- MR358 Willow Tree Road (also known as Coulsons Creek Road) to develop and construct a B-Double route between Merriwa and Willow Tree
- MR62 Bunnan Road to develop and widen this main connection from the West of the Shire to the New England Highway

These projects have obtained significant approved grant funding to facilitate the advancement of the projects from both the Federal and State Governments.

MR358 Willow Tree Road

The infrastructure project MR358 Willow Tree Road was a joint \$12.2 million initiative between Council and its neighboring Liverpool Plains Shire Council as the upgrade works on the road spanned across both shires.

This project was to be completed and open in September/October 2019 however was delayed due to what was originally considered to be minor rectification works required to be completed on the road in the Upper Hunter Shire portion of the road works. The rectification works are more complex in nature.

Since that period a significant rain event occurred in January 2020 that has severely compromised the road's integrity resulting in safety requirements to reduce the proposed B-Double route to a 5 tonne road limit hindering the gateway between Merriwa and Willow Tree.

Council has engaged a geo-tech consultant to provide a comprehensive report on the roads integrity, safety and possible rectification works that will be required in order to deliver the originally proposed B-Double route.



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The budget allocation for the Upper Hunter Shire Council's portion of the project was \$9,574,950 of which has now been fully expended on the works completed to date with the possibility of additional funding from Government Agencies unlikely.

In addition to this, Council currently has outstanding significant government funding on the original approved grant funding which will be payable on providing a Final Reports on the delivery of the completed project, this will not be attainable until the rectification works are completed and the route has been designated with a B-Double approval capacity.

MR62 Bunnan Road

Council was successful in gaining funding from the State Government iNSW Restart funding for the progression of the upgrade to MR62 Bunnan Road from Merriwa to New England Highway.

The infrastructure road project has a budgeted cost of \$6,190,692 which is currently funded by the State Government \$2,895,346 and Council \$3,295,346. The intent for Council's contribution towards the project was to seek additional funding from the Federal Government under the Heavy Vehicle Safety and Productivity Program for \$2,895,346 however this application has been unsuccessful to date.

Council resolved at its meeting on 25 February 2020 to sign the funding deed with iNSW Restart in order to secure the funding which would have been withdrawn if not accepted. Due to the nature of the funding deed Council has two (2) years to complete the project works once the deed has been signed which effectively requires the project to be completed by June 2021. Council is continuing to seek funding opportunities for the project.

Due to the timeframe required to complete the infrastructure works Council has commenced the upgrade project in sections so as to not compromise the possibility of additional Federal or State Government funding approvals.

REPORT/PROPOSAL

Due to the present situation of these two major projects currently Council has a considerable cash flow funding issue to deliver the required outcomes.

These funding issues are highlighted as follows:

MR358 Willow Tree Road

Council has currently fully expended its budget allocation of \$9.6m on the project however additional rectification works will be required to complete the project to the originally approved project outcome of a B-Double route from Merriwa to Willow Tree.

Council currently has outstanding the remaining Federal and State Government funding for the project which is reliant upon delivery of a final report on the projects approved outcomes of which cannot be delivered at this point.

The funding issue for Council is a combination of two factors:

1. Council has a shortfall in cash funding for the outstanding government portions of the approved funding which are:

a. Federal Government Final Milestone	\$2,099,483
b. State Government iNSW Restart (Final 10%)	<u>\$ 557,401</u>
Total	<u>\$2,656,884</u>

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2. Council **will** be required to undertake rectification work which may be considerable. An estimated value of these works has been noted at a minimum of \$5 million however the actual costs of the rectification works will not be known until the Geo-tech report has been issued and full design and scope of the rectification works has been completed. These studies and designs will need to be funded by Council.

Council has discussed with the Government bodies the possibility of releasing some of the outstanding funding amounts but have not been successful.

A Councillor briefing was held on the 18 June 2020 regarding the road failure issues at MR358 Willow Tree Road.

MR62 Bunnan Road

Council will need to fund the balance of the project as stipulated in the deed, if no additional Federal Government funding is secured.

This will result in Council being required to fund the following:

Overall Project Cost	\$6,190,692
iNSW Restart funding secured	<u>\$2,895,346</u>
Council Contribution	<u>\$3,295,346</u>

It is proposed that Council will continue to seek additional funding not just from the Federal Government but also the State Government for the project, however if unsuccessful Council will propose to utilise any remaining loan funding available after completion of the MR358 Willow Tree Road rectification works plus an allocation of Roads to Recovery funding.

Servicing of Loan Facility

The loan facility for the Road Infrastructure works has been approved by T-Corp to the value of \$5,000,000 over a 20-year term at an indicative fixed rate of 2.26%.

Loan Servicing of the facility will be an annual repayment of \$311,436 which will be funded by Council under the following:

- For the 2020/21 to 2023/24 years the repayments will be funded from surpluses generated from the Transport for NSW works on the Golden Highway and the Roads budget.
- From 2023/24 Council will have additional cash flow from repayments currently paid for the two (2) Local Infrastructure Renewal Scheme (LIRS) loan borrowings as these loans will be fully paid out. Loan repayments for these facilities total \$677,957 per annum.

When contemplating the borrowing of funds Council must consider whether it is meeting the Office of Local Governments "Fit for the Future" benchmarks in relation to debt servicing ratio for the General Fund.

The recommended benchmark for debt service coverage ratio is 2.0x.

Council has reviewed its current and future the debt service cover ratio over the current draft Delivery Program and Operation Plan period of 2019/20 to 2023/24 with the inclusion of the \$5,000,000 loan facility and its indicative debt servicing costs. These ratios are:

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2019/20	4.05x
2020/21	2.18x (effected by the Financial Assistance Grants paid in advance 2019/20)
2021/22	2.98x
2022/23	2.87x
2023/24	3.34x

It should be noted that the 2020/21 year is effected by the payment in advance of Council's 2020/21 Financial Assistance Grant allocation (\$2.68m) in 2019/20. This payment in advance has occurred for approximately the last 5 years.

Based on the calculation of the current and future Debt Service Coverage Ratio Council is and will continue to meet the Office of Local Government's benchmark.

OPTIONS

1. Council drawdown the approved loan facility for \$5,000,000 with Treasury Corporation (T-Corp) on a fixed rate 20-year term.
2. Council drawdown the approved loan facility to the value of the cash shortfall in outstanding Government Agencies grant funding.
3. Council drawdown the approved loan facility for an alternate amount.
4. Do not enter into any loan facility arrangements.

CONSULTATION

- General Manager
- Director Corporate Services
- Director Infrastructure Services
- Finance Manager

STRATEGIC LINKS

a. Community Strategic Plan 2027

This report links to the Community Strategic Plan 2027 as follows:

- Goal 7 Enhance and improve the road network and bridges to meet the needs of current and future generations and communicate priorities and progress to the Community.
CS27 Maintain and upgrade the road network and bridges
- Goal 8 Provide Community leadership
CS37 Ensure long term-term financial sustainability through short, medium and long term financial planning.

We are working to achieve the following Community Priorities:



Upper Hunter Shire Council demonstrates
it is Fit for the Future and can meet all State
Government indicators for financial stability.



Upper Hunter Shire has improved and well
maintained roads and bridges.

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b. Delivery Program

- Proposed loan funding and additional capital works to be included in the 2020/21 Delivery Program and Operational Plan when removed from exhibition.

c. Other Plans

- Long Term Financial Plan

IMPLICATIONS

a. Policy and Procedural Implications

Council has two (2) policies relating to loan borrowings that are relevant to this report:

- Financial Management – Policy – Borrowings
- Financial Management – Policy – Investments

b. Financial Implications

- Cash Funding shortfall for the 30 June 2020 year of \$2.656m if loan funding is not secured.
- Council will have a cost burden for rectification works on MR358 which will significantly affect any proposed road infrastructure works and maintenance and Council services into the future.
- Indicative cost of annual repayment for \$311,436 over a 20-year period on a fixed rate of 2.26%.
- Reduction on Debt Service ratio, however Council still remains above the recommended "Fit for the Future" benchmark (>2x) as set by the Office of Local Government.

c. Legislative Implications

Nil

d. Risk Implications

- Council will have a significant cash funding shortfall if loan funding is not secured
- Council debt service ratio will be reduced due to the extra burden of the debt servicing requirements may hinder future borrowing capacity.
- Meeting current borrowing financial debt covenants:
 - Cash Expense Ratio – to be equal to or greater than two months
 - Debt Service Cover Ratio (DSCR) – to be equal to or greater than 1.5 times
 - Interest Cover Ratio – to be equal to or greater than 3.0 times

e. Sustainability Implications

Nil

f. Other Implications

Nil

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CONCLUSION

Council is required obtain loan borrowings in order to preserve cash flow funding due to delay in receipt of grant funding of the MR358 Willow Tree Road project and facilitate the completion of rectification works and provide funding for other major infrastructure projects that government grant funding has provided a portion of the required expenditure.

Loan facilities secured through TCorp are considered to provide Council with an extremely attractive interest rate that is fixed over the term of the loan providing surety of loan servicing commitments into the future.

ATTACHMENTS

Nil.

RESOLVED That Council:

1. Resolve to execute the drawdown of the approved loan facility supplied by Treasury Corporation relating to Road Infrastructure works to the value of \$5,000,000.
2. Provide delegated authority to the Mayor and General Manager to approve any required loan documentation to facilitate the drawdown of the loan facility.
3. Direct the General manager to audit all projects with the value of \$1,000,000 and over to ensure the appropriate and available insurances are in place so as to protect the UHSC from further exposure and report the findings of said audit to the August meeting of the UHSC Audit Risk and improvement committee.
4. Direct the General Manager to create a project management guideline for all projects undertaken by the UHSC. This guideline is to be reviewed by the UHSC Audit Risk and improvement committee before being submitted to the Infrastructure Services Committee for notation.

Moved: Cr J Burns

Seconded: Cr R Campbell

CARRIED

FOR	AGAINST
Councillor Burns	Councillor Abbott
Councillor Campbell	Councillor Watts
Councillor Collison	
Councillor Fisher	
Total (4)	Total (2)

THERE BEING NO FURTHER BUSINESS THE MEETING CLOSED AT 5.41PM.