Town of
Port Hedland

Business Plan

A PROPOSAL BY THE TOWN OF PORT HEDLAND TO ENTER INTO A MAJOR LAND TRANSACTION VIA PRIVATE TREATY WITH BHP BILLITON IRON ORE FOR THE DEVELOPMENT OF PRECINCT 3 AT THE PORT HEDLAND INTERNATIONAL AIRPORT

Local Government Act 1995

(Section 3.59)

11 NOVEMBER 2011

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1.0 Introduction

This Business Plan has been prepared with respect to a proposal of a Private Treaty arrangement to enter into a major land transaction between the Town of Port Hedland (ToPH) and BHP Billiton (BHPB) for land within the area known as "Precinct 3" under the Port Hedland International Airport Land Use Master Plan (PHIALUMP).

BHPB is proposing to undertake a 40 lot subdivision of the ToPH Freehold owned land within Precinct 3. The proposed subdivision will provide a much needed extension to the current Wedgefield estate by providing a land supply for Bulky Goods/Light Industrial/Commercial land uses and TWA (Transient Worker Accommodation) sites for BHPB's construction workforce, a third party operator and also parties undertaking City building projects.

BHPB will undertake all subdivision works and cover all associated costs to service 39 of the 40 proposed lots. The remaining balance lot will be incorporated into the adjoining airport land. The subdivided lots (Lots 1-39) will range in size from approximately 1,838m² to approximately 60,000m² and will support uses such as 'Bulky Goods'/'Light Industrial'/'Commercial' and 'Transient Workforce Accommodation' (TWA).

Upon completion of the subdivision, all of the lots (excluding proposed Lot 34) will remain in the ownership of the ToPH. Proposed Lot 34 will be purchased outright by BHPB.

Providing accommodation for BHPB's FIFO (Fly in/Fly out) construction workforce provides the basis for this proposal. BHPB have forecasted a peak in demand for construction worker accommodation in the order of 6,000 additional beds to support their proposed growth program and particularly the proposed Outer Harbour project. The proposed Outer Harbour project, and therefore the proposal to develop Precinct 3 are subject to BHPB Board approval.

The following Business Plan has been prepared in accordance with sections 3.58 and 3.59 of the *Local Government Act 1995* and the associated *Local Government (Functions and General) Regulations (1996)*. Its purpose is to provide members of the community with the opportunity to consider this proposal and provide input, prior to Council making any formal decision. The legislation requires that the local government advertise its intent to enter into any Major Land Transaction or any Major Trading Undertaking, through Statewide advertising, seeking public submissions. Submissions received during the six week public consultation phase are required to be considered by Council prior to any decision on this matter being made.

2.0 Background

The ToPH has been intending to develop the Airport land for quite some time. The PHIALUMP, adopted by Council on 27 July 2011, will be used to guide the subdivision and development of airport land owned by the ToPH. The PHIALUMP identified Precinct 3 as having significant development potential for industrial type land uses.

The proposal of a Private Treaty arrangement to enter into a major land transaction between the ToPH and BHPB will assist in the implementation of some of the recommendations of the PHIALUMP in relation to Precinct 3 at no cost to the ToPH.

2.1 Property Information

The subject site is located on the Great Northern Highway approximately 13 kilometres south of the Port Hedland townsite and adjoining the south-west side of the Port Hedland International Airport (PHIA). The ToPH acquired the PHIA including the subject site in 1985, when the land was transferred from the Commonwealth Government to the Town.

The subject site contains portions of Lots 31, 2443, 2444 and 11. The legal description of these lots is as follows:

- Lot 31on Plan 168968 and wholly contained within Certificate of Title Volume: 1259 and Folio: 730
- Lot 2443 on Plan 212197 and wholly contained within Certificate of Title Volume: 2212 and Folio: 731
- Lot 2444 on Plan 212197 and wholly contained within Certificate of Title Volume: 2212 and Folio: 731
- Lot 11 on Plan 144237 and wholly contained within Certificate of Title Volume: 1657 and Folio: 119

The subject site is shown below and is owned freehold by the ToPH as part of the PHIA. It is located within the area referred to as 'Precinct 3' in the PHIALUMP.



The proposed subdivision (being approximately 112.9 hectares in area) does not include the whole of the 'Precinct 3' landholding. The Balance Lot resulting from the subdivision will be incorporated into the rest of the airport land, being approximately 723.50 hectares in area.

Please refer to Appendix 1 for the Proposed Subdivision Plan.

2.2 Description of the Proposal

It is proposed that the ToPH will enter into an exclusive Private Treaty arrangement to undertake a major land transaction with BHPB. This agreement will facilitate the following:

- Subdivision of a portion of 'Precinct 3' by BHBP to create 40 lots, 39 of which would be serviced lots, and 38 of which would be retained by the ToPH (the balance lot will not be serviced and will be incorporated into the rest of the airport land);
- The lease of proposed Lot 35 to BHPB to facilitate the development of a 6,000 bed TWA facility for a construction workforce;
- The sale of proposed Lot 34 to BHPB for a warehouse facility;
- Newly created lots to be used for Bulky Goods, Light Industrial and Commercial uses, with four additional TWA sites which may be used for non-resource related projects;
- Balance Lot – Future investigations to be undertaken to develop options for Key Worker Housing.

2.2.1 Lease of Proposed Lot 35 and Creation of 6,000 bed TWA facility

Providing accommodation for BHPB's FIFO (Fly in/Fly out) construction workforce provides the basis for this proposal. As stated by BHPB, the forecast is for a peak in demand for construction worker accommodation in the order of 6,000 additional beds to support the proposed growth program and particularly the proposed Outer Harbour project (if endorsed by BHPB Board). The timing of the development is entirely at the discretion of BHPB and dependent upon BHPB's construction workforce needs, although for economic modelling purposes it has been assumed that 2,000 persons will be housed in the TWA facility by 2013/14, with further development to proceed in two stages leading to a total number of 6,000 persons on site by 2016/17. This will fulfil the requirement for a continued construction workforce for the proposed Outer Harbour project.

To achieve this objective, BHBP is proposing to undertake and fund the subdivision of the subject site, and then lease proposed Lot 35, being some 60 hectares, for use as a TWA facility for its FIFO construction workforce.

The lease for proposed Lot 35 has been compared to valuations undertaken on behalf of the ToPH. The lease will be at $\$12/m^2$ for a 10 year initial term, with the option of three additional 5 year terms, although after the initial 10 year term BHPB may reduce the lease area from the initial 60 hectares to either a lease area of 20 or 40 hectares. Prior to BHPB exercising their right to take up the any of the 5 year options, BHPB must demonstrate to the Council of the day that the TWA facility is required for their construction workforce only. The terms and size of the land parcels for options exercised will need to be agreed by both ToPH and BHPB, and will be subject to the requirements of the *Local Government Act 1995* and associated regulations.

The lease will be paid in arrears and be subject to a 3% indexation factor per annum commencing from the fourth year of the lease. The ToPH is also proposing as part of the lease agreement with BHPB to receive lease income prepayments of up to $31 million. The $31 million prepayment will solely be used to assist in funding the redevelopment of the Port Hedland International Airport (PHIA), whereby the ToPH will provide BHPB the projected costs and cash flow forecasts for the redevelopment and commits to redeveloping the PHIA as soon as practicable. The remaining indexed lease income will be paid annually in arrears to the ToPH from the 2nd year.

2.2.2 Subdivision of Portion of Precinct 3

BHPB will be responsible for all costs (estimated up to $41 million) associated with subdividing ($21 million) and providing services/infrastructure ($20 million) to the newly created lots. Upon completion of the subdivision, all of the lots (excluding proposed Lot 34) will remain in the ownership of the ToPH. Proposed Lot 34 will be purchased outright by BHPB.

BHPB will use best endeavours to complete the subdivision within 12 months of receiving subdivision approval.

All works will be undertaken in accordance with the standards and conditions as approved by WAPC. The subdivision and servicing of all proposed lots will be undertaken at no cost to the ToPH.

2.2.3 The Sale of Proposed Lot 34 to BHPB

BHBP will purchase proposed Lot 34 and utilise it for a warehouse facility. The ToPH undertook an independent valuation that determined the value of Lot 34 unserviced is $7.5 million. BHPB are servicing the land, and have proposed to pay for the land as though it were already serviced. The ToPH independent valuation indicates that Lot 34 serviced is $10 million. The purchase price of proposed Lot 34 (as agreed by the ToPH and BHPB) will be $9 million based on BHPB's independent valuation of Lot 34 being serviced. Settlement (prepayment) of proposed Lot 34 will occur prior to the issue of the title and is based on the agreed value (between ToPH and BHPB). This prepayment from the sale of proposed Lot 34 will be solely utilised to assist in funding the redevelopment of the PHIA.

2.2.4 Lots to Be Developed for 'Bulky Goods' / 'Industrial' / 'Commercial' Uses with Four TWA Sites

Proposed Lots 1 to 33 will be developed for use as a 'Bulky Goods'/'Light Industrial'/'Commercial' precinct. On completion of the subdivision, the ToPH will make these lots available for sale or lease to complement the current Wedgefield estate and to meet the growing industrial land demand within the market.

Proposed Lots 36 to 39 will be retained by the ToPH for lease as TWA sites. Proposed Lot 36, being approximately 10 hectares in area, is proposed to be leased to a third party TWA operator. The remaining proposed lots (Lots 37, 38 and 39), being approximately 3.34 hectares to 3.36 hectares in area, can be developed in order to support TWA facilities for parties undertaking city building projects (for example Main Roads WA, Water Corporation etc).

2.2.5 Balance Lot

The Balance Lot being approximately 26.72 hectares in area will remain unserviced and the ToPH will investigate options to utilise this land for Key Worker Housing in the future.

2.2.6 Summary of the Proposal

Aspects of the above have been included in the overall summary of the Proposal (below):

1. BHPB is to incur all costs associated with the subdivision (estimated at $21 million) and servicing/infrastructure (estimated at $20 million) of 39 out of the 40 lots proposed – this excludes the Balance Lot (as per the Proposed Subdivision Plan – see Appendix 1) within a portion of Precinct 3 of the Port Hedland International Airport land, which is owned by the ToPH.

2. BHPB will fund any costs directly related to immediate traffic and road access to the development site.

3. BHPB will fund the construction of any fencing necessary from the Great Northern Highway (proposed Lot 1) down the south western side of the airport to the bottom right hand corner of proposed Lot 39 in order to secure the proposed development site from the airport operations area in accordance with CASA (Civil Aviation Safety Authority) standards.

4. The land will remain in the ownership of the ToPH at all times during the subdivision process.

5. BHPB will be granted a licence or will enter into other mutually agreed arrangements with the ToPH for the whole of the subject site, incorporating conditions that allow for the commencement of works from 12 January 2012 as set out in clause 1 prior to the proposed subdivision and planning approvals at the risk of BHPB.

6. The parties (ToPH and BHPB) will enter into an Agreement for Lease of proposed Lot 35 which will annex the terms and conditions of the lease to be entered into between the ToPH and BHPB. The Agreement for Lease will provide that the lease comes into effect on the satisfaction of a condition precedent, namely the issue of a Certificate of Title for the proposed Lot 35. The terms and lease rental are set out in the succeeding clause.

7. BHPB will lease proposed Lot 35 (being the 60 hectare site) from the ToPH for the proposed construction of a TWA facility. This will be a lease at an agreed rate of $\$12/m^2$ and will be for an initial term of 10 years plus three 5 year options.

8. The terms and size of the land parcels for options exercised will need to be agreed by both ToPH and BHPB, and will be subject to the requirements of the *Local Government Act 1995* and associated regulations.

9. The lease income for proposed Lot 35 for the initial 10 year term will be provided to the ToPH in prepayments of up to $31 million in year 1 with annual lease income paid in arrears thereafter, and indexed at 3% from the 4^{th} year. The prepayments will solely be used to assist in funding the redevelopment of the Port Hedland International Airport, whereby the ToPH will provide BHPB the projected costs and cash flow forecasts for the redevelopment and commits to redeveloping the PHIA as soon as practicable. Upon confirmation of the cash flow requirements for the PHIA redevelopment, the ToPH and BHPB may determine a modified prepayment amount (capped up to $31 million) with the annual payments thereafter being adjusted accordingly. This would not vary the overall cash return to the ToPH.

10. For economic modelling purposes it has been assumed that the initial stage of the BHPB TWA facility will house approximately 2,000 construction workers by 2013/14. Additional stages of the facility will be developed over 3 -4 years to house a maximum of 6,000 workers by 2016/17. The timing of the development is entirely at the discretion of BHPB and dependent upon BHPB's construction workforce needs.

11. BHPB will purchase proposed Lot 34 for an amount of $9 million. BHPB are servicing the land, and have proposed to pay for the land as though it were already serviced. The ToPH independent valuation indicates that Lot 34 serviced is $10 million. The purchase price of proposed Lot 34 (as agreed by the ToPH and BHPB) will be $9 million based on BHPB's independent valuation. The monies from the sale of proposed Lot 34 will be received by ToPH as a prepayment on the date of execution of the relevant contract and prior to the issue of a Certificate of Title for proposed Lot 34.

12. Total maximum prepayment from BHPB to ToPH for the lease of proposed Lot 35 and the purchase of proposed Lot 34 is $40 million. The prepayment will be paid in the first year and solely used to assist in funding the redevelopment of the Port Hedland International Airport, whereby the ToPH will provide BHPB the projected costs and cash flow forecasts for the redevelopment and commits to redeveloping the PHIA as soon as practicable.

13. The ToPH will submit a subdivision approval to the Western Australian Planning Commission for their assessment.

14. The ToPH will process the necessary Town Planning Scheme (TPS) amendments to enable the proposed Bulky Goods/Light Industry/Commercial activities to occur within the subject site.

15. The ToPH will be responsible for the selling or leasing and marketing of the proposed serviced Lots 1 to 33 (inclusive) and Lots 36-39 (inclusive) and will retain all the proceeds from the sale or lease.

2.3 Value of Land

The current market value of the proposed lots has been determined by an independent Valuer. The information provided by the Valuer has provided the ToPH an estimated total end value of the development and an anticipated individual selling price for each proposed lot that has been used for the financial modelling.

Please refer Appendix 4 for the independent valuation commissioned by the ToPH.

2.4 Subdivision Costs

The cost of the subdivision including earth works and the connection to services for the 40 lot subdivision is estimated to be up to $41 million. BHPB is to fund the subdivision (estimated at $21 million) and servicing/infrastructure (estimated at $20 million) of 39 out of the 40 lots proposed – this excludes the Balance Lot (as per the Proposed Subdivision Plan).

All works will be undertaken in accordance with the standards and conditions as approved by WAPC. The subdivision and servicing of all proposed lots will be undertaken at no cost to the ToPH.

3.0 Town Planning Considerations

3.1 Town Planning Scheme No. 5

The site is currently zoned 'Airport' under the ToPH Town Planning Scheme No. 5 (TPS5)

Under the 'Airport' zoning a TWA is an 'AA' land use meaning that this style of development can be approved with the consent of Council.

At a Special Council Meeting held on 12 October 2011, Council initiated Amendment No. 48 to TPS5 to allow a number of industrial/commercial type uses to be approved that are not necessarily incidental to the airport use.

The site is located within the 'Development Plan Area – Airport' of TPS5. Clause 5.2.1 of TPS5 states:

> *"5.2.1 Council may prepare, or require the preparation of a Development Plan prior to considering subdivision or development proposals for:*
>
> *(a) Development Plan Precincts identified in Appendix 5"*

If Council decides to prepare a Development Plan (DP), it shall be prepared in accordance with the provisions of Appendix 6 of TPS5.

3.2 Port Hedland International Airport Land Use Master Plan

Under the Port Hedland International Airport Land Use Master Plan (PHIALUMP) the site is located within 'Precinct 3'.

It is noted in the PHIALUMP that 'Precinct 3' is currently not connected to any services, and upgrades to surrounding infrastructure will be required to service this Precinct for development. The proposed subdivision of the site is generally consistent with the layout proposed in the PHIALUMP and is considered to incorporate similar objectives for 'Precinct 3'.

3.3 WAPC Development Control Policy 4.1 – Industrial Subdivision

Another policy that may affect the current development is the WAPC Development Control Policy 4.1 – Industrial Subdivision, which provides guidance on the matters considered by the WAPC when determining applications for industrial subdivision throughout the state. This policy states under Section 3.1.1:

> *The land proposed to be subdivided must be appropriately zoned in the local authority's Town Planning Scheme and, where applicable the Metropolitan Region Scheme.*

The current 'Airport' zoning allows for the subdivision of this land.

4.0 Local Government Act 1995 Requirements

4.1 Creation of a Business Plan

In accordance with Section 3.59(2) and Section 3.59(3) of the *Local Government Act 1995*, before it commences a major trading undertaking, enters into a major land transaction, or enters into a land transaction that is preparatory to entry into a major land transaction, a local government is to prepare a Business Plan. The Business Plan is 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 this subsection.

The *Local Government Act 1995* requires the local government to –

1. Give Statewide public notice stating that –

   i. The local government proposes to commence the major trading undertaking or enter into the major land transaction described in the notice or into a land transaction that is preparatory to the major land transaction;

   ii. A copy of the Business Plan may be inspected or obtained at any place specified in the notice; and

   iii. Submissions about the proposed undertaking or transaction may be made to the local government before a day to be specified in the notice, being a day that is not less than six (6) weeks after the notice is given; and

2. Make a copy of the Business Plan available for public inspection in accordance with the notice.

4.2 Disposal of Property

Following receipt of submissions during the consultation period, section 30(2a)(c) of the *Local Government (Functions and General) Regulations 1996*, exempts section 3.58 of the *Local Government Act 1995* from application providing certain conditions are met.

In relation to the conditions, section 30(2a)(c) states that if the property is disposed of within 6 months after it has been the subject of Statewide public notice, and if the business plan referred to in that notice described the property concerned and gave details of the proposed disposition including –

- The names of all other parties concerned;
- The consideration to be received by the local government for the disposition; and
- The market value of the disposition as ascertained by a valuation carried out not more than 12 months before the proposed disposition,

then the disposition is exempt from section 3.58.

The conditions outlined above are included within this Business Plan as required.

4.3 Expected Effect on the Provision of Facilities and Services by the Local Government

It is anticipated that the current proposal will have no adverse effect on the current provision of facilities and services within the ToPH as there is additional land surrounding the Port Hedland International Airport to support future expansions of airport infrastructure. This land is not identified in the PHIALUMP as being required for future airport use.

Proceeds from the sale of Proposed Lot 34 ($9 million) and the lease income from the BHPB TWA site (in the form of prepayments of the first 10 year term of the lease of up to $31 million) will be solely utilised to assist in funding the upgrade of the Port Hedland International Airport whereby the ToPH will provide BHPB the projected costs and cash flow forecasts for the redevelopment and commits to redeveloping the PHIA as soon as practicable.

The graveyard/cemetery (Reserve 28672) currently within 'Precinct 3' is located outside of the subdivision area with a sufficient surrounding buffer and it is not considered to be affected by the proposed development.

The ToPH will not incur any development costs or financial risks in undertaking this proposal as BHPB is covering all costs associated with the subdivision and infrastructure.

4.4 Expected Effect on Other Persons Providing Facilities and Services in the District

The site is currently vacant land and forms part of the overall Port Hedland International Airport landholding. The proposed development will provide additional serviced industrial /bulky good lots and land capable of TWA developments. There is currently a significant demand for industrial/bulky good lots within the ToPH and limited development sites to meet demand. All of the proposed TWA sites will remain as leased sites owned by the ToPH and could be potentially subdivided in the future to provide additional industrial land.

The TWA sites will provide accommodation for BHPB FIFO construction workers to ensure other projects within the town proceed. The proposed subdivision will also provide TWA sites for a third party operator as well as for city building projects (i.e. Water Corporation, Main Roads WA). The additional TWA sites will potentially relieve some of the pressure on the tourism accommodation and other third party facilities within the region which are currently being utilised to house these workers due to a shortage of land capable of accommodating TWA developments.

An Economic Analysis commissioned by the ToPH has been undertaken by AEC Group Ltd to show the expected effect of the current proposal on industries within Port Hedland and WA overall and is included in Appendix 3. This analysis states in regard to this development that:

> *'in total (over the entire construction phase), construction activity from this development will directly and indirectly support Port Hedland LGA approximately:*
>
> - *$1.3 billion in output*
> - *$390 million in value added activity*
> - *$250 million in wages and salaries and*
> - *2,350 full time equivalent jobs'*

Other key results include:

- The operational activity of TWAs will provide benefits for a wide range of industries, particularly the administrative and support services (eg. cleaning services) and manufacturing industry.
- A projected supply gap between demand and supply of TWAs in the TOPH in 2016 of 3,378 TWA beds (i.e. 3,378 TWA beds short). This shortfall is even after taking into account current and proposed supply (this current proposal and the potential hospital site development in West End).
- Land supply for light/general industry, transport and logistics is anticipated to be fully exhausted in 2016/17, however there remains a steady forecasted increase in demand from this period up to 2031.
- The 'opportunity cost' of non-development would be the loss of significant capital investment in the Port Hedland and WA economies (i.e. $47.9b in nominal terms of iron ore mining and infrastructure projects).

The draft Pilbara's Port City Growth Plan (PPCGP) identifies a need for up to 7,000 new TWA beds, 9401m^2 retail floorspace, 46 hectares of highway commercial floorspace, and 250 hectares of industrial land within Precinct 3.

The industrial/bulky good developed lots will be sold or leased, based on the best outcome for the ToPH, as shown by the financial modelling to ensure that this development will not provide an oversupply in the market.

BHPB has proposed establishing a Community Integration Committee that will investigate and oversee all activities to minimise the negative impacts of the proposed TWA facility and to maximise community and business integration opportunities. BHPB will provide $200,000 towards integration and development studies for this committee. With the assistance of the ToPH, a community and small business integration strategy will be commissioned after the initial BHPB TWA development of 2,000 construction workers, and prior to the commissioning of additional stages of development within the BHPB TWA.

4.5 Its Expected Financial Effect on the Local Government

As part of the ToPH's due diligence responsibilities, a detailed Project Feasibility Assessment has been undertaken by an external financial consultant (Paxon Group) to assess the commercial viability of the subdivision proposal. Indicative development cash flows have been prepared for a variety of scenarios to show the anticipated contribution to the project by BHPB, TOPH and a Joint Venture third party as well as the expected financial returns of the project in each scenario.

The financial modelling assessed four different scenarios for the subject development:

1. BHPB Proposal –Subdivision Proposal for Airport Land (for the initial term plus each contract extension thereafter) including scenario modelling of the proposal with and without a capital prepayment;

2. TOPH Self Development – Self-Development by TOPH of the Airport land followed by either:
   - » Sale of the lots;
   - » Leasing of the developed lots; or
   - » Sale of lots with area less than 1ha, and lease of the remaining lots. Joint Venture between third party and TOPH, being sale of all lots (JV Sale), lease of all lots (JV Lease) and a mixture of sale of less than 1ha lots and lease of the remaining lots (JV Hybrid).

3. Joint Venture Option – Joint Venture between a third party and TOPH to subdivide the land and followed by either:
   - » Sale of the lots;
   - » Leasing of the developed lots; or
   - » Sale of lots with area less than 1ha, and lease of the remaining lots.

4. Undeveloped Lot Sale Option – Sale of the entire englobo land parcel in its current form.

The following scenarios were assessed:

Proposal	Scenario	Scenario Name
BHPB Proposal – BHPB's Subdivision Proposal for Airport Land (with Prepayment)	Initial 10 year contract term.	BHPB 10
	Initial 10 year contract term plus 1 x 5 year extension.	BHPB 15
	Initial 10 year contract term plus 2 x 5 year extensions.	BHPB 20
	Initial 10 year contract term plus 3 x 5 year extensions.	BHPB 25
BHPB Proposal – BHPB's Subdivision Proposal for Airport Land (without Prepayment)	Initial 10 year contract term.	BHPB 10 (without Prepayment)
	Initial 10 year contract term plus 1 x 5 year extension.	BHPB 15 (without Prepayment)
	Initial 10 year contract term plus 2 x 5 year extensions.	BHPB 20 (without Prepayment)
	Initial 10 year contract term plus 3 x 5 year extensions.	BHPB 25 (without Prepayment)
TOPH Self Development	Self-Development by TOPH of the Airport Land and then sale of the resultant lots.	TOPH: Sale
TOPH: Lease	Self-Development by TOPH of the Airport Land and then lease of the resultant lots.	TOPH: Lease
TOPH: Hybrid	Self-Development by TOPH of the Airport Land followed by sale of lots with area less than 1ha and lease of the remaining lots.	TOPH: Hybrid
Joint Venture	Joint Venture between a third party and TOPH to subdivide the land and then sell the resultant lots.	JV: Sale
JV: Lease	Joint Venture between a third party and TOPH to subdivide the land and then lease of the resultant lots.	JV: Lease
JV: Hybrid	Joint Venture between a third party and TOPH to subdivide the land and then sell the resultant lots.	JV: Hybrid
Undeveloped Lot Sale Option	Sale of the entire englobo land parcel in its current form.	Undeveloped Lot Sale Option

The following information provides a summary of the Paxon Group findings:

- The Net Present Value (NPV) measures the value created to the local government, based on its opportunity cost of capital. ToPH ordinarily utilise a discount rate of 7%, however given the nature of risk associated with a land development it is recommended that a discount rate of 15%-25% be adopted and the Project has been assessed on this basis.*
- BHPB's proposal is able to achieve the highest NPV as it requires no capital contribution from ToPH, but delivers serviced lots of land to ToPH at a greater market value.
- The prepayment of the lease on lot 35 and the sale value of lot 34 further enhances value to ToPH as it is able to receive the capital upfront from BHPB. Due to the time value of money, this creates further value to TOPH which increases in line with the discount rate utilised to calculate the NPV.
- BHPB's proposal has the greatest positive financial effect on local government as it creates the highest NPV to ToPH at discount rates of between 15%-25%.
- The ToPH's potential capacity for further debt is approximately $40 - $45 million, based on the 2011/12 budget provided. Although, this could be utilised to fund the project under the self development option (with an estimated requirement of $41million), this would utilise all existing capacity and thus leave no debt capacity for other projects or initiatives. BHPB's proposal places no burden on the debt capacity of TOPH as BHPB is solely responsible for the funding of the development, and accordingly TOPH is not subject to any debt servicing costs.
- BHPB's proposal favourably increases the Current Ratio and Untied Cash to Unpaid Trade Creditors Ratio due to the prepayment for Lot 34 and the prepayment of the lease on Lot 35.
- ** Discount Rate: The discount rate represents the interest rate used in discounting the cash flows to determine the net present value of future cash flows. The discount rate takes into account the time value of money (the idea that money available now is worth more than the same amount of money available in the future because it of its opportunity cost – it could be earning interest) as well as the risk (uncertainty) of the anticipated future cash flows (which might be less than expected). Accordingly, the discount rate utilised is used to weight the future cash flows, with a greater weighting being placed on the earlier cash flows as they are the most certain. The discount rate used to evaluate the free cash flows of a Project is based on the risk associated with that Project. Projects with a greater level of risk attract higher discount rates, as a greater weighting is placed on the earlier cash flows.*
- ** Net Present Value (NPV): The NPV weights the future cash flows inversely proportional to the discount rate selected, and thereby compares the value of a dollar today to the value of that same dollar in the future, after taking into account inflation returns required to shareholders. Projects that are NPV positive should be accepted as they are more than able to compensate shareholders for the risks undertaken.*
- ** Internal Rate of Return (IRR): The IRR represents the discount rate at which the NPV would be $0.*

Please refer to Appendix 2 for the full report prepared by Paxon Group.

The following table indicates the potential value of the proposal to the Town over the initial 10 year period, Proposed Lots 1-33, proposed Lot 36 and proposed Lots 37-39 will undergo a separate disposal process once the Certificates of Title have been created. It is only once the disposal process has been undertaken that there can be certainty around the financial benefits that the proposed lots would generate for the ToPH.

PROJECTED FINANCIAL BENEFITS TO THE TOWN OF PORT HEDLAND

	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $	Year 6 $	Year 7 $	Year 8 $	Year 9 $	Year 10 $	TOTAL $
Financial Returns from BHPB Lots Developed											
Lot 34 (BHPB Warehouse site)	9,000,000										9,000,000
Lot 35 (BHPB TWA) *	31,000,000	3,684,717	3,684,717	3,795,258	3,909,116	4,026,389	4,147,181	4,271,597	4,399,745	4,531,737	67,450,457
Sub-Total	*40,000,000*	*3,684,717*	*3,684,717*	*3,795,258*	*3,909,116*	*4,026,389*	*4,147,181*	*4,271,597*	*4,399,745*	*4,531,737*	*76,450,457*
Other Financial Benefits											
Lots 1-33 (Bulky Goods, Light Industrial, Commercial) **		24,812,000	2,567,790	2,644,824	2,724,168	2,805,893	2,890,070	2,976,772	3,066,076	3,158,058	47,645,652
Lot 36 (TWA – 3rd Party Operator) **		1,000,000	1,030,000	1,060,900	1,092,727	1,125,509	1,159,274	1,194,052	1,229,874	1,266,770	10,159,106
Lots 37 – 39 (TWA's for City building projects) **		1,508,000	1,553,240	1,599,837	1,647,832	1,697,267	1,748,185	1,800,631	1,854,650	1,910,289	15,319,932
Estimate of Rates Revenue ***			3,292,408	3,391,180	3,492,916	3,597,703	3,705,634	3,816,803	3,931,307	4,049,247	29,277,198
Estimated Savings in Subdivision Costs	21,580,000										21,580,000
Sub-Total	*21,580,000*	*27,320,000*	*8,443,438*	*8,696,741*	*8,957,643*	*9,226,373*	*9,503,164*	*9,788,259*	*10,081,907*	*10,384,364*	*123,981,888*
TOTAL	**61,580,000**	**31,004,717**	**12,128,155**	**12,491,999**	**12,866,759**	**13,252,762**	**13,650,345**	**14,059,856**	**14,481,652**	**14,916,101**	**200,432,345**

* Assumes indexation of 3% per annum commencing from Year 4 of the lease.

** The other financial benefits in relation to proposed Lots 1-33, proposed Lot 36 and proposed Lots 37-39 have been based upon the Valuer's advice as to the potential sale proceeds for selling lots smaller than 1 hectare in size, and leasing those lots in excess of 1 hectare in size. The initial lease rates have an indexation factor of 3% per annum applied.

*** Rates revenue has been estimated based on all proposed lots with a 3% indexation factor applied. Assumptions have been made in relation to the Gross Rental Value that may be attributed to the proposed lots by the Valuer-General. These values will only be known once the proposed Lots are created and are formally assessed by the Valuer-General's Office.

In addition to the financial benefits, at the end of the lease, the Town receives additional return in the form of improvements on its freehold land in the form of power, water, sewer, telecommunication, landscaping and road infrastructure.

In summary, all of the lots listed in the above table will be subdivided and fully serviced at no cost to the ToPH.

All subdivided lots will remain in the ownership of the ToPH, excluding proposed Lot 34. Proposed Lot 34 will be sold to BHPB for a prepayment of $9 million (as agreed by ToPH and BHPB). An independent valuation undertaken by the ToPH recommended $7.5 million for proposed Lot 34 (unserviced).

An independent valuation was also undertaken by the ToPH for the lease of proposed Lot 35 (unserviced). This valuation indicated $\$5/m^2$. BHPB are proposing to lease proposed Lot 35 at $\$12/m^2$ (with annual indexation of 3% applied taking effect from Year 4 of the lease). A prepayment of up to $31 million is proposed with ongoing lease income being received by the ToPH commencing from the 2nd year.

Due to BHPB's need to provide facilities for its construction workforce and in recognition that they are obtaining early access to land that is yet to be subdivided, they are prepared to pay a premium in lease rates above the current market value and are also providing significant upfront funds to assist in the redevelopment of the Port Hedland International Airport.

The ToPH will also receive income in the form of rates levied for all lots. This will essentially reduce the financial burden for all ratepayers within the ToPH for funding current and future activities.

4.6 Its Expected Effect on Matters Referred to in the Local Government's Current Forward Plan

4.6.1 TOPH Strategic Plan 2010-2015

Section 5.56 of the *Local Government Act 1995* requires that a local government is to plan for the future of the district.

In accordance with this provision, the TOPH has developed the *Strategic Plan 2010 – 2015* that articulates the Vision for the Town in 2025 and outlines key roles and functions that the TOPH will be undertaking to help make the Town's Vision a reality. These goals are also incorporated into the Annual Corporate Plan. This proposal will contribute directly towards achieving the following goals set out in the *Strategic Plan 2010-2015*:

Plan for the Future

Key Result Area 1 – Infrastructure

Goal 2 – Airport

That the Port Hedland International Airport is recognised as a leading regional airport in the area of passenger and freight movements and customer satisfaction.

Immediate Priorities

1. *Complete the development of the Airport Land Development Plan and commence implementation of the key initiatives that are identified.*

Addressed by Proposal

The PHIALUMP has been prepared and this proposal is considered to be an implementation of the initiatives proposed for the site within 'Precinct 3'. The PHIALUMP proposes industrial subdivision within 'Precinct 3' and acknowledges the significant engineering and development costs required to develop the Precinct 3 and suggests that a Joint Venture could be pursued to share the costs. The aim of this proposal is to partner with BHBP to undertake the development proposed in the PHIALUMP.

Plan for the Future -

Key Result Area 4 – Economic Development

Goal 2 – Mining/Roads

That the Town has strong working relationships with the mining industry that are achieving sustainable outcomes for the local community, while minimising negative impacts.

Immediate Priorities

1. *Actively seek funding partnerships with mining companies and contractors on the development of services and facilities within the community*

Other Actions

1. *Ensure that integrated accommodation options are available for resource related projects that do not artificially inflate the local real estate market.*

Addressed by Proposal

The very nature of this proposal is for the TOPH to work together with BHPB to provide additional industrial land and TWA sites (for BHPB use and other third party operators). The BHPB TWA will be utilised to accommodate BHPB's construction workers who will supply the labour force for the progression of the proposed Outer Harbour project within the ToPH.

Plan for the Future -

Key Result Area 4 – Economic Development

Goal 4 – Land Development Projects

That land is being released and developed to meet the needs of a growing community.

Immediate Priorities

3. Undertake Council operated land and building projects including:

b. Airport Housing

c. Land Rationalisation Land Projects

Addressed by Proposal

This proposal will result in the creation and release of potentially 33 industrial/bulky goods/commercial allotments of varying sizes and will act as an extension to the current Wedgefield estate. The leased TWA sites meet the needs of the community in the medium term (i.e. over 5-10 years) and could then be utilised or subdivided to provide additional industrial lots in the future.

Plan for the Future -

Key Result Area 5 – Town Planning and Building

Goal 5 – Airport

That Town Planning and Building control policy and practices within the Town are facilitating the rapid development of a sustainable community.

Immediate Priorities

2. Develop Structure Plans for key precinct areas with a particular focus on the Spoilbank Precinct, Airport and Pretty Pool.

Addressed by Proposal

In order to undertake the subdivision within this proposal a Development Plan may be required. The PHIALUMP has been prepared and may be used to guide development over the site.

The Town of Port Hedland Strategic Plan 2010- 2015 can be sourced from the Town of Port Hedland website www.porthedland.wa.gov.au.

4.6.2 Draft Pilbara's Port City Growth Plan ('draft PPCGP')

The draft PPCGP has recently been developed and is currently being publicly advertised. It provides a high level strategic blueprint to facilitate the sustained growth of Port Hedland into Pilbara's Port City with a population of up to 50,000 people.

The PHIA is discussed in Precinct 7 – Airport and Surrounds. The Precinct Statement for Precinct 7 is:

> *Pilbara's Port City International Airport is a major getaway to the North West of Australia. The upgraded airport welcomes visitors at a standard reflect (sic) of any of Australia's major regional cities. The surrounding area supports a range of logistics and related uses.*

The draft PPCGP calls for up to 7,000 new TWA beds, 9401m^2 retail floorspace, 46 hectares of highway commercial floorspace, and 250 hectares of industrial land within Precinct 3.

It also describes 'current or planned projects', being:

- *Port Hedland International Airport Masterplan currently progressing*

Precinct Plan Summary

- *Highway Commercial / Light Industrial*
- *Facilitate short-term development of Construction Workforce, and in responding to demand:*
  - *To consolidate existing area on Great Northern Highway and deliver legacy of infrastructure*
  - *To facilitate development progression within a defined area of Light Industry Precinct*

Addressed by Proposal

The proposal will facilitate the development of up to 6,000 TWA beds on proposed Lot 35, as well as four other smaller TWA sites for lease to private operators. It will also lead to the creation of 33 lots to be used for bulky goods / light industrial / commercial activities which will provide some of the required commercial and industrial floorspace.

The proposal will directly achieve the planned project of the short to medium term development of a construction workforce, and in the long term will leave a legacy of infrastructure. It will also facilitate the progression of light industrial development as described throughout this proposal.

4.7 The Ability of the Local Government to Manage the Undertaking or the Performance of the Transaction

The management of this proposal is within the resources and capacity of the ToPH.

The funding of the subdivision and associated infrastructure will not have an effect on the cash flows of the ToPH as it is planned to be undertaken by BHPB. The ToPH will not be required to obtain loans or contribute any funds towards the proposed subdivision or its development. The ToPH will however, obtain all necessary approvals to facilitate the subdivision (which may include the preparation of a Development Plan) and also prepare and adopt Design Guidelines for the subject site. All associated costs of subdivision and works will be undertaken and financed by BHPB.

The ToPH is considered to have the resources and expertise to manage this agreement.

4.8 Public Consultation Process

Under Section 3.59 of the Local Government Act 1995 requires that the local government advertise its intent to enter into any Major Land Transaction or any Major Trading Undertaking, and through Statewide advertising, seeking public submission upon this intent.

Submissions received during this public consultation phase are required to be considered by Council, at a further Council meeting, prior to any decision on this matter being made. All public submissions will be provided in a consolidated report presented to Council on11 January 2012 where they will be formally considered.

4.9 How to Make Public Submissions

Members of the public are invited to provide feedback to Council on this proposal by close of business on the 28th December 2011. All public submissions must be in writing and addressed to:

Chief Executive Officer

Town of Port Hedland

RE: Proposed Development of Precinct 3 at the Port Hedland International Airport

PO Box 41

Port Hedland WA 6721

Submissions may also be received via email:

council@porthedland.wa.gov.au

APPENDIX 1

Proposed Subdivision Plan

APPENDIX 2

Financial Analysis – Paxon Group

APPENDIX 3

Economic Analysis – AEC Group

APPENDIX 4

Valuation – David Liggins F.A.P.I.