

REF: # A01540

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481 Bajamalu Drive, Baynton, Karratha Business Plan Review

Adrian,

This letter is to provide a summary of APP's review of the Business Plan prepared by the City of Karratha under s3.59 of the Local Government Act (1995) for the proposed acquisition of a housing development at Lot 481 Bajamalu Drive, Baynton from Acero Construction Pty Ltd.

Terms of Reference

The City of Karratha requested APP to review the Business Plan entitled "Proposal for the City of Karratha to acquire a housing development at Lot 481 Bajamalu Drive, Baynton from Acero Construction Pty Ltd" "undated", but understood to be circa February 2025 and prepared for the purposes of public advertising.

The purpose of the review is to;

1. Confirm the Business Plan is prepared in accordance with Section 3.59 of the Local Government Act (1995) and Local Government (Functions and General) Regulations 1996.
2. The content of the Business Plan and information is considered sufficient to support the recommendations contained within.
3. The Financial modelling contained and referred to in the Business Plan is sound and consistent with the assumptions made. This includes review of current revenue assumptions and model integrity.

Methodology

APP's review was limited to information made available by the City and publicly available information. The review involved;

1. Reconciling the Business Plan against requirements of the Local Government Act (1995) and Local Government (Functions and General) Regulations 1996.
2. Assessment of Business Plan contents to determine whether the information contained within was sufficient to support the conclusions and recommendations. Note APP did not undertake any checks on accuracy of information contained and makes no representation in regard to the development proposal, options considered, the developer's competency or the recommendations.
3. High level review of project risks.
4. On line evaluation of current rental market in Karratha and general commentary on assumptions, noting no check on development costs or appropriateness of tax treatment was undertaken.
5. Checking of financial model and sensitivity calculations to determine performance metrics.

Summary

Following review of the Business Plan and Financial model, APP provide the following conclusions;

1. The Business Plan has been prepared in accordance with Section 3.59 of the Local Government Act (1995) and Local Government (Functions and General) Regulations 1996, noting the transaction would constitute a Major Transaction as it is greater than \$10 million dollars.

The Local Government Act (1995) has a number of specific requirements for the preparation of a Business Plan as follows;

- a. *The expected effect on the provision of facilities and services by the local government.*

The Business Plan makes reference to the staffing required for the project and confirms that the acquisition will not impact the City's ability to provide facilities and services. There is sufficient evidence contained within the Business Plan to support this.

- b. *The expected effect on other persons providing facilities and services in the district.*

The Business Plan addresses this requirement through commentary on the existing housing market and lack of the private sector development.

- c. *The expected financial effect on the local government.*

The Business Plan provides details on the financial impact to the City on the potential three options being considered.

- d. *The expected effect on matters referred to in the local government's current plan prepared under Section 5.56 of the Local Government Act 1995 (Plan for the Future).*

The Business Plan outlines the various City Plans that are relevant to the transaction. It is recommended that further details are provided on expected effects on these plans.

- e. *The ability of the local government to manage the undertaking or the performance of the transaction.*

The Business Plan addresses this requirement by providing commentary around the ability of the City to manage the undertaking and refers to previous experience.

As the proposed transaction is not being carried on or entered into jointly with another party Regulation 10 of the Local Government (Functions and General) Regulations 1996 does not apply to this proposal.

2. APP has reviewed the content of the Business Plan and has made a number of suggestions for the City's consideration. It should be noted that these suggestions are made to provide greater clarity and detail on various items. These suggestions, which have been provided directly to the City, remain up to the discretion of City officers as to whether or not any amendments are required. In terms of substantive content, APP determined that key information is provided within the Business Plan to fully understand the nature of the transaction, the options available, outcomes to the City and support the recommendations made.
3. APP has provided a high level review of the project risk schedule and found that the risks identified constitute a sound overview of the key risks. APP has provided some suggestions directly to the City in regard to risk and mitigation for consideration. Risk management is considered a dynamic function that will need to be managed should the project proceed.
4. APP has reviewed current market rentals in Karratha upon which the financial modelling has been based, as this is considered a key assumption in the returns the City can expect from the project. This review was undertaken using on-line publicly available information. APP found that rents adopted in the project modelling are below current market and therefore the financial results are not considered overly optimistic from this perspective. Other modelling assumptions appear reasonable, although it should be noted that APP has not market tested development costs, nor can provide any advice on taxation treatment.

APP has reviewed the excel spreadsheets that provide the financial modelling associated with the transaction and has made the following observations for the City's consideration;

- a. Cashflows and associated sensitivity analysis for all options are considered robust, although a difference in NPV was calculated for all three options. This was discussed with the City and not considered sufficiently material to change recommendations.
- b. APP suggest a terminal value is included in the NPV and IRR calculation to reflect the asset maintaining a value at the end of the cashflow period. It is expected that including a terminal value a moderate increase of returns will result.
- c. The results for Option C may be misconstrued as the rents for staff accommodation are heavily discounted thereby impacting the financial results. For this option the City is avoiding

paying full market rent which is not accounted for in the modelling results. The transaction performance, in terms of net result to the City, is therefore closer to Option B.

Should you have any questions or require greater clarity on the contents of this letter, please do not hesitate to contact me directly.

Regards



Steve Egger

Project Director - Advisory WA