



Australian Government
Department of Infrastructure and Regional Development

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Mike Mrdak
Secretary

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Major Project Alternative Financing – Sunshine Coast Council Airport Expansion Project and Concessional Loans

Purpose:

To advise you that the Major Infrastructure Projects Office (MIPO) is currently reviewing a proposed concessional loan for the Sunshine Coast Council (SCC) Airport Expansion Project (SCC Project). In assessing this proposal, MIPO will draw on the experience from the due diligence work for the WestConnex Stage 2 concessional loan.

Key Issues:

Sunshine Coast Airport Expansion

On 30 June 2016, the LNP Candidate for the seat of Fairfax, Ted O'Brien announced the Australian Government's commitment, if re-elected, to provide a concessional loan for the SCC Project, subject to the outcomes of due diligence investigations. A letter from the Prime Minister's Chief of Staff, Mr Drew Clarke, to SCC Mayor, Cr Mark Jamieson, confirming the Australian Government's commitment and the work to be undertaken by the Department is at **Attachment A**.

- The SCC Project includes a new 2,450-metre-long and 45-metre-wide Code E runway aligned to the north-west/south-east. The new runway will remove current constraints on the range of services that are available to the Sunshine Coast.

s.47B, s.47G(1)

Contact Name:
Position:

s.22(1)(a)(ii)
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s.22(1)(a)(ii)
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s.47B, s.47G(1)

MIPO is working with the Aviation Industry Policy Branch to analyse the proposal and supporting documentation. The Department's analysis will focus on the commercial viability of the proposal and the capacity of the SCC to repay its debts from any future proceeds from the sale of the airport.

The SCC has received an in principle guarantee from QTC for any borrowing from the Australian Government. With this in mind, MIPO is currently assessing the risks to the Australian Government and the value proposition under each transaction structure option.

s.47B, s.47G(1)

Next steps

We will meet with QTC in coming weeks to discuss QTC's lending for the SCC Project, the in-principle loan guarantee, and the scope of QTC's due diligence investigations on the SCC Project. MIPO will also engage with the Department of Finance and the Treasury on the proposed concessional loan, including the likely fiscal balance and underlying cash balance impacts of the loan (and any likely offsets that may be required).

MIPO will consult with the Legal Services Branch on how best to engage the commercial legal expertise that is required to advise the Department on the drafting of the Term Sheet and the interactions between the loan documentation, project/transaction documents, and loan guarantee in order to identify the level of protection the Australian Government has and any risks that it may remain exposed to.

- Based on the WestConnex concessional loan precedent, I would expect external commercial, legal and cost estimation expertise may need to be engaged. I estimate this work could cost up to \$150,000 (GST exclusive) – funding that the Infrastructure Investment Division is unable to absorb. This figure may be refined as quotes are received and the due diligence work is carried out.

MIPO will also seek advice from the Legal Services Branch on the legislative authority for the provision of an Australian Government concessional loan to a local council. This will likely include the need for another disallowable regulation into Schedule 1AB of the *Financial Framework (Supplementary Powers) Act 1997*.

I will provide you with more detailed advice on the SCC Project and proposed concessional loan in the coming weeks, with a view to briefing the incoming Minister/s.

WestConnex Stage 2 Concessional Loan – Lessons Learned

MIPO held a lessons learned workshop for the WestConnex Stage 2 concessional loan in early 2016. This innovative financing option significantly reduced the grant funding burden to the Australian Government and could be considered as a financing option for other major projects. The outcomes and recommendations from the workshop are relevant for the Department's current work on the proposed SCC concessional loan.

The workshop was held with internal staff and sought feedback from major advisers involved in the process (legal, commercial and traffic patronage). Its purpose was primarily to reflect on the due diligence process, identify what worked well, what could have been done better or differently, and document any 'lessons' that may be a useful

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reference for future work in this space. The workshop identified three key recommendations applicable to the early establishment phase of a concessional loan.

- The Australian Government should only make an 'in-principle' commitment to a concessional loan, with approval to follow due diligence outcomes.
- The Australian Government should avoid constraining its negotiating position (on the terms of the loan) through any early agreements with project proponents.
- The Australian Government should ensure the proponent is sufficiently ready for due diligence activities to be undertaken.

A detailed summary of these findings is at **Attachment C**.

Implementation of these recommendations will reduce the risk exposure of the Australian Government, protect its negotiating position, and ensure the Department's resources are allocated efficiently. Notwithstanding these recommendations, the workshop concluded that the process to signing the loan was a major success for the Department and the Australian Government.

s.22(1)(a)(ii)

Andrew Danks
General Manager
Major Infrastructure Projects Office
18 July 2016

Attachment A – Letter from the Office of the Prime Minister to the SCC

Attachment B – Draft Term Sheet from the SCC

Attachment C – Key Recommendations for Future Concessional Loans

Recommended Action:

1. Note: the next steps for the Department to progress the SCC concessional loan.	1. <u>Noted</u> / Discuss
2. Note: the lessons learned from the WestConnex concessional loan, and implications for the SCC concessional loan or any other future concessional loan.	2. <u>Noted</u> / Discuss
3. Approve: \$150,000 (GST exclusive) to engage advisers to undertake due diligence investigations for the SCC Project.	<p><i>For John Danks</i></p> <p>3. Approve / Not Approved</p> <p>s.22(1)(a)(ii)</p> <p>Mike Mrdak 27/ 7 / 2016</p>

THE TURNBULL COALITION TEAM

CCHQ 2016



22 June 2016

Mayor Mark Jamieson
Sunshine Coast Regional Council
Locked Bag 72
Sunshine Coast Mail Centre QLD 4560



Dear Mayor Jamieson

The Prime Minister has asked me to write to you to follow up on two issues that you discussed with him at your meeting on 11 June.

Sunshine Coast Airport Loan

The Coalition supports the initiative that you have demonstrated to progress the redevelopment of the Sunshine Coast Airport. We recognise the immense potential for growth and jobs that the Sunshine Coast Airport brings to the region. I wish to congratulate you on securing approval from the Queensland Coordinator General for the Environmental Impact Statement, a necessary step in the development process.

If re-elected, the Coalition Government will do everything we can to support your vision for the airport. As you would understand, the Commonwealth Government needs to undertake commercial and legal due diligence to minimise the risks we expose taxpayers to in providing a concessional loan. Once we have secured the formal guarantee from the Queensland Treasury Corporation and due diligence is complete, we will be in a position to provide the concessional loan.

The Department of Infrastructure and Regional Development will continue to assist Council on your loan application. Once again we want to acknowledge the valuable work that has been done so far and we look forward to working together with Council and the Queensland State Government to move this exciting project forward.


Submarine Cable Protection Zone

I commend the Council for your initiative in seeking to attract a new submarine communications cable into your region. I understand that the Minister for Communications and the Arts, Senator Fifield, has had a subsequent conversation with you in regard to the declaration of a protection zone. I have also discussed this matter with the Acting Chair of the ACMA, Mr Richard Bean, to get a better understanding of the process.

Within the limits of their legislation, the ACMA is seeking a way to provide support for your process of attracting submarine cable investment. The Minister will continue to engage with yourself and the ACMA to support your process.

Yours sincerely

s.22(1)(a)(ii)



Drew Clarke
Chief of Staff
Office of the Prime Minister

Commonwealth Concessional Loan

Draft Term Sheet

The following table sets out the indicative terms for the proposed loan between Council and the Commonwealth Government

Key Terms	Description
Parties	<ul style="list-style-type: none"> ▪ Sunshine Coast Regional Council (SCRC) ▪ Commonwealth of Australia (through Department of Infrastructure and Regional Development) (Commonwealth) ▪ Queensland Government (through Queensland Treasury Corporation (QTC)) as guarantor (State)
Purpose	<p>▪ SCRC is seeking a concessional loan from the Commonwealth to facilitate the delivery of the Sunshine Coast Airport Expansion Project (the Project)</p> <p>▪ s.47B, s.47G(1)</p> <p>▪ </p> <p>▪ </p> <p>▪ </p> <p>▪ This document sets out the parties' rights and obligations in respect of the provision of the above concessional loan.</p>
Term	<p>▪ The Concessional Loan Period commences on the Commencement Date and ends on the Expiry Date.</p> <p>▪ s.47B, s.47G(1)</p> <p>▪ </p>

Key Terms	Description
Sources of Funds	<ul style="list-style-type: none"> s.47B, s.47G(1)
Uses of Funds	<ul style="list-style-type: none"> s.47B, s.47G(1)
Concessional Loan Interest Rate	<ul style="list-style-type: none"> s.47B, s.47G(1)
Concessional Loan Drawdown	<ul style="list-style-type: none"> s.47B, s.47G(1)
Order of Repayment of Loans	<ul style="list-style-type: none"> s.47B, s.47G(1)
Conditions Precedent	<ul style="list-style-type: none"> Formal documentation from the Queensland Government guaranteeing the loan

Key Recommendations for Future Concessional Loans

Attachment C

1. The Australian Government should only make an 'in-principle' commitment to a concessional loan, with approval to follow due diligence outcomes.

In many instances, an early confirmation of an Australian Government commitment is necessary to provide financial surety to a major infrastructure project. However, when providing a financing mechanism that seeks repayment or a return, the Australian Government should seek to provide an 'in-principle' commitment subject to due diligence activities and outcomes. This will serve to protect both the reputation and the negotiating position of the Australian Government.

In the case of the WestConnex concessional loan, the early announcement of the \$2 billion figure, prior to the due diligence work being undertaken, exposed the Government to a risk of having to backtrack on its commitment. Given the uncertainty over the inclusion of the M5 West re-concession in the deal, there was a real risk that the project would not have been able to repay the Australian Government. It was only later, through the due diligence process that the Department was able to verify the credit worthiness of the project and build in additional protection clauses.

The early public announcement of the \$2 billion concessional loan for WestConnex also created a political commitment that weakened the negotiating position of the Australian Government, creating issues around the timely receipt of information from the Sydney Motorway Corporation (SMC), and affecting the lender-borrower dynamic.

The maximum amount the Australian Government commits to lending should be informed by the due diligence activities of the Department – rather than the due diligence activities seeking to justify any commitments of Government. That is, the due diligence work will identify the largest concessional loan that can reasonably be expected to be repaid from project revenues under the agreed term sheet conditions and subject to the risk appetite of the Government.

The Department notes that, thus far, the commitment to provide a concessional loan to the SCC has been 'in-principle', with no dollar figure nominated at this stage. This will facilitate greater flexibility for the Department in negotiating any loan.

2. The Department should take a revised approach to the creation of the Concessional Loan Term Sheet.

In the early stages of the WestConnex loan process, a Term Sheet was drafted to detail the broad conditions upon which the loan documents would later be drafted and to guide negotiations between the Australian Government and SMC.

A Memorandum of Understanding (MOU), with the early Term Sheet attached, was signed between the Australian and New South Wales governments in May 2014. Whilst not a legally binding document, the signing of the MOU froze the term sheet (which is generally a live document, amended as negotiations progress) at a particular point in time, well in advance of financial close. This reduced the flexibility and negotiating power of the Department through the due diligence process.

For any future financing deals, the need for an MOU should be carefully examined, with consideration given to any negative implications it may have on negotiations.

3. The Australian Government should ensure the proponent is sufficiently ready for due diligence activities to be undertaken.

Ideally, in-principal commitment from the Australian Government to make a loan would not be made until the borrower is in a position to document with a reasonable level of detail how and when it will make repayment.

In dealing with SMC, there was often a disconnect between when the Australian Government was informed that it would receive required due diligence documents and when these key documents were received. Further, the version provided was often not final requiring it to be updated and resent quite quickly after the document had been received.

These issues created complications in relation to the timing of the Department engaging advisers to review the information and with the overall duration of the due diligence process. It became apparent that at the time of the MOU and loan announcement, SMC were not yet, and would not be for many months, in a position to have the Department undertake its required due diligence.

Whilst the due diligence process was not compromised, this complicated the process of the Department reaching sign-off on the loan, prolonged the Australian Government's due diligence process and made it difficult for the Department to effectively manage the required staffing resources.