

Management report to Council

Agenda item 6.2

Loan finance facility contract: No 3591

26 March 2019

Presenter: Michael Tenace, Chief Financial Officer

Purpose and background

1. The purpose of this report is to award a tender for the provision of the loan finance facility for two years with the ability to extend for up to two years.
2. Council is planning to undertake large projects that will require loan funding with details still to be finalised. A \$75 million dollar loan facility will be used on an as need basis until Council determines requirements for longer term funding. The contract provides the council with \$75 million loan facility that reduces the risk Council not having sufficient funds when required.
3. The current provider of the loan finance facility is the Australia and New Zealand Banking Group Ltd (ANZ) and expires on 30 June 2019. The existing loan finance facility is currently not drawn down and incurs a monthly fee of \$7,500.
4. The weightings of the evaluation criteria focussed heavily on costs given the operational and commercial nature of the facility. Cost represented 85 per cent of the total weighting with the remaining 15 per cent for Operational Process, Relationship Management and Sustainability.
5. The evaluation summary is contained in Attachment 1. Four tenders were received.

Key issues

6. In accordance the *Local Government Act 1989* (the Act) any borrowings must be included in the budget to be adopted by Council. A maximum borrowing limit of \$75 million was approved by Council in the 2015–16 Annual Plan and Budget on 30 June 2015. The borrowing limit will remain for the 2019–20 Annual Plan and Budget.
7. The tender evaluation panel assessed the tenders based on a 25 per cent utilisation (drawdown) for year one, 50 per cent utilisation for year two and 75 per cent utilisation for years three – four.
8. ANZ is the preferred tenderer due to the lowest total cost (fees and interest) over the four year period.
9. The initial margin is 0.65 per cent above the applicable Bank Bill Swap Rate (BBSW) with a line fee of 0.12 per cent. The mid Bank Bill Swap Rate (BBSW) as at 14 February 2018 was 1.97 per cent. The BBSW interest rate changes on a daily basis in line with interest rate market movements.
10. An estimated full cost to council is summarised in Attachment 1
11. The tender was advertised in The Age newspaper on 12 January 2019.

Recommendation from management

12. That Council awards the contract for the provision of the loan finance facility to Australia and New Zealand Banking Group Ltd for an initial term of two years commencing 1 July 2019 with provision to extend up to an additional two years.

Attachments:

1. Supporting Attachment (Page 2 of 3)

Supporting Attachment**Legal**

1. Pursuant to section 143 of the Act, a Council cannot borrow money for ordinary purposes or the purposes of municipal enterprises unless the proposed borrowings were included in a budget or revised budget.

Finance

2. The 2015–16 Annual Plan and Budget included borrowings of up \$75 million and will remain in the 2019–20 Annual Plan and Budget. The interest and fees payable under the contract is able to be accommodated within in the proposed 2019–20 budget.

Procurement

3. The tender accords with the Centre Led Procurement Policy and Procedures.

Tender evaluation summary

4. The membership of the tender evaluation panel was as follows.

Title and/or company	Generalist or Nominated Speciality	Full / Advisory Member
Financial Analyst, CoM	Generalist (Chair)	Full
Team Leader Investments and Analysis, CoM	Generalist	Full
Coordinator Engineering Contracts, CoM	Generalist	Full
Chief Financial Officer, CoM	Finance	Advisory
Procurement Governance Co-ordinator, CoM	Governance	Advisory

5. The summary of final scoring for the four conforming tenderers is shown below:

Company	Summary of final scoring				
	Estimated Full Cost to Council – including the base rate component (mid Bank Bill Swap Rate)	Tender Price Submitted – Excluding the base rate component (mid Bank Bill Swap rate)	Financial score (max 85)	Non-financial score (max 15)	Total score
Australia and New Zealand Banking Group Limited	\$4,623,750	\$1,299,375	85.0	11.7	96.7
Tenderer A	\$5,647,500	\$2,323,125	47.54	11.3	58.8
Tenderer B	\$7,355,625	\$4,031,250	27.4	10.3	37.7
Tenderer C	\$6,975,000	\$3,650,625	30.3	10.3	40.6

Notes:

Estimated Full price includes the base rate (mid Bank Bill Swap Rate of 1.97 per cent at 14 February 2019), tenderers margin and any associated fees. The actual full cost will likely to vary from the estimation. The actual utilisation (drawdown) may vary and also the mid Bank Bill Swap Rate changes daily in line with interest rate market movements.

The financial score for evaluation was based on the submissions of the tenderers (margin rate plus fees) and excludes the base rate component, as the base rate is constant for all tenderers.

Pricing was based on a 25 per cent utilisation (drawdown) for year one, 50 per cent utilisation for year two and 75 per cent utilisation for years three – four.

6. **Conflict of interest**

No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a direct or indirect interest in relation to the matter of the report.

7. **Occupational Health and Safety**

ANZ submitted the relevant policies to provide evidence that the company complies with the requirements set out in the Occupational Health and Safety Act 2004.

8. **Stakeholder consultation**

The tender was advertised in The Age newspaper on 12 January 2019.

9. **Corporate social responsibility**

ANZ provided details of economic, environmental and social responsibility in their submissions. ANZ's responses demonstrated clear commitments to sustainability outcomes consistent with Council's procurement policy. Given the nature of the contract, there is limited scope to introduce social outcomes to a Loan Finance Facility.