



City of **HOBART**

Memorandum: Lord Mayor
Deputy Lord Mayor
Elected Members

Response to Question Without Notice

TASCORP LOAN RE-NEGOTIATIONS

Meeting: Finance and Governance Committee **Meeting date:** 18 February 2020

Raised by: Alderman Sexton

Question:

In 2019, the Council resolved to write to TASCORP to re-negotiate interest on our current loans. Could the General Manager please advise if this has transpired, and if so, could the General Manager please circulate to Elected Members copies of the correspondence from the City of Hobart and TASCORP's response?

Response:

Council Officers met with TASCORP to discuss debt refinancing options. The response from TASCORP is attached – refer **Attachment A**.

Council Officers have also spoken with the Commonwealth Bank of Australia, with which the City has a loan. The response from the Commonwealth Bank is attached – refer **Attachment B**.

Given the further questions raised at the Elected Member Budget Workshop held on 3 March 2020, Officers will seek an independent financial analysis of the options available to Council and a report will be provided to Council in due course.

As signatory to this report, I certify that, pursuant to Section 55(1) of the Local Government Act 1993, I hold no interest, as referred to in Section 49 of the Local Government Act 1993, in matters contained in this report.



Heather Salisbury
DEPUTY GENERAL MANAGER

Date: 12 March 2020
File Reference: F20/23580; 13-1-10

Attachment A: Letter from Tascorp
Attachment B: Email from the Commonwealth Bank of Australia



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6 March 2020

Ms Heather Salisbury
Deputy General Manager
Hobart City Council
16 Elizabeth St
Hobart TAS 7000

Dear Heather

Hobart City Council (HCC) - Loan Portfolio with TASCORP

Thank you for the opportunity for Heath Baker and I to meet with you this week to discuss your loan portfolio.

Concerning the specific query raised by one of your elected members, I am happy to provide the following response.

2019 Banking Code of Practice

I note your elected member's question referred to the 2019 Banking Code of Practice. The Code was developed by the Australian Banking Association (ABA) whose members are the four major banks, regional banks and international banks with an Australian banking licence. TASCORP was established under an Act of Parliament and operates in accordance with the *Tasmanian Public Finance Corporation Act 1985* and the *Government Business Enterprises Act 1995*. As a central financing authority, TASCORP's operations and customer base are very different to those of retail and investment banks. TASCORP is therefore not a member of the ABA, nor a signatory to the Code.

Having said that, I can assure Council of TASCORP's commitment to its customers. TASCORP's principal purpose is to develop and implement borrowing and investment programs for the benefit of its Tasmanian public sector clients, which includes councils. TASCORP's goal is to meet the borrowing and investment needs of its clients at the best possible price, and thereby deliver economic value to the State of Tasmania.

Debt Refinancing Options

With regard to the question raised by your elected member on debt refinancing options, under the existing loan documentation, HCC may prepay a loan or any part of a loan on terms and conditions approved by TASCORP. The prepayment calculation method for loan break costs for Council will be the market value of the debt plus any actual costs incurred by TASCORP in unwinding any related market transactions.

The market value of a loan, in simplistic terms, calculates the value of the existing loan using current interest rates for the remaining term of that loan. If interest rates have risen

since the loan was taken out, the market value of the loan and loan break costs will be lower as TASCORP can re-lend the loan proceeds at a higher interest rate to another client. Conversely, if interest rates have fallen, the market value of the loan and loan break costs will be higher to compensate TASCORP for the lower return it will make going forward on the re-lent loan proceeds. The concept of market value ensures that TASCORP does not make a loss from refinancing a fixed interest rate loan with a client. This is important because, as the lender, TASCORP also locks in its own funding cost in the financial markets at the time the loan with a client is transacted.

If Council were to refinance by prepaying their existing loans and re-borrowing at current lower interest rates, it would result in no overall reduction in loan costs to Council. This is because, while Council's interest costs on the new loan would be lower going forward, these would be offset by the break cost when the existing loans were refinanced and prepaid.

With regard to broader strategies to assist in managing interest rate risks for HCC, TASCORP notes that council clients generally borrow for specific projects using amortising loans (paying down principal and interest) where the cost and retirement of capital for these projects is budgeted at the time of project approval. TASCORP is happy to work closely with HCC on its debt management strategy, irrespective of whether TASCORP is the lender, as it progresses with its upcoming capital works and borrowing program.

A copy of the market value of HCC's loans with TASCORP as at 28 February 2020 is included as Attachment 1 for your reference.

Please do not hesitate to contact me, or Heath Baker, on 8396 1231 if you wish to discuss the matter further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'AVoss', written over a horizontal line.

Anton Voss
Chief Executive Officer

Attachment 1

Portfolio Report Quantum

Deal No.	Instrument	Country/Key	Rating	Maturity	Face Value	Coupon/Freq	Yield	Price/FTR	Principal	Prm/Blm	Int/Yst/Compn	Book Value	Mkt Value
TASCORP GROUP AUD ASSETS													
Client: N/A, Tax: S/000													
Credit Vendor/No Review													
202019	Credit Facility No Review	RCC	HC	30/09/2020	66,599.45		6.48000	100.00	66,599.45	0.00	702.79	67,302.24	68,262.82
202020	Credit Facility No Review	RCC	HC	30/09/2020	48,818.81		6.48000	100.00	48,818.81	0.00	540.10	49,358.91	51,091.65
188995	Credit Facility No Review	RCC	HC	30/09/2021	356,323.87		6.30000	100.00	356,323.87	0.00	2,720.77	359,044.64	372,814.27
202098	Credit Facility No Review	RCC	HC	30/09/2021	1,494,702.89		6.30000	100.00	1,494,702.89	0.00	23,168.63	1,488,864.26	1,520,868.13
211529	Credit Facility No Review	RCC	HC	30/09/2023	1,821,870.43		6.30000	100.00	1,821,870.43	0.00	8,296.66	1,830,166.99	1,911,000.13
208878	Credit Facility No Review	RCC	HC	30/09/2024	1,201,700.32		6.30000	100.00	1,201,700.32	0.00	9,103.13	1,210,803.45	1,285,034.33
207845	Credit Facility No Review	RCC	HC	18/01/2024	18,872,814.00		3.90000	100.00	18,872,814.00	0.00	86,482.46	18,959,296.46	22,871,021.60
Gross Total:												22,291,288.74	
Net Total:												22,291,288.74	
Currency Total:												22,291,288.74	
Assets:												22,291,288.74	
Liabilities:												0.00	
Net Assets:												22,291,288.74	
Assets:												22,291,288.74	
Liabilities:												0.00	
Net Assets:												22,291,288.74	

[CBA Information Classification: Customer and Personal]

The decision on whether or not to break a fixed rate loan will be up to Council to consider based on a range of factors.

The current details of the loan as at today are:

Principal Balance:	\$3,656,594.48 (does not include accrued interest)
Fixed Interest Rate:	6.41%
Loan & Fixed Rate Maturity Date:	30/06/2036
Indicative Early Repayment Adjustment (ERA):	\$1,735,537 (as at 3 rd March 2020, subject to change)

Note: The Reserve Bank reduced the Cash Rate to 0.50% today (0.25% reduction). The indicative ERA has been calculated following this reduction.

Although interest rates on new borrowings are now significantly lower than the interest rate on this borrowing, there would be a large ERA payable to break this loan interest rate. When a fixed rate loan is entered into the Bank locks in its funding costs at a fixed rate in the wholesale money market. We do this so that we can manage the risk of interest rate changes and lock in our own funding costs. If Council chooses to break a fixed rate loan the Bank is still required to pay our commitment in the wholesale market for the remaining period of the loan, so if we've made a loss as a result an ERA will apply. The ERA is not a charge we profit from it's an adjustment to recoup our estimated loss from the breaking of the fixed rate agreement. This rate can change on a daily basis and for this reason an ERA quote is only valid for the day it is issued and is subject to change.

Council would need to consider a wide range of factors in deciding whether or not to break a fixed rate loan, these may include (this is not an exhaustive list):

- Whether Council would enter into new borrowings and the timing of this;
- Whether any new borrowings would be fixed or variable;
- The amortisation structure of any new borrowings (if any change);
- Interest rate forecasts for both debt and investments;
- The total cost of any new borrowings (including any upfront and ongoing fees);
- If Council is not entering into new borrowings and using investment funds, the expected rate of return on Council investments;
- Council's short and long term financial strategies;
- Council's overall gearing level, debt structure and balance sheet management, including cash management and liquidity;