

## Alice Springs Town Council Notice of Motion

I Councillor Eli Melky, here by give notice of my intention to move at the next meeting of the Finance Committee 13 June 2017, the following motion:

**That the Alice Springs Town Council:**

- 1. Payout in Full, the Westpac loan for the Civic Centre to include the final balance of the principal amount and all penalties as at the 3<sup>rd</sup> of July 2017 – (Currently \$1,263,475.27 includes a \$5,119.61 penalty as at 23rd May 2017)**
- 2. Use unspent budget lines– ( 1) Employee costs and (2) Material & contract Labour not currently invested in interest bearing accounts to pay out the loan**
- 3. Remove budget line Loan Principal Repayment from operating budget for financial years 2017/18 – 2018/19 – 2019/20 currently**
- 4. In its place create a new budget line titled – “Future Projects Fund”**
- 5. Redirect the surplus loan repayments to the new “Future projects Fund” ” budget line**
- 6. Invest the “Future Projects Fund” money in an interest earning term deposit account.**

Moved: Councillor Eli Melky

Seconded: TBC

5 June 2017

**Note Director Finance:**

“Please note that the Notice of Motion documents, received from Councillor Melky on Tuesday (6/6/2017) were forwarded onto the external auditors i.e. Merit Partners for independent review and advice. It is anticipated that feedback from the auditors will be received by the Ordinary Council meeting to be held on the 26/6/2017.”

**Reasoning for Motion:**

- A. The council will save the rate payer a minimum of: **\$145,252.59**
- B. Create a new Future Project Fund for the benefit of the town

**A: Save interest**

- 1. \$68,200.00 interest charges for financial year 2017/2018
- 2. \$36,050.00 interest charges for financial year 2018/2019
- 3. \$5,255.00 interest charges for financial year 2019/2020
- 4. **\$109,505 sub Total**
- 5. \$5,119.61 less penalty as at 23rd May 2017

<b>6. \$104,385.39 Total saving from interest charges less penalty fees</b>
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**B. Plus earn**

Earn financial return on invested money from the new "Future Project Fund"

\$13,622.40 – based on a 2.58 % interest rate on investment of \$528,000 for 2017/2018 financial year

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(2019/2020 is calculated over 12 months)

**\$40,867.20** – **NOTES** all interest bearing calculations are based on a "simple interest" formula and does not include compounding interest.

<b>Minimum financial benefit: \$104, 385. 39 + \$40,867.20 = \$145,252.59</b>
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**Minimum benefit includes**

- \$104,385.39 interest saved by paying loan sooner
- \$40,867.20 Interest earned by reinvesting cash in the "Future Projects Fund" Total amount invested \$1,276,000 accumulated for year 17/18 - 18/19 and 2019/2020 and Based on 2.58% rate calculated in simple interest.

Supporting information

Previous discussion on this issue from last council meeting held 29/5/2017

- a. Did not include \$5,255.00 which is interest payable up to Nov 2019. This amount is identified in the draft municipal plan for 2017/18 – under 2019/2020 proposed budgeted expenses – see attachment.
- b. The amount of \$82,327 identified as the Loss from current interest earned was calculated in simple interest ( $\text{interest} = (\text{principal}) \times (\text{interest rate}) \times (\text{term})$ ) based on \$1,263,475.27 @2.58% over 2.52 years, this did not take into account frequency. When more frequencies of applying interest are involved, such as monthly or daily, the formula that should apply is  $\text{interest} = (\text{principal}) \times (\text{interest rate}) \times (\text{term}) / (\text{frequency})$ . By including frequency the interest should have been **\$56,363.55** and not the higher amount as previously calculated.
- c. Was not requested to factor that we can use surplus funds from cash not currently invested in a term deposit
- d. Was not requested to factor in the addback from interest earned by investing the “Future Project Fund” budget line in term deposit.

Even if we use funds from current interest earning term deposit accounts, the saving would be **\$88,889.04 – ( total interest payable on loan – total loss of interest earning + addback of interest earned by investing FPF = \$88,889.04.**

Either way the amount is significantly higher than the **\$16,878.00** as reported at council meeting held on the 29th of May 2017 – see attachment.

Please NOTE: this information has been discussed extensively with qualified members of the finance industry. In addition to that while my calculation in support of the motion do not include in greater detail “*The Time Value of Money*” principal that takes into account “Future Value”(FV) of money, “Present value” (PV), *Number of Periods, compound interest, Periodic Payment (PMT)* I am more than happy to if required.

In my opinion, it is in the best interest of the Community to review the discussion from Council meeting 29/5/2017 and support this motion.

**INFORMATION ONLY**

**Summary of Finance Actions  
"Taken on Notice"  
at the Finance Committee meeting  
held on 15 May 2017**

Agenda Item	Action Taken
<p>1. Council requested additional information on the Council's loan with Westpac</p> <p>68,200 36,050 <hr/>104,250 525.5 — not inc.</p> <p>total 1109,505 —</p> <p>199,205 — is wrong x (109,505.00) should be</p> <p>Total amount at Nov-19 (include) interest → \$1,367,860.66 + 74.34 = total + diff. paid today out (104,385.20) Nov 19</p> <p align="right">X — 0</p>	<p>The original loan amount was \$5 million taken out in 2004. The monthly repayments are \$44K which includes interest and principal; the fixed interest rate is 6.75%, which was fixed for the entire 15 years. The balance outstanding as at 23rd May 2017 is \$1,258,355.66. The interest payable in the 17/18 financial year is \$68,200 and the interest payable for the 18/19 year is \$36,050.</p> <p>The loan is scheduled to be paid off on the 30th November 2019. Westpac Bank advises that the break cost will be \$5,119.61, therefore total amount required to pay the loan off as at 23rd May 2017 is \$1,263,475.27.</p> <p>If Council paid off the loan at this stage, the total payable is \$1,263,475.27 (updated figures will need to be obtained on the actual date Council chooses to pay) and if Council chose to pay off the loan at the end of its life the total will include the interest but exclude the break costs, thus amounting to \$1,362,680.00, the difference between paying off the loan now vs November 2019 is \$99,205 (\$1,263,475.27 - \$1,362,680.00) →</p> <p>If Council were to use funds from a pre-allocated reserve for example, Council should take the following into account:</p> <p>a. The purpose of the Reserve could possibly be jeopardised i.e. the project that Council was intending to spend the reserve on may potentially be delayed.</p> <p>b. The accrued interest calculation projects that Council forgoes interest on an investment of \$1,263,475.27 amounting to \$82,327 at current interest rates (2.58%) →</p>

7,56,368.55

**Alice Springs Town Council**  
**Draft Budgeted Statement of Financial Performance**

	2017-18 Proposed Budget \$	2018-19 Proposed Budget \$	2019-20 Proposed Budget \$	2020-21 Proposed Budget \$
<b>Operating Activities</b>				
<b>Revenue from Operating Activities</b>				
Rates	21,867,446	22,523,469	23,199,173	23,895,149
Waste Management	3,688,786	3,799,450	3,913,433	4,030,836
User Charges and Fees	4,435,045	4,568,096	4,705,139	4,846,293
Interest Income	935,000	963,050	991,942	1,021,700
Grants and Contributions Provided	2,798,322	2,798,322	2,798,322	2,798,322
Other Income	318,350	327,901	337,738	347,870
<b>Total Operating Revenue</b>	<u>34,042,949</u>	<u>34,980,288</u>	<u>35,945,747</u>	<u>36,940,170</u>
<b>Expenses from Operating Activities</b>				
Employee Costs	16,154,299	16,638,928	17,138,096	17,652,239
Materials & Contract Labour	7,868,802	8,104,866	8,348,012	8,598,452
Interest Charges	68,200	36,050	5,255	0
Depreciation	7,700,000	8,000,000	8,200,000	8,400,000
Other Operating Expenses	4,861,031	5,006,862	5,157,068	5,311,780
<b>Total Operating Expenditure</b>	<u>36,652,332</u>	<u>37,786,706</u>	<u>38,848,431</u>	<u>39,962,471</u>
Operating Position before Depreciation add back	<u>(2,609,383)</u>	<u>(2,806,418)</u>	<u>(2,902,684)</u>	<u>(3,022,301)</u>
<b>Depreciation Add Back</b>	7,700,000	8,000,000	8,200,000	8,400,000
Operating Surplus after Depreciation add back	<u>5,090,617</u>	<u>5,193,582</u>	<u>5,297,316</u>	<u>5,377,699</u>
<b>Add: Capital Activities</b>				
Capital Grants and Contributions	1,400,750	1,400,750	1,400,750	1,400,750
Less: Capital Expenditure	4,761,999	4,178,473	4,458,181	4,743,654
<i>Comprised of:</i>				
<i>Plant &amp; Equipment</i>	916,749	916,749	916,749	916,749
<i>Roads and Footpaths</i>	1,407,000	1,407,000	1,407,000	1,407,000
<i>Building Infrastructure</i>	2,438,250	1,854,724	2,134,432	2,419,905
<b>Capital Position</b>	<u>(3,361,249)</u>	<u>(2,777,723)</u>	<u>(3,057,431)</u>	<u>(3,342,904)</u>
<b>Plus: Transfer from Reserve</b>	600,000			
<b>Less: Loan Principal Repayment</b>	463,000	495,000	262,900	0
<b>Less: Transfers to Reserves</b>	1,866,368	1,920,859	1,976,985	2,034,794
<b>Total Surplus / (Deficit)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Transfers to Reserves comprised of:</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Plant & Equipment Replacement Reserve	162,500	167,375	172,396	177,568
Alice Springs Aquatic & Leisure Centre Reserve	432,734	445,716	459,088	472,860
City Deals Project Reserve	854,798	880,442	906,855	934,061
Election Reserve	50,000	50,000	50,000	50,000
Regional Waste Management Facility Plant & Equipment Replacement Reserve	366,336	377,326	388,646	400,305
<b>Total Reserve Transfers</b>	<u>1,866,368</u>	<u>1,920,859</u>	<u>1,976,985</u>	<u>2,034,794</u>