

REPORT

Report No.109/17cncl

TO: ORDINARY COUNCIL – 26 JUNE 2017
SUBJECT: CIVIC CENTRE LOAN
AUTHOR: DIRECTOR FINANCE – DINESH PILLAY

EXECUTIVE SUMMARY

Since the May 2017 Finance Committee meeting, discussions regarding paying off the Civic Centre loan have been ongoing.

Councillor Melky raised a notice of motion at the May 2017 Ordinary Council meeting, wherein he sought support from the Elected Members to pay off the loan.

Further work was requested to be done by Council in respect of the savings, the early payout of the loan would generate.

It is recommended:

That this report be noted and the proposal to pay off the loan early be considered by Council at the October Finance Committee, at which time the 2016/17 surplus will be known and the opportunity may be available to redirect surplus funds to the loan pay out.

REPORT

1. BACKGROUND

Councillor Melky is seeking to pay off the Civic Centre loan early. Independent auditors were engaged to confirm the savings that were identified by the Councillor.

2. DISCUSSION

At the Finance Committee meeting held on the 15th May 2017, Councillor Melky foreshadowed his notice of motion to seek information on the Civic Centre loan for discussion at the May 2017 Ordinary Council meeting.

Information on the loan, together with possible savings generated by paying off the loan early, was presented by the Director Finance based on the very basic information provided by the Councillor and on hand as at end of May 2017. Savings of \$17,000 (rounded) were identified in comparison to the Councillor claiming savings would be in excess of \$140,000.

This was based on the fact that as it was still only May, a reserve would be used to pay off the loan and not surplus funds (details of any surplus are available to Council as at the end of September each year) and further based on Council re-directing any future loan payments to another project.

Although the Council was satisfied to see a savings either way, the direction was that no significant decisions should be made at this time (so close to a Council election) and that the incoming Council should be involved in re-directing such a significant amount out of a reserve to pay off the loan.

The Councillor did not agree with the identified savings as presented by the Director Finance and later requested that the Acting CEO and Director Finance seek independent verification of the savings.

The independent verification was undertaken by Council's auditing firm based in Darwin at a cost of \$5,000 (rounded) and the auditors were only able to identify savings of \$28,000 (rounded). This finding was advised to the Council at the June 2017 Finance Committee meeting. At the same meeting the Councillor presented a notice of motion in regard to paying off the loan however the scenario in the motion was very different to what was discussed in May 2017.

The notice of motion now requested that the loan only be paid off in the new financial year and instead of using reserves to pay off the loan, surplus funds be used rather. The notice of motion also did not redirect the proposed loan repayments to another project but rather advises that they be re-invested into a "Future Projects Fund". Councillor Melky's identified savings on the notice of motion is \$145,252.59

Council asked that this new notice of motion of document also be forwarded to the independent auditors for assessment and verification of the Councillor's identified savings. This has since been done at an additional cost of \$5,000 (rounded).

The auditors have advised as follows:

Scenario 1: The loan will be repaid using funds from non-interest bearing bank accounts on the assumption that the Council has excess cash available in non-interest-bearing accounts on 3 July 2017 to repay the loan after meeting working capital requirements. The availability of excess funds on 3 July 2017 depends on the cash flows of the Council at that point in time.

Scenario 2: The loan will be repaid from capital reserves whose funds are currently in term deposits attracting an interest rate of 2.58% pa on the assumption that the Council does not have sufficient cash reserves to repay the loan. This scenario assumes that the Council does not have sufficient excess cash funds in non-interest bearing bank accounts to repay the loan; hence the loan is repaid using funds from the term deposits.

With scenario one the net savings amounts to \$97,685.75 whilst with scenario two the net savings amounts to \$22,475.64

3. POLICY IMPACTS

Nil

4. FINANCIAL IMPACTS

There is a significant variance between the auditor's scenario one vs scenario two and Council must consider implications of using a reserve vs using 2016/17 surplus funds to pay out the loan.

5. SOCIAL IMPACTS

Nil

6. ENVIRONMENTAL IMPACTS

Nil

7. **PUBLIC RELATIONS**

Council must ensure that the public interest is considered in its decision to pay out the loan early and additional consideration must be given to the fact that an important decision is being made so close to Council elections.

The deliberations regarding the Civic Centre loan have already attracted public comment.

8. **ATTACHMENTS**

Nil



Dinesh Pillay
DIRECTOR FINANCE