

Item: 10.1

Item of Urgent Business - Payment of Loan

OFFICER	Martin Cutter
GENERAL MANAGER	Andrew Tenni
DIVISION	Corporate Services
ATTACHMENTS	Nil

1. PURPOSE

To seek Council approval to pay in full an outstanding loan balance due 28 June 2023 instead of refinancing \$380,000 as planned in the adopted Budget 2022-23.

2. EXECUTIVE SUMMARY

Council currently has an outstanding loan balance that expires on 28 June 2023. The loan was taken to finance the construction of a roof at the Colac Regional Saleyards.

The adopted Budget for 2022-23 anticipated that Council would take a further loan to re-finance \$380,000 of the current borrowings with annual debt repayments of \$117,805 as per previous repayments which are estimated to pay back over a further three year period.

Given Council's current cash position and an increasing interest rate environment, an opportunity exists to repay the \$380,000 loan in full to provide an interest expense saving of \$15,000 in the 2023-24 budget year and an overall saving of \$35,000 over the three year period of a new loan.

3. RECOMMENDATION

That Council:

- 1. Approves the payment in full of the outstanding loan balance due on 28 June 2023.*
- 2. Notes that this will result in an unfavourable variance of \$380,000 to its operating result on 30 June 2023, which is more than offset over the next three years and will avoid approximately \$35,000 in interest.*

4. KEY INFORMATION

The original loan balance to fund the Colac Livestock Selling roof was \$1,178,000. Payments of \$668,000 have been made over the period of the loan and a final payment to extinguish the loan (\$510,118) is due on 28 June 2023.

A decision has been made to reallocate funds (\$130,118) from the Bluewater heat pumps project to further reduce the loan balance to \$380,000 which was proposed to be re-financed through a new loan.

Council's current cash reserves have been enhanced in 2022-23 by the sale of the Bruce Street property (\$2.6m) thus giving Council an opportunity to consider using some of the cash reserves to repay the outstanding loan balance. Council previously decided to allocate \$920k of the Bruce Street funds for key worker housing initiatives, strategic land use planning and long-term infrastructure at Lake Colac Holiday Park.

A decision to pay the loan out in full will result in an interest expense saving of \$15,000 in the 2023-24 budget and a \$35,000 saving over the period of the loan.

5. CONSIDERATIONS

Overarching Governance Principles (s(9)(2) LGA 2020)

The overarching governance principles are:

- a) the ongoing financial viability of the Council is to be ensured
- b) the transparency of Council decisions, actions and information is to be ensured

Policies and Relevant Law (s(9)(2)(a) LGA 2020)

Not applicable

Environmental and Sustainability Implications (s(9)(2)(c) LGA 2020)

Not applicable

Community Engagement (s56 LGA 2020 and Council's Community Engagement Policy)

Not applicable

Public Transparency (s58 LGA 2020)

This paper considers public transparency principles by making available the information through the presentation of this information in a Council paper in an open session.

Alignment to Plans and Strategies

Alignment to Council Plan 2021-2025:

Theme 4 – Strong Leadership and Management

Objective 1: We commit to a program of best practice and continuous improvement

Objective 2: We are a financially robust organisation

Financial Management (s101 Local Government Act 2020)

Council has a current loan in 2022-23 that expires on 28 June 2023. When preparing the budget for the financial year 2022-23, it was estimated that the loan would have a total liability of \$85,496

remaining principal and an interest obligation of \$542,427 in the year. Council has budgeted to pay \$117,805 as per its historic repayments which leaves a further \$510,118 to be paid on 28 June 2023. Council has made allowance in its adopted budget to pay \$130,118 towards the final balloon payment and refinance the remaining \$380,000 through a short term loan. The budget was developed at a time in early 2022 when interest rates were exceptionally low and the refinancing offered financial benefits. The situation is now different and the benefit is considered to be negligible.

Council has not budgeted to pay \$380,000 towards the current loan in 2022-23 and if the officers recommendation is supported it will result in an unfavourable variance to the adopted budget of \$380,000 as at 30 June 2023. This unfavourable variance will be recovered within three years with additional savings through avoiding further interest.

Service Performance (s106 *Local Government Act 2020*)

Not applicable

Risk Assessment

Not applicable

Communication/Implementation

Should Council determine to pay the liability in full and not refinance a portion of the current loan, officers will implement the decision and action the payment of the loan on 28 June 2023.

Human Rights Charter

No impact

Officer General or Material Interest

No officer declared an interest under the *Local Government Act 2020* in the preparation of this report.

Options

Option 1 – Adopt the officer recommendation

This option is recommended by officers as it improves Council's financial position in ensuing years.

Option 2 – Do not adopt the officer recommendation

This option is not recommended by officers as it will result in additional interest expense over the next three years.