

ITEM	3
	SPECIAL COUNCIL
DATE	01 April 2020
HEADING	COVID-19 Financial Update
AUTHORS	Charles Mansueto, General Manager Business Excellence, Business Excellence Kate George, Manager Financial Services, Business Excellence
CITY PLAN LINKS	4.3 Have robust processes that support consistent service delivery and informed decision making. 4.2 Develop strong capability and commitment to continually improve Council's performance.
SUMMARY	This report aims to provide information to Council on the financial implications of the proposed Motion of Notice and further strategies Council will need to consider to offset or reduce the financial impact in future budget considerations.

RECOMMENDATION

1. That Council notes and receives the information

ATTACHMENTS

There are no attachments to this report.

1. BACKGROUND

- 1.1 This report provides Council with information to support its consideration of the Motion of Notice (MoN) on the Special Council Meeting agenda, in particular the three key elements of the MoN (parts 2, 3 and 9) that have a financial implication to Council.
- 1.2 It is noted that the proposed MoN is in support of the previous resolution in March 2020, which sought consideration of a number of actions and reports to identify measures and initiatives that can support the community during the COVID-19, namely:
 1. *Under Section 44 the Council Delegates authority to the Chief Executive Officer to waive late payment fines for non-payment of council rates where it is determined that payments have been delayed due to hardship caused by the effect of the COVID-19 in the community.*
 2. *That staff report to Council in April 2020 as to how the Council can continue to minimise the financial impact of COVID-19 on the community and local businesses by considering all available measures available under the Local Government Act, and assistance options as outlined in the LGA Guidelines for Rates Hardship Policy. Report to also ensure that appropriate consideration to the financial implications of any measures is*

considered to ensure the long-term viability of Council balanced against the hardship the COVID-19 has on the community.

3. In order to support our suppliers of goods and services and assist with cash flows, the administration implements a process for the payment of invoices within 14 days (from invoice).

(0441/2020)

And

1. That Council affirm its commitment to supporting our sporting and community clubs by assisting them with the anticipated financial loss due to forced closures and suspensions of competitions.

2. Council provide immediate assistance to all sporting and community clubs to assist with the anticipated financial loss, by waiving lease fees for the period of April to June and approving the necessary non – discretionary adjustments to the Council Budget at the Third Quarter Budget Review. That further consideration of waiving lease fees for sporting and community clubs for the remainder of year, be considered at the June Sport, Recreation and Grants Committee.

2.1 A report be prepared for the next Sport, Recreation and Grants Committee advising on whether other support could be provided to sporting and community clubs, and such report to identify other clubs in Salisbury that do not have a council facilities lease arrangement. Report to include the number of clubs that do not have a lease and the costs associated with waiving part or full amount of Council rates.

2.2 The report to include advice on Repurposing the Community Grants program, Youth Sponsorship program and Community event grants into recovery grants for affected clubs (recovery grants may be used for events).

(0443/2020)

2. CITY PLAN CRITICAL ACTION

2.1 Not Applicable

3. CONSULTATION / COMMUNICATION

3.1 Internal

3.1.1 Financial Services

3.2 External

3.2.1 Not Applicable

4. REPORT

4.1 The current Long Term Financial Plan (LTFP) has been updated with four scenarios developed to support Council’s understanding of the financial implications of the MoN. The scenarios are:

	1. Rates at 0% in Year 1 and CPI+0.6% thereafter, with the capital program as endorsed by Council 23 March 2020 + COVID Infrastructure Recovery Program
	2. Rates at CPI+0.6% in 20/21 and ongoing, with the capital program as endorsed by Council 23 March 2020 + COVID Infrastructure Recovery Program
	3. Rates at CPI+0.6% in 20/21 and ongoing, with the capital program as endorsed by Council 23 March 2020
	4. Rates at 0% in Year 1 and CPI+0.9% thereafter, Service Reduction of \$1.3M in Year 1, Capital program as endorsed by Council 23 March 2020 + COVID Infrastructure Recovery Program

4.2 The LTFP has been further updated to reflect a number of changes to the base operating budget since the Second Budget Workshop, with the main items being an increase in Waste \$1.1M including \$855k equity accounting adjustment and increased Hard Waste expenditure of \$379k, with further detail in the Budget Status Update Item at the April Budget and Finance Meeting.

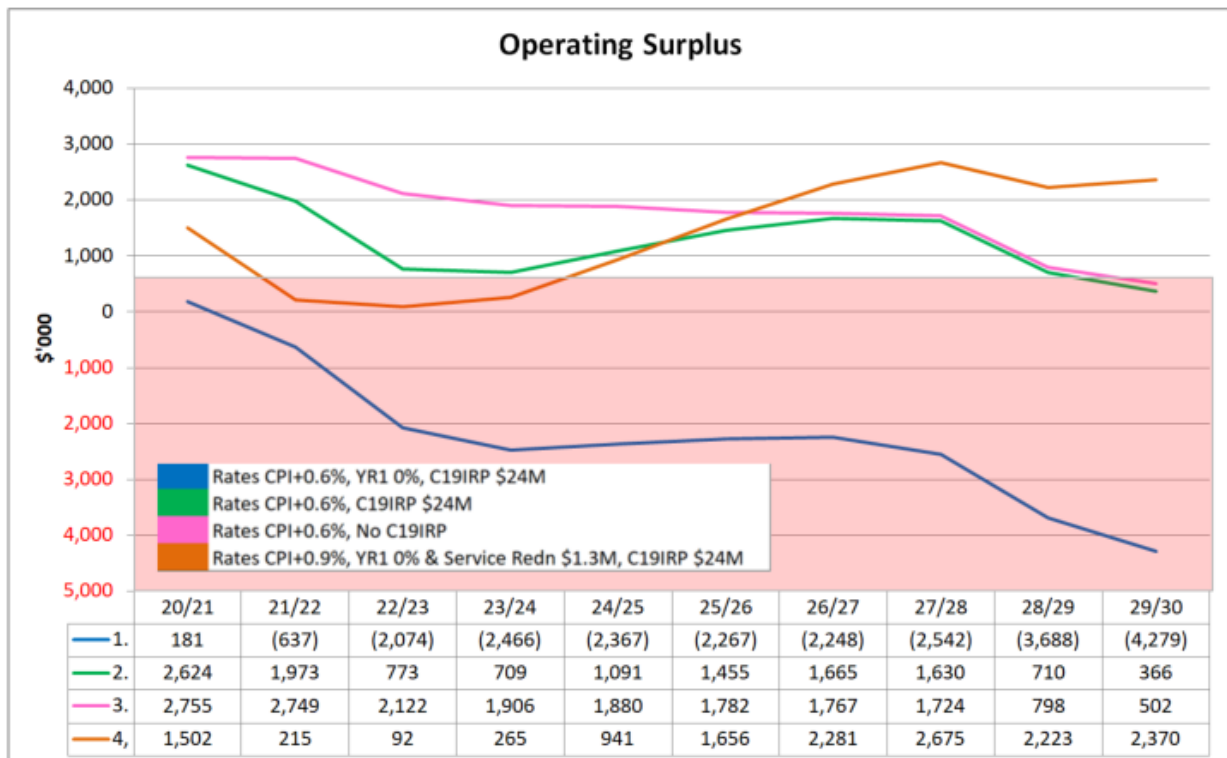
4.3 The Operating Surplus is adversely impacted by a one off lower rate increase of 0% in 2020/2021 of the LTFP and the inclusion of the COVID19 Infrastructure Recovery Program, which is represented by the blue line, with an accumulated loss of surplus over the 10 year period of \$43M, when compared with the CPI+0.6% scenario (pink line). The predominant impact of a 0% rate increase is on the Operating Surplus over the LTFP. This results from the lower rate increase in 2020/2021 which then creates a lower rating base for the next year’s rate increase to be applied to.

4.4 As indicated in part 9 of the MoN there will be a range of measures needing to be considered to offset or reduce the impact of a 0% rate increase.

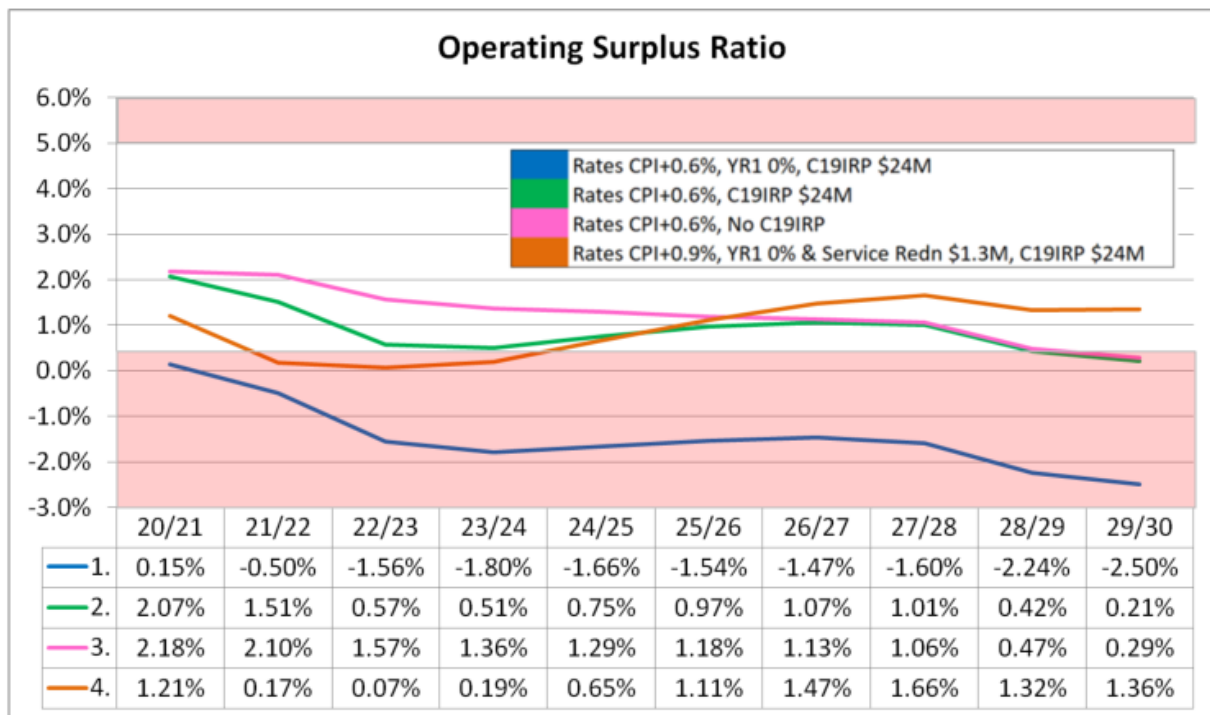
4.5 If Council were to decide to fund the COVID Infrastructure Recovery Program, and maintain the rate increase in year 1 of CPI+0.6%, the operating surplus is reduced by \$5M over the 10 years of the LTFP, as indicated by the green line in the graph below.

4.6 Should council decide on a 0% rate increase in 2020/21 and the inclusion of COVID19 Infrastructure Recovery Program, then consideration of a higher rate in increase in future years of CPI+0.9% rather than CPI+0.6%, combined with service reductions of \$1.3M established in year 1 and carried through the life of the plan, will support the organisation to remain financially sustainable, noting that the level of Operating Surplus will be at lower levels than anticipated in pre-COVID19 scenarios. The orange line in the graphs below show the outcomes of this scenario.

- 4.7 This is just one mix of service reductions and higher rate increases that support maintaining financial sustainability, for example, if Council want to continue with CPI+0.6% being the indicative ongoing rate increase for LTFP purposes from years 2-10, then service reductions of \$2.4M in year 1 will offset the financial impacts of the 0% rate increase, and result in the green line scenario being the LTFP forecast.
- 4.8 Examples of strategies and actions Council may consider as part of the budget process include:
 - 4.8.1 Putting on hold New Initiative Bids
 - 4.8.2 Review proposed new service level increase to either defer or remove
 - 4.8.3 Increase rates by a higher percentage than identified in the current LTFP (refer paragraph 4.6 as an example of this option)
 - 4.8.4 Reviewing existing service levels to either reduce or remove

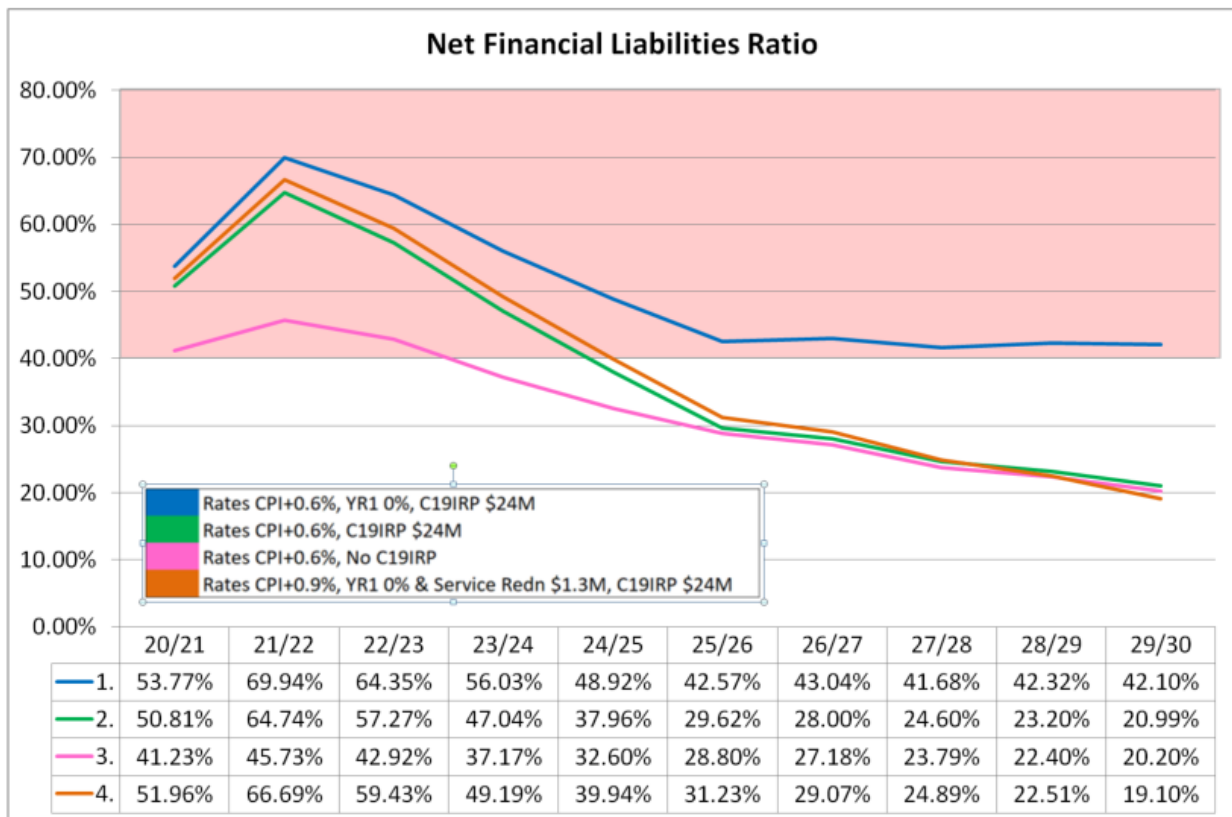


- 4.9 The graph below shows the operating surplus ratio, and has the same shape as the graph above which is the operating surplus in dollar terms.



5.

- 5.1 The Net Financial Liability Ratio (NFL) is also impacted by the expansion of the capital program over the 2 years and this is reflected in the graph below. The NFL Ratio prior to consideration of COVID19 is represented by the pink line. The NFL Ratio graphed as the blue line represents a one-off 0% rate increase in year 1 and the COVID19 Infrastructure Recovery Program of an additional \$24M.
- 5.2 The green line shows the NFL Ratio if the rate increase is maintained at CPI+0.6% and also includes the COVID19 Infrastructure Recovery Program. The Orange Line represents taking some corrective actions over the life of the plan to bring the operating surplus back to a financial sustainability level. The blue, green and orange lines all sit well outside the current endorsed range. Council will consider target ranges for sustainability indicators as part of the budget process, and may determine to increase the target range from the current 40%, or choose to operate above this target in light of the extraordinary circumstances that we currently face.
- 5.3 It should be noted that the target of 40% is relatively low for a Council with our level of infrastructure, and Council may wish to note that the previous target was 70%.



Rate Payment Deferral Date MoN Parts 4, 5 and 7

5.4 Part 4 of the recommendations contained in City of Salisbury Budget Response to Covid-19 item tonight’s agenda contains the following wording:

5.4.1 *That the due date for payment of rates for the Fourth Quarter 2019/20 and the First Quarter 2020/21 is deferred to 1 December 2020, with ratepayers encouraged to make payments where possible to minimise the outstanding level of rates payable by 1 December 2020.*

5.5 The Local Government Act 1999 S181(1) requires that rates declared or payable in the financial year will fall due in equal instalments in September, December, March and June, and part (5) requires that a rates instalment notice must be sent and part (7) requires the notice to be sent between 30 and 60 days before the instalment due date. Consequently the wording of part 4 of the recommendation is difficult to administer in accordance with the requirements of the Act.

- 5.6 Council are asked to consider an alternate wording of part 4 to:
- 5.6.1 *Rate Payment Deferral is to be implemented, so that the latest date for payment for the Fourth Quarter 2019/20 and the First Quarter 2020/21 is deferred to 1 December 2020, noting that the rates instalment notices will be issued with the relevant due dates as required by the legislation, but highlighting the relief being provided by Council. Fines are to be waived during this time, and no legal action is to be taken in relation to these rate arrears. Ratepayers are to be encouraged to make regular payments where possible.*
- 5.7 Extending the payment date for the Fourth Quarter 2019/20 and First Quarter 2020/21 rate instalments until 1 December 2020 will see \$50M in cash flows from rate revenue potentially being delayed until early December. During this extended period fines will not be applied to accounts.
- 5.8 The application of interest on rate arrears will remain in place noting that on an average residential rate account the interest costs for the period will be \$30, and \$23 for those rate payers paying minimum rates. Having interest charges does provide some incentive for ratepayers to pay their rates if possible, and to manage the debt down.
- 5.9 The risk is that if interest is waived those who can afford to pay their rates will not pay in June and September, which will then result in larger borrowing draw downs. Waiving interest charges as applied to rate accounts will increase the interest costs for Council and will need to be recovered through service reductions or passed through to the community in future years through higher rate increases.
- 5.10 Waiving interest charges will increase City of Salisbury's interest costs paid by \$375k as this will not be recovered through interest charged to ratepayers, and will result in a deficit position of \$190k in year 1 (compared to a surplus of \$181k).
- 5.11 It should be noted that the Hardship policy is in place for residential ratepayers and will be expanded to include Commercial and Industrial ratepayers, thereby providing a further avenue for financial circumstances to be considered where needed. It should also be noted that no legal action will be taken in relation to non-payment during this extended payment period.
- 5.12 The previous Council resolution in March 2020 also seeks further consideration of other measures Council may want to consider. This will be reported through the April round of Council meetings.

Cash Advance Debenture MoN Part 6

- 5.13 To ensure that the City of Salisbury has sufficient cash flow to meet its obligations an additional Cash Advance Debenture facility (CAD) of \$50M is required which will offset the reduced cash flow from rates revenue with the deferred payment date.
- 5.14 It is difficult to determine how much of this facility will be required to be drawn down as this will depend on the payment levels of any outstanding rates.

- 5.15 The NFL Ratio is not impacted by the increase in CAD facilities but rather by the level of draw down, and the level of draw down is difficult to predict, as such the NFL ratio has not been amended. Also, the NFL Ratio is measured at the end of financial year, and given the current MoN is an extension of 6 months, the CAD may largely be repaid by 30 June 2021, and if this proves to be the case, then this extension in payment of rates will not have an impact on the NFL Ratio reported in the End of Financial Year Statements.

6. CONCLUSION / PROPOSAL

- 6.1 The information is provided to assist Council in understanding the financial implications of the MoN that is aimed at supporting the community during a difficult period.
- 6.2 There are material financial impacts if the MoN is supported but with the appropriate strategies to address this impact in future budget considerations and reviewing existing and new services, Council is able to manage the financial implications.
- 6.3 These strategies will be considered in future reports and budget processes.

CO-ORDINATION

Officer:

Date: