

**ITEM-36 CCL 26/04/22 - PUBLIC EXHIBITION OF DRAFT DELIVERING NEWCASTLE 2040**

**REPORT BY: STRATEGY AND ENGAGEMENT**  
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**PURPOSE**

To place the draft 2022-2023 Delivering Newcastle 2040, draft 2022-2023 Fees and Charges, and draft 2022-2023 Long Term Financial Plan on public exhibition for a period of 28 days.

**RECOMMENDATION**

That Council:

- 1 Resolves to publicly exhibit the draft 2022-2023 Delivering Newcastle 2040 as at **Attachment A**, draft 2022-2023 Fees and Charges as at **Attachment B** and draft 2022-2023 Long Term Financial Plan as at **Attachment C** for 28 days prior to the final consideration by Council.
- 2 Resolves to apply to the Independent Pricing and Regulatory Tribunal (IPART) for a one-off Additional Special Variation (ASV) of 2.5% for the 2022-2023 financial year following concerns raised by the NSW Minister for Local Government, and for this to be a permanent increase retained within the rate base.
- 3 Notes that should the ASV be approved by IPART, the total rate increase for 2022-2023 will be 2.5%; consistent with the Long-Term Financial Plan.

**KEY ISSUES**

- 4 Section 404 of the Local Government Act 1993 (Act) requires City of Newcastle (CN) have an Operational Plan each financial year outlining the planned activities and services to be delivered. The Delivery Program and Operational Plan are combined into Delivering Newcastle 2040 (**Attachment A**).
- 5 Delivering Newcastle 2040 maintains a net operating surplus while renewing and maintaining assets in a sustainable range and utilising evidence-based decision-making to underpin its financial sustainability.
- 6 The Long-Term Financial Plan forecasts CN will meet 100% of the Office of Local Government's (OLG) financial performance measures including achieving annual operating surpluses across the 10 year time horizon.

		Projection									
Income Statement	Current	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Income from Continuing Operations											
Rates and annual charges	198,945	208,307	212,890	217,786	223,230	228,365	233,617	238,991	244,965	250,599	256,363
User charges and fees	94,322	102,132	112,337	118,519	122,424	126,468	130,647	134,963	139,422	144,028	148,786
Interest and investment revenue	5,843	5,391	6,736	8,605	10,203	11,854	13,409	14,896	16,450	17,726	19,165
Other revenues	11,432	10,356	10,597	10,995	11,265	11,524	11,789	12,060	12,337	12,621	12,912
Grants and contributions provided for operating purposes	16,317	16,687	18,054	18,534	18,961	19,397	19,843	20,299	20,766	21,244	21,732
Grants and contributions provided for capital purposes	13,745	33,762	34,504	35,298	36,110	36,941	37,790	38,659	39,548	40,458	41,388
Other income	4,072	4,007	4,800	5,760	5,892	6,028	6,167	6,308	6,454	6,602	6,754
Total Income from Continuing Operations	344,676	380,642	399,918	415,497	428,085	440,577	453,262	466,176	479,942	493,278	507,100
Expenses from Continuing Operations											
Employee benefits and on-costs	117,162	125,271	129,037	132,970	136,934	140,810	144,322	147,921	151,610	155,392	159,267
Borrowing costs	3,556	3,773	3,913	3,591	3,261	2,930	2,584	2,256	1,916	1,601	1,330
Materials and services	102,646	104,359	107,927	112,819	114,001	120,840	123,283	127,480	128,984	131,953	134,990
Depreciation and amortisation	58,428	63,407	67,454	69,313	71,206	73,293	74,668	76,261	78,350	80,062	82,201
Other expenses	43,601	44,650	49,941	51,109	50,285	51,441	52,624	53,834	55,073	56,339	57,635
Net losses from the disposal of assets	4,328	4,149	6,940	7,100	7,263	7,430	7,601	7,776	8,637	8,138	8,325
Total Expenses from Continuing Operations	329,721	345,609	365,212	376,902	382,950	396,744	405,082	415,528	424,570	433,485	443,748
Operating result from continuing operations	14,955	35,033	34,706	38,595	45,135	43,833	48,180	50,648	55,372	59,793	63,352
Net operating result for the year before grants and contributions provided for capital purposes	1,210	1,271	202	3,297	9,025	6,892	10,390	11,989	15,824	19,335	21,964

Table 1: 2023 to 2032 Long-Term Financial Plan

- 7 CN's financial position is forecast to return to an operating surplus in 2022-2023 after recent operating deficits caused by a \$40m reduction in income due to the COVID-19 pandemic. However, the pandemic continues to impact CN's revenue, including significantly lower returns on investments, and reduced Civic Theatre and City Hall income, and lower parking infringement notices due to reduced commuter activity in the city.
- 8 In addition to ongoing financial impacts caused by the pandemic, IPART determined the annual rate peg to be just 0.7% for 2022-2023 (with an additional 0.5% for CN relating to population increase). This rate peg is the lowest in two decades and compromises CN's ability to maintain service levels, noting CN's costs are affected by a Consumer Price Index growth rate of 3.5%. Further confirming the financial magnitude of IPART's decision, the Cordell Construction Cost Index shows that national construction costs increased by 7.3% in the 2021 calendar year. The Australian Bureau of Statistics estimates that fuel costs also increased by 7.1% over the same 12-month period.
- 9 CN's Long-Term Financial Plan had forecast an annual rate cap of 2.5% based on OLG advice. A 1.2% rate cap (without correction) would reduce CN's income by \$2.187m in 2022-2023 or \$15m over the next ten years which would necessitate a reduction in service levels.
- 10 Following concerns raised by the NSW Minister for Local Government to the Chair of IPART (**Attachment D**), Councils are able to apply to vary their rates income by greater than the 0.7% peg (up to a maximum rate cap of 2.5%). This Additional Special Variation (ASV) requires Council endorsement and would bring the total rate cap for 2022-2023 to 2.5% for residential and business properties.
- 11 The Minister for Local Government has secured a review of IPART's methodology for calculating the rate cap at 0.7%, which she has described as inadequate (**Attachment D**).

- 12 CN's proposed average residential rates payable for 2022-2023 is \$1,651.10 (with a rate cap of 2.5%) or \$1,630.15 (with a rate cap of 1.2%), compared to \$1,610.75 in 2021-2022 (when the IPART approved rate cap was 2%).
- 13 Should IPART approve CN's application for a rate cap of 2.5% in 2022-2023, the average residential rate would increase by \$40.35 compared with a proposed increase of \$19.40 if the rate cap were only 1.2%, the difference equating to an additional forty cents per week or \$21.05 per annum.
- 14 In April 2022, the Local Government Grants Commission communicated a change in the allocation of the Financial Assistance Grants. There is no change to the grant in 2022-2023 however the proposed changes will reduce CN's share by 2% or 4% per year from 2023-2024 based on the option selected by the OLG. The impact of this reduction would be a loss of up to \$4m over the next ten years which would create further pressure on CN's finances.
- 15 Section 496 of the Local Government Act 1993 requires CN to make and levy an annual charge for the recovery of costs only for providing Domestic Waste Management Services (DWMS). In 2022-2023 CN is proposing to increase the charge to \$460 to reflect increases in costs associated with the collection and disposal of domestic waste for its red, green and yellow lid bins service.
- 16 It has been well documented in local media that the COVID-19 pandemic has seen a significant increase in the ratio of local household waste to commercial waste caused by people choosing to work from home rather than the office. More domestic waste going across the weighbridge increases the DWMS (calculated on a cost recovery basis) and means the overall charge will be approximately \$1 per week higher per household, with almost one quarter of this increase the result of the NSW Government's Section 88 Waste Levy. Despite the increase, CN will continue to charge the lowest DWMS of any Hunter council by at least 7%. The Section 88 Waste Levy raised by the NSW State Government contributes \$97.30 per domestic property to the DWMS.

## **FINANCIAL IMPACT**

- 17 The 2022-2023 budget has been developed in accordance with CN's Long-Term Financial Plan (LTFP) objective of delivering a net operating surplus whilst maintaining services for the community and a robust cash reserve.
- 18 The budgeted operating result provides a \$1.27m surplus, providing the financial capacity to maintain services and meet community commitments.
- 19 The 2022-2023 works program is a record \$132.6m (an 87% increase when compared with ten years ago). Key projects include the expansion of the Newcastle Art Gallery, the construction of an organic processing facility allowing the recycling of garden and food waste), the restoration of the Newcastle Ocean Baths, the remediation of CN's former rubbish tip at Sandgate used during the cleanup of the 1989 Newcastle earthquake and more than \$4m in new cycleways. A comprehensive list is included in the Newcastle 2040 Appendix.

- 20 Independent modelling of the 2022-2023 works program forecasts it will generate up to 740 new local jobs in the Newcastle Local Government Area and increase total economic output by up to \$325m.
- 21 It is forecast that \$98.3m will be generated from CN's operations in 2022-2023 to fund community projects.

### **COMMUNITY STRATEGIC PLAN ALIGNMENT**

- 22 Delivering Newcastle 2040 delivers against the four themes in Newcastle 2040.
- 23 This report aligns to all priorities in Newcastle 2040.

### **IMPLEMENTATION PLAN/IMPLICATIONS**

- 24 Council is asked to adopt Delivering Newcastle 2040, Fees and Charges and the Long-Term Financial Plan by 30 June 2022 following public exhibition. The draft Delivering Newcastle 2040, draft Fees and Charges and Long-Term Financial Plan will be exhibited from 28 April to 26 May 2022.
- 25 Subject to Council endorsement, an application will be made to IPART for a one-off Additional Special Variation (ASV) of 2.5% for the 2022-2023 financial year.

### **RISK ASSESSMENT AND MITIGATION**

- 26 Delivering Newcastle 2040 is built on a number of assumptions, including some outside of CN's control, which may impact outcomes, including:
  - i) Government grant funding (eg Federal Assistance Grant);
  - ii) Investment returns;
  - iii) External contributions (eg local infrastructure contributions);
  - iv) Government cost shifting;
  - v) Monetary and fiscal policy (eg interest rates, taxation);
  - vi) Legislative and policy changes (eg rate peg);
  - vii) Natural disasters (eg storms, pandemics).
- 27 Delivering Newcastle 2040 will be monitored against financial performance indicators with adjustments implemented via the quarterly budget review process. This may include adjustments to accommodate income variability as a result of ongoing COVID-19 disruption to business as usual activities, as well as any changes to the rate peg and the Federal Assistance Grant as documented earlier in this report.

### **RELATED PREVIOUS DECISIONS**

- 28 At the Ordinary Council Meeting on 25 January 2022, Council endorsed Newcastle 2040 for public exhibition.

**CONSULTATION**

- 29 Consultation with the elected Council to inform development of the draft Delivering Newcastle 2040 included a workshop on 22 January 2022 and on 15 February 2022 to explore current and emerging opportunities and discussion regarding proposed initiatives.
- 30 A Councillor Workshop on the draft Delivering Newcastle 2040 was held on 12 April 2022.
- 31 Community feedback will be considered as part of the public exhibition process, which will be for a period of 28 days.

**BACKGROUND**

- 32 The Delivery Program is required to be prepared every four years following a local government general election. The Operational Plan is subsequently required to be reviewed annually and adopted by 30 June of the relevant year.
- 33 The Integrated Planning and Reporting guidelines for NSW Local Government released in September 2021 require the Long-Term Financial Plan to be publicly exhibited for at least 28 days and submissions received in that period must be considered before the final Long-Term Financial Plan is adopted by the council.

**OPTIONS**

**Option 1**

- 34 The recommendation as at Paragraph 1, 2 and 3. This is the recommended option.

**Option 2**

- 35 Council resolves to vary the recommendations in the adoption of the report. This is not the recommended option.

**REFERENCES**

**ATTACHMENTS**

- Item 36 Attachment A:** Draft 2022-2023 Delivering Newcastle 2040
- Item 36 Attachment B:** Draft 2022-2023 Fees and Charges
- Item 36 Attachment C:** Draft 2022-2023 Long Term Financial Plan
- Item 36 Attachment D:** Portfolio Committee No. 7 - Planning and Environment (8 March 2022)

**Item 36 Attachments A-D distributed under separate cover**