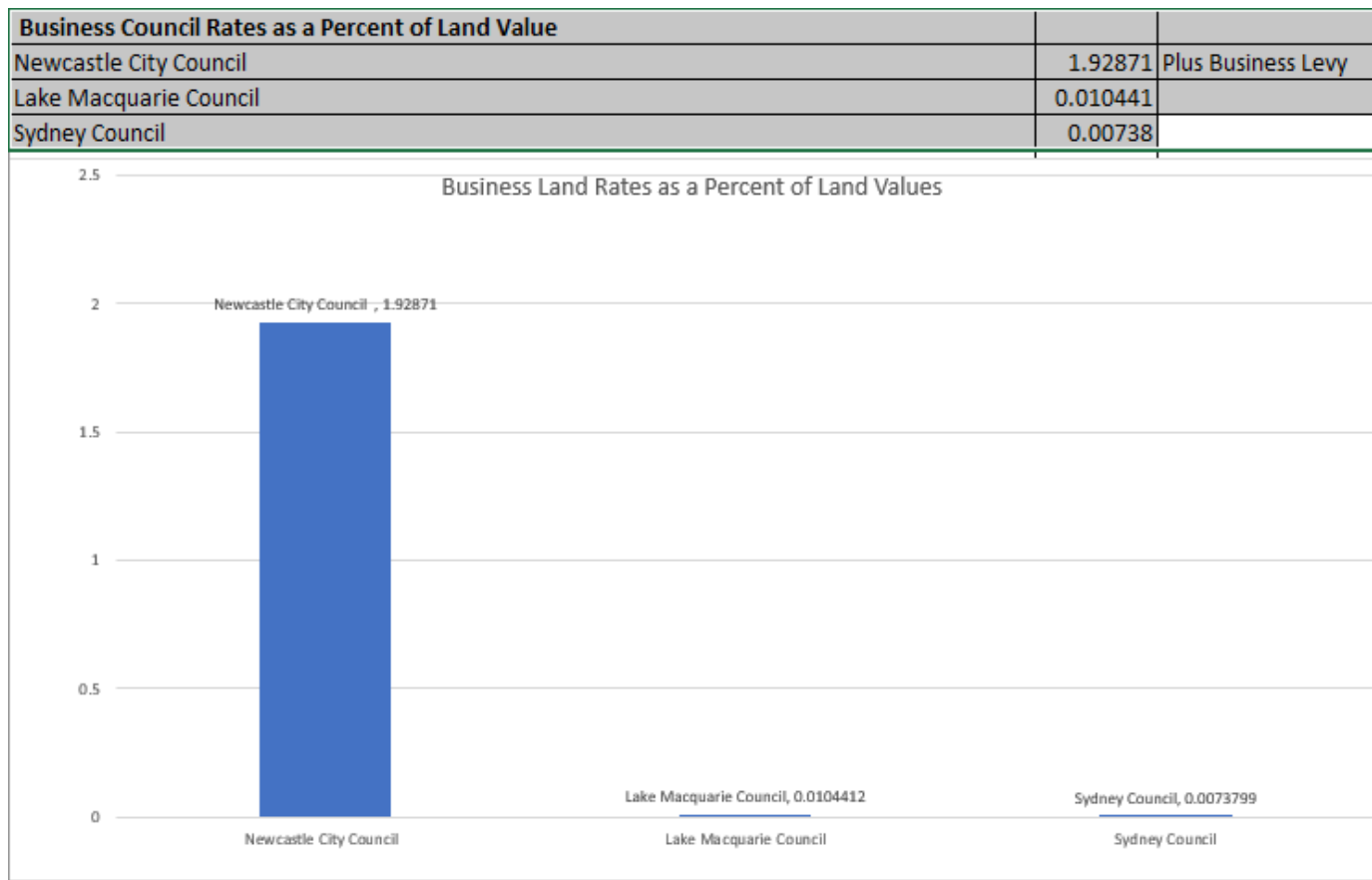


Please Investigate City of Newcastle Financial Mismanagement

- 1 Newcastle City Council (NCC) LGA Commercial rates are amongst the highest in NSW because their discretionary Ad valorem percentage is unreasonably high with the consequence of forcing small business, landowners and tenants alike into financial hardship



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2020/2021 Budget Analysis City of Newcastle (CoN)

General Comments:

- **NCC maximum allowed rate increase of 2.6%** (the SRV is now finished) is being applied, but the actual rate income has gone up 5.2%, supposedly due to the developer levy increases in the western corridor, new rateable properties and the waste levy increase due to higher recycling costs. After years of rate increases, chasing the max increase again, in the current climate, is cause financial stress for many.
- They are quick to compare with other councils who are also putting up their rates by 2.6%, but fail to note that **NCC has just had a 46.9% increase**, whereas many others haven't.
- The budget papers are full of pictures and little detail on where the money is actually being spent. There is no way to determine how it conforms with the asset spending targets set by OLG. **The Renewal/New Assets split up has been removed** so comparison with asset maintenance targets, including Infrastructure Backlog, cannot be done. This is the first this has been done, ever, and is obviously to hide the continued under expenditure on renewing existing infrastructure.

Other Councils, like Port Stephens, share with the public 4 documents that have good detail in the Long-Term Financial Plan, Asset Management Plan (SAMP), Workforce Management Plan as well as

the Delivery and Operations Plan. For instance, the PSC SAMP has 272 pages of info. Newcastle's has 3 pages.

- About 25% of the capital budget (\$19.27M) is being spent at Summerhill on projects that allow waste to be brought in from other LGAs. The Cell 9 expansion project started with a budget of \$8M in 2015/16, and at the beginning of 2017 was most of the way through spending the \$25M budget for Cell 9. The original full cost of the Cell 9 project was shown in the 2016/17 Works Program as \$17M, This blew out to \$25M by the time tenders were let. But it didn't include extra space for taking Sydney waste which is causing the doubling of the costs. Similarly the Organics facility originally had a projected cost of \$4.254M. This rose to \$13M to allow for a covered in facility. Now the project cost is up to \$24M and a contract being negotiated with an external bidder who was 50% higher than a local supplier who recently built the Awaba facility.
- **NCC Employee costs have gone up 9.7%, following an increase of 7.0% in the current year** – these 2 years are double the normal rate of increase of around 4%, amounting to 16.7% over 2 years, and are way above CPI. Other councils are using an increase of 2.75% for employee costs in their financials. **CoN has made a big outcry about improving efficiency, through spending millions of ratepayers dollars on their new rented premises, these increased labour costs are very concerning, and need to be explained.**
- **Another \$25M is to go into reserves.** This will raise reserves from \$380M in Jun 2020 to \$406M in Jun 2021. Reserves have increased from \$275M in Jun 2015, just prior to the introduction of the 46.9% SRV. So \$100M has gone into bank over 5 years, and more proposed next year.

Total at June 30 2019 = \$376.99M (from Annual Financial Statement)

Total at June 30 2020 = \$380.385M (from 2020/21 Budget papers - Mar 20)

Alt = \$353M (from Mar 20 Quarterly Budget Review)

Whichever one you pick, NCC Reserves have increased between \$78M and \$106M since collection of the Special Rate Variation started

Many businesses have objected to the local business levies as they are ineffective and seen as just plain and simple revenue gouging.

Capital Works Program:

Comparison with previous annual budgets

(\$M)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	202
Total			83.9	82.0	90.3	100.33	80.95	82.
Renewal			43.54	40.21	53.9	48.80	29.6	24.
Roads			9.23	13.7	19.6	23.52	9.7	6.8
Stormwate			3.62	7.28	10.74	8.12	5.44	6.6
Cycleways			1.80	4.48	2.66	2.63	1.11	1.8
Waste			10.68	14.02	10.15	14.33	32.24	19.
Buildings- Supp ort			0.28	-	1.69	9.42	5.34 Actual = \$11.7	0.6 0

IT			0.3	2.32	4.39	4.00	4.60 Actual = \$8.35	4.59
Aquatics				?	?	.300	0.15	2.6
Smart City					0.65	8.17	2.10 Actual = \$4.4	2.88

Note:

- Renewal spend was estimated by adding City Wide Services (non Waste) + Bushland and Watercourses + Infrastructure & Property + Roads + Stormwater. These are the areas that provide the renewal component in previous years
- Depreciation is \$53.4M so Renewals Ratio is $24.4/53.5 = 45.7\%$. It is supposed to be 100% under OLG guidelines to maintain Backlog. Under IPART agreement should be 110% in 20/21 (assuming previous 5 years of 130% were met).

		2017		2018		2019		2020		2021	
Measure	Target	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
Renewal Deprec.	≥100%	\$'000 28,724 30,268	% 94.90	\$'000 26,942 33,111	% 81.37	16,970 32,184	% 52.73	18,102 48,374	% 37.4	~24,400 53,400	% 45.7
IPART Promise			120.0		130.0		130.0		130.0		110.0
PSC			99.97		123.14		114.92				
LMCC			113.0		100.39						

Additional Information:

Employee Costs Comparison

'000	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Wages	87,308	91,248	93,567	97,419	101,881	108,998	119,609
		4.5%	2.5%	4.1%	4.6%	7.0%	9.7%
Over 6 yrs							37%

Materials & Contracts	46,411	52,125	65,612	77,721	65,777	75,815	75,126
		12.3%	25.8%	18.5%	-15.4%	13.2%	-1%

Note: Materials and Contracts numbers included due to a potential excuse for the increase in wages costs being conversion from contractors to in-house staff. As can be seen there is no overall decrease in the M & C costs. The jump in 2017/18 was due to Supercars construction.

What has the LM (Lord Mayor) chosen to spend money on?

New leased premises: ~\$3M rent per year, committed for 15 yrs equals \$50M with escalation

- approx \$20M fitout and relocation costs
- LM Nelmes & CEO Bath share 1000 square metres of Council office space whilst staff hot desk or forced to work from home
- The LM & CEOs penthouse Council office is costing ratepayers \$500,000-1,300,000
- There was no business case done.
- Case given to Cr's was this would only cost \$300Kpa due to rent offsets from the old buildings and surplus space in new bldg., and \$7M to relocate. But CAC now sold for \$16.5M, so no rent, and will not even cover relocation cost.
- Since original adoption by Ccl, luxury penthouse offices for LM and CEO have been added.
- This expenditure is more than the total spent on Coastal Revitalisation (incl Bathers Way) over the last 8 or so years
- HIDDEN FROM & NO CONSULTATION WITH THE RATEPAYERS

Solar Farm:

\$9M costs. Partially funded by a loan that has to be paid back.

- Dubious business case based on electricity offtake prices for only 3 years. These are notoriously variable.
- Based on a 30 year life. But solar panels only last up to 15 years and no allowance made for replacement.
- NO CONSULTATION WITH THE RATEPAYERS

Organics facility:

\$24M facility to process green waste

- Original cost to build this, for which a \$1.5M NSW Govt grant was obtained, was \$4.5M. Increased to \$13M with a covered building.
- No business case.
- Choice to go with the most expensive (by 50%) tenderer.
- NO CONSULTATION WITH THE RATEPAYERS

Summerhill Expansion:

\$25M approved to be spent on further expansion of SWMC in Dec. 18

- This is on top of \$20M approved in 2015/16 to extend the life for another 15 years.
- \$15m was spent by the original successful contractor before they were dismissed by Bath.
- The extra \$25M is to complete the original scope, turning a \$20M project into a \$40M project, with no scope change. Some explanation is required for this.
- In addition, NCC has contracted to bring 100K t/a of garbage from Sydney into Summerhill. This is >25% of its intake capacity, and is purely a revenue generating operation. This waste commenced being received by Summerhill in Dec 2018.
- NCC is also contracted to bring waste in from Maitland City Council.
- NO CONSULTATION WITH THE RATEPAYERS. Newcastle people may not want to do this.

Enterprise Agreement:

EA finalized with the workforce in Dec.18. A giveaway to the unions.

- 9 day fortnight given away.
- 15 days sick leave made unconditional. Council staff now get 73 days leave of various types throughout the year. That is a third of the working year.

- Workforce levels guaranteed.
- Now costs are up nearly 17% in 2 years.

Smart City projects

\$15M+ being spent on undefined projects which are believed to be things like “smart” light poles, parking apps, free wifi for the CBD etc

- What about the suburbs?
- Cr’s cannot get details of the specific projects.

Supercars:

For the last 3 years the LM has organized and run a frivolous, extra ordinarily expensive social party during the Supercars event in Nov.

- This has cost ratepayers in the order of \$90K per event. Mr Bath has only admitted to spending half that – he leaves out the cost of the marquee to accommodate the party.
- 300+ guests are invited –including, *anecdotally, family and friends, and union officials from as far away as Wollongong. Despite numerous Councillor and GIPA requests, [REDACTED] has refused to release the full invitation list.*
- AS well as reducing city business turnover by 23-25% per annum (Business Research 245 Inner City) Supercars is reputed to cost ratepayers about \$10m per annum

Workshops at luxury resorts: Twice now a “strategic planning” workshop has been held over a Friday and Saturday at the Shoal Bay Country Club, and Anchorage Resort in the Port Stephens LGA

Overseas trips

A Labor Cr went on another overseas trip in Sept 2019, to New York, to attend a United Nations event. This is a junket and has nothing to do with local government in Newcastle. It cost about \$20K and the ratepayers of Newcastle will get no value in return. This is on top of previous trips to USA, Singapore, Geneva, and Kuala Lumpur during and Quito, Ecuador.

Councillor’s Remuneration: Prior to the Sept 2017 local government election, LM Nelmes and the Labour Cr’s made a play of refusing an 2.5% payrise and to divert the funds to a suburban project.

- Straight after the election, the CEO brought a report to Council to raise the Cr fees to the maximum of the allowed range. This gave Cr’s a 15% payrise, and the Lord Mayor a 25% pay rise. This was passed by the Labor majority. The Lib, Green and Independents voted against it.

Bath Remuneration:

Jeremy Bath received a 4.2% pay rise at the Council meeting on 10 Dec 19.

- It is interesting that his normal salary has risen 21% since he was recruited in the Interim role. Previous incumbents received a salary of \$380K(plus \$24K for Airport Board fees). At the time (early 2017) that was on the benchmark for a GM running a council the size of Newcastle.
- Now his salary will be \$465,270 + \$50,000 (NAPL) = \$515,270, arguably the highest in NSW.

Office vs frontline staff:

Recruitment of additional nonservice providing staff, more Directors and an extra layer of managers, whilst there are reductions in frontline staff.

- Communications and marketing section of Council has been boosted in size to a massive 67 staff. It is evident from the volume of constant

material being issued they spend their time mostly on daily promotion of the LM.

- Permanent EFT increased from 935 when Bath arrived to 1079 now, of which 122 have not been to Council for approval, and the increase is contrary to the agreement with IPART in exchange for the big rate increase.

Newcastle Airport Cash Grab: [REDACTED] and [REDACTED] supported a change to the Airport Board structure, which doubled the fees for existing Board members to \$50K (of which [REDACTED] was one.

- This action required elected Council approval but was brought to them in an indirect way that hid the cost implications.
- [REDACTED] and [REDACTED] approached Newcastle Airport Ltd to vary their constitution to allow the Mayors onto the Board and then sought Council approval indirectly (through change of delegations, and not disclosing the financial implications).
- Newcastle Airport Ltd is owned by both PSC and NCC. The revenue and costs are included in the Council's books. This is an internal appointment and neither [REDACTED], or [REDACTED] should be paid for attending meetings that are part of their normal duties and conducted during working hours.

- [REDACTED]