

Newcastle City Council

Delivery Program 2013-2017

Financial Year 2016/17 Update



Critter Encounter at Blackbutt Reserve.

Newcastle City Council acknowledges that we are meeting on the traditional country of the Awabakal and Worimi peoples.

We recognise and respect their cultural heritage, beliefs and continuing relationship with the land, and that they are the proud survivors of more than two hundred years of dispossession.

Council reiterates its commitment to address disadvantages and attain justice for Aboriginal and Torres Strait Islander peoples of this community.

Enquiries

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Cr Nuatali Nelmes
Lord Mayor

LORD MAYOR'S FOREWORD

Newcastle City Council's Delivery Program outlines Council's objectives and how we aim to achieve them. I am very proud to reflect on the achievements made and am very positive about our city's future.

We are committed to restoring trust and collaborative leadership and refocusing our efforts on delivering our long-term goal of a financially sound council and a smart, liveable and sustainable city. Newcastle is on the cusp of transitioning from a great regional city to an emerging global city and we are doing our bit to attract investment, jobs and opportunity.

Earlier this year we released *Connecting Newcastle: Our urban renewal vision*. In it we advocate for light rail to be integrated with current transport modes, a solution that will create the space for separated cycle ways, widened footpaths, trees and on-street parking, all elements needed to revitalise the city. We also want to see the light rail extended to link our suburbs to the city centre, education and medical facilities as well as major transport and employment nodes.

We are anticipating this vision will translate into works on the ground which will complement the priority projects Council is delivering including: new cycle ways; the revitalisation of our coastline and city centre; the Wallsend masterplan and flood mitigation works and upgrades to one of our premier attractions, Blackbutt Reserve where we've delivered a new wildlife learning arena, new amenities and new shelters and BBQ facilities at Carnley Avenue Reserve.

This year we are spending \$4.4 million on new cycleways, line marking and bollard removal and replacement, way-finding signage and cycling education and promotion.

We have reached the half-way milestone in our iconic Bathers Way project to provide widened pathways and improved amenity from Nobbys to Merewether Beach. Work is now underway to stabilise the seawall at South Newcastle to make way for the next stage of the project which will extend the Bathers Way from South Newcastle to King Edward Park.

Our Smart City initiatives are fostering collaborations focused on our city's future, encouraging entrepreneurship and innovation in Newcastle. We are allocating a million dollars to the growth of major events in turn, promoting investment, jobs and tourism for our City.

This year marks the 10th birthday of Wallsend District Library and the 5th anniversary of Newcastle Museum's move to its Honeysuckle home. Both of these projects demonstrate our commitment to building and revitalising multi-purpose community facilities like parks, pools and libraries and improving the quality of services for all Novocastrians.

With an ambitious program of works and major investment in the city from other government agencies, as well as changes on the horizon for local government across NSW, the year ahead is sure to be a defining one for Newcastle.

Councillor Nuatali Nelmes
LORD MAYOR OF NEWCASTLE



Frank Cordingley
Interim Chief Executive Officer

INTERIM CEO'S FOREWORD

As we move into the final year of the four year Delivery Program 2013 - 2017, Newcastle City Council is one of the strongest, financially sustainable councils in NSW. We again expect to deliver an operating surplus ahead of budget expectations as for the 2015/16 financial year and continue to expand our capital works program.

Our capital works program has increased from just over \$42 million in 2012/13 to approximately \$58m in 2014/15, representing a 37 per cent increase. We plan to maintain this new level of increased expenditure as work continues on our priority projects - coastal and city centre revitalisation, improving Blackbutt Reserve and making the city more bike-friendly with cycle way projects.

By adhering to the budget principles and our corporate objectives adopted in the original 2013-2017 Delivery Program, we have been deemed 'financially fit' by IPART.

We have achieved this through significant organisational restructuring to reduce costs, pursuing initiatives to improve non-rates revenue, and a special rate variation which commenced last financial year. Our staffing levels are now at their lowest in 19 years.

We have generated small operating surpluses for the past two financial years and are on track to deliver a third consecutive surplus in 2015/16. We are also budgeting for a moderate surplus in 2016/17. Continued prudent financial management is essential to support sustainable improvements in the service levels provided to the Newcastle community.

Based on our long-term financial plan, funds from current reserves, future operating surpluses (including the special rate variation) will be sufficient to fund all costs associated with addressing Newcastle's current infrastructure backlog of \$94 million by 2020.

We will aggressively address the backlog, within the parameters of staffing capacity, on projects such as the City Hall restoration, city-wide road improvements, and refurbishment of a range of our built infrastructure. Council will judiciously recruit staff with appropriate skills and experience to design, plan and manage these projects in a cost effective and sustainable manner. This approach will change the timing of the expenditure on the backlog, resulting in higher operating surpluses in the next few years than previously projected followed by more moderate surpluses due to additional expenditure in later years.

The organisation has continued to modernise its work practices through the upgrade of the information technology platform and implementation of a centralised customer service system. We are now aiming to resolve 85 per cent of customer inquiries at first contact through a newly improved Customer Contact Centre, open two-and-a-half hours longer each day for the convenience of rate payers and other customers.

This will provide improvements and consistency in customer service and help to manage our \$1.7 billion portfolio of community assets.

Frank Cordingley
INTERIM CHIEF EXECUTIVE OFFICER

OUR CITY

NEWCASTLE IS AUSTRALIA'S SEVENTH LARGEST CITY. OVER THE PAST DECADE THE POPULATION OF THE NEWCASTLE LOCAL GOVERNMENT AREA HAS SURGED WITH SIGNIFICANT GROWTH IN ITS WESTERN CORRIDOR.

The city offers a remarkable and diverse natural environment—from coastal headlands and beaches to wetlands, mangrove forests, steep ridges and rainforest gullies. This diversity presents significant challenges for Council in terms of maintaining this environment and the broad range of workforce skills required to do so.





OUR PEOPLE

FOR THOUSANDS OF YEARS, THE AREA WE NOW KNOW AS NEWCASTLE WAS NURTURED AND PROTECTED BY LOCAL TRADITIONAL CUSTODIANS, INCLUDING THE WORIMI AND AWABAKAL PEOPLES WHO LIVED AROUND THE MOUTH OF THE HUNTER RIVER. THEY CALLED THIS PLACE MULOOBINBA AND THE RIVER, THE COQUUN.

Novocastrians are known as a proud community shaped by our heritage. From the traditional custodians to European settlement, our culture is shaped collectively by our history as a penal settlement and the birthplace of the Australian coal industry. Ships, convicts and coal—these early and difficult beginnings have made us what we are today: a loyal, welcoming and diverse community. We have coped with earthquakes, floods and the closure of major industries and we continue to grow and change.

Population



Newcastle 154,896
NSW 7,211,500

Born overseas

Newcastle 12%
NSW 26%



Median Age

Newcastle 37
NSW 38



Renting



Newcastle 33%
NSW 29%

Households with internet connection

Newcastle 71%
NSW 73%



Household size



Newcastle 2.3
NSW 2.6



Aboriginal population

Newcastle 3%
NSW 3%

ELECTED COUNCIL 2012-2016



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Ward 1

Bar Beach, Carrington, Cooks Hill, Islington, Maryville, Mayfield, Mayfield East, Mayfield West, Newcastle, Newcastle East, Newcastle West, Stockton, The Hill, The Junction (part), Tighes Hill, Warabrook, Wickham

Ward 2

Adamstown, Adamstown Heights, Broadmeadow, Hamilton, Hamilton East, Hamilton South, Hamilton North, Merewether, Merewether Heights, The Junction (part)

Ward 3

Georgetown, Jesmond, Kotara, Lambton, New Lambton, New Lambton Heights, North Lambton, Wallsend (part) Waratah, Waratah West

Ward 4

Beresfield, Birmingham Gardens, Black Hill, Callaghan, Elmore Vale, Fletcher, Hexham, Lenaghan, Maryland, Minmi, Rankin Park, Sandgate, Shortland, Tarro, Wallsend



OUR VISION

We are committed to delivering our community's priorities by translating outcomes and strategies into programs, projects and actions.

Our balanced scorecard captures our strategies and objectives in one integrated format and has allowed us to strengthen the links between Council's strategic objectives and the plans and priorities of Council's business units and projects.

Vision

Respected for what we do and what we achieve

Mission

Proud to deliver services valued by our community

Values

Cooperation, Respect, Excellence & Wellbeing (CREW)



Community Needs

Sustainability

Internal Process

People, Learning & Innovation



Community Needs



Sustainability



Internal Process



People, Learning & Innovation

C1. Build a connected city

- Effective and integrated public transport
- Linked networks of cycle and pedestrian paths
- A transport network that encourages energy and resource efficiency.

C2. Create vibrant and activated public places

- Public places that provide for diverse activity and strengthen our social connections
- Culture, heritage and place are valued, shared and celebrated
- Safe and activated places that are used by people day and night.

C3. Provide a caring and inclusive community

- A welcoming community that cares and looks after each other
- Active and healthy communities with physical, mental and spiritual wellbeing
- A creative, culturally rich and vibrant community.

C4. Maintain a liveable and distinctive built environment

- A built environment that maintains and enhances our sense of identity
- Mixed-use urban villages supported by integrated transport networks
- Greater diversity of quality housing for current and future community needs
- Best practice energy and water efficient buildings and infrastructure.

C5. Create a smart and innovative city

- A vibrant diverse and resilient green economy built on educational excellence and research
- A culture that supports and encourages innovation and creativity at all levels
- A thriving city that attracts people to live, work, invest and visit.

C6. Provide quality and cost-efficient services to the community

C7. Promote community engagement

- Provide information and opportunities which encourage community participation and feedback
- Deliver on the key projects determined as the priorities for the community.

S1. Maintain a net operating surplus to ensure Financial Sustainability

- Achieve at least a 2.7% net funding surplus
- Reduction in net operating expenses of 10% (overall)
- Grow non-rate based funding
- Make decisions that are financially sustainable.

S2. Provide a protected and enhanced environment

- Greater efficiency in the use of resources
- Our unique natural environment is maintained, enhanced and connected
- Environment and climate change risks and impacts are understood and managed.

S3. Maintain a strong cash and liquidity position to ensure financial sustainability

- Restrict debt levels so that the net financial liabilities ratio of 40% is not exceeded
- Reduce/replace debt as an infrastructure backlog source
- Secure funding/service partners.

S4. Renew and maintain assets within a sustainable range

- Reduce NCC's infrastructure backlog ratio to less than 2% over the next 10 years.

S5. Identify opportunities for asset rationalisation to fund infrastructure backlog

- Renewal of key assets identified and prioritised in the infrastructure backlog.

S6. Leverage a strong financial position to fund the SRV projects

- Support 2012 SRV priority projects
- Accelerate or broaden 2012 SRV priority projects once asset renewal requirements have been addressed.

I1. Run business units (BU) in a business like way

- Improve BU budget management and forecasting
- Strengthen alignment of BU KPIs with strategic objectives and improve tracking of performance.

I2. Provide better and more efficient services to customers through the implementation of improved systems and processes by 2017

- Improve productivity
- Increase positive contacts
- Streamline customer interactions.

I3. Improve portfolio and project management to ensure best outcomes

- Engage with the Newcastle community on projects that have a high level of impact on the community.

I4. Increase capital works capacity

- Identify resources and capability gaps and invest in building capacity
- Enhance tools, processes and data to support greater visibility of asset position and enable more effective prioritisation, estimation and program management
- Utilise efficiency gains through improved processes to increase council capacity to undertake more capital works.

P1. Ensure a strong organisation that has the skills and talent to support the delivery of services that meet community needs

- Develop business management and leadership skills
- Develop stronger commercial skills
- Improve portfolio and project management skills
- Enhance problem solving skills
- Enhance customer services culture
- Improve employee engagement.

P2. Open and Collaborative Leadership

- Integrated, sustainable long term planning for Newcastle and the region
- Considered decision-making based on collaborative, transparent and accountable leadership

- Active citizen engagement in local planning and decision-making processes and a shared responsibility for achieving our goals
- NCC a local government organisation of excellence.

P3. Deliver an effective Workforce Management Strategy

- Attracting and retaining talent
- Investing in the capabilities of our people
- Planning for our future workforce needs
- Facilitating a culture of cooperation, respect, excellence and wellbeing

P4. Maintain safe work practices and systems

- Foster a positive work health and safety culture that is considered to be an integral element of our operations.

P5. Manage Council's information knowledge

- Manage our IT intellectual property
- Improve information sharing processes.

COMMUNITY CONSULTATION

In developing the Delivery Program 2013-17, Council has considered the priorities and expected levels of service that have been expressed by the community during our engagement processes in the development of Community Plan 2013-2023.

The Delivery Program and Operational Plan will be placed on exhibition at Council's City Administration Centre, libraries and on our website between 2 May 2016 to 30 May 2016.

Tracking issues



Keep up to date with Council's news, announcements and issues via Council's website, Facebook page, Twitter, YouTube and Council's newsletters

Newcastle Voice



Join over 2,400 Newcastle Voice members today and be part of the growing number of people participating in Council's public consultations on a host of topics. Your input will assist us to make more informed decisions.

Join a Committee



Council committees draw on the knowledge and expertise of residents. These committees provide a broader base of information to Council on matters of concern which may impact on the LGA.

Come to a meeting



You are always welcome to come to one of Council's meetings. By attending meetings you can gain a better understanding about the way Council works and the decision-making process.

Talk to a Councillor



Councillors are your representatives and are keen to hear your thoughts and address your concerns, so let them know what you think.

YOUR COMMUNITY STRATEGIC PLAN

What you want

YOUR COMMUNITY STRATEGIC PLAN

- A vision of where the people of Newcastle want to be in 2030
- Outlines the key outcomes and strategies which form the basis of our planning
- Reviewed at the start of each new Council term
- Four year reporting - end of term report

How we propose to deliver

DELIVERY PROGRAM

- A four year outlook (length of Council's term)
- Establishes major projects and performance measures outlining how Council will address and measure progress towards the strategies contained in Newcastle 2030
- Includes a four year capital works program
- Allocates high level resources to achieve the projects over a four year period
- Six-monthly reporting including an annual report
- Updated annually in conjunction with the yearly Operational Plan

What we propose to do

OPERATIONAL PLAN

- A one year outlook
- Contains actions Council will undertake in the financial year to address the Delivery Program projects
- Includes one year capital works program
- Allocates resources necessary to achieve the actions in the financial year
- Quarterly reporting

RESOURCING STRATEGY

- Includes
 - **10 year Long Term Financial Plan**
 - **Four year Workforce Management Plan**
 - **10 year Asset Management Framework**
- Contains information on the time, money, assets and people required by Council to progress the projects within the Delivery Program and move towards achieving our community outcomes
- Review at start of new Council term

STRATEGIES AND OBJECTIVES

THE NEWCASTLE 2030 COMMUNITY STRATEGIC PLAN WAS DEVELOPED FOLLOWING A SIGNIFICANT SHARED PLANNING PROCESS WITH DIRECT INPUT FROM A WIDE CROSS-SECTION OF THE COMMUNITY. IT SEEKS TO BUILD ON OUR STRENGTHS AND UNIQUE ASSETS, AND DESCRIBES OUR SHARED LONG-TERM VISION FOR A RESILIENT CITY THAT IS SMART, LIVEABLE AND SUSTAINABLE.

Reflecting the shared priorities of the Newcastle community, the Newcastle 2030 Community Strategic Plan is a guide to inform policies and actions throughout the local government area. It identifies 23 objectives to be achieved in the next 10 years across seven key strategic directions:

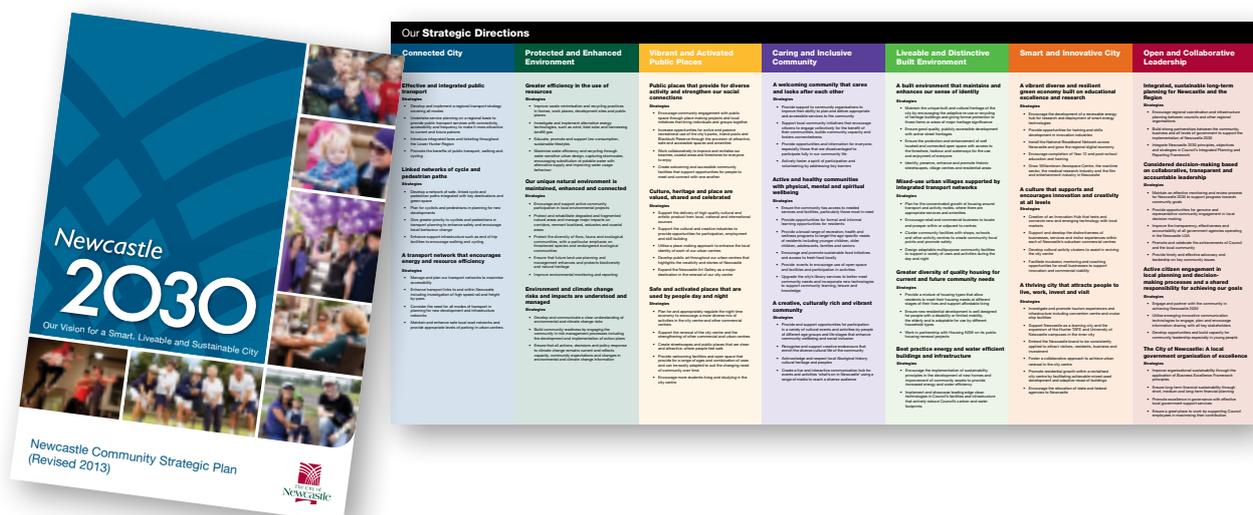


Achieving these objectives requires the involvement and partnerships of government at all three levels, the business sector, community groups and residents. Key strategies are also supported by the NSW 2021 State Plan and associated local regional action plans.

The following table represents Council's role in the delivery of the Newcastle 2030 Community Strategic Plan:

Responsibility	Connected City	Protected and Enhanced Environment	Vibrant and Activated Public Places	Caring and Inclusive Community	Liveable and Distinctive Built Environment	Smart and Innovative City	Open and Collaborative Leadership
Advocate	•	•		•	•		•
Collaborator	•	•	•	•	•	•	•
Lead Agency			•		•		•

Successful implementation will ensure that the community's economic, social and environmental considerations are integrated into decision-making processes, and that sustainable outcomes are achieved through balancing the short and long-term needs of government, the business sector, community groups, residents and visitors.







CONNECTED CITY

IN 2030 OUR TRANSPORT NETWORKS AND SERVICES WILL BE WELL CONNECTED AND CONVENIENT. WALKING, CYCLING AND PUBLIC TRANSPORT WILL BE VIABLE OPTIONS FOR GETTING AROUND THE CITY.

To achieve these outcomes over the next 10 years our strategic objectives for Newcastle are:

- 1.1 Effective and integrated public transport
- 1.2 Linked networks of cycle and pedestrian paths
- 1.3 A transport network that encourages energy and resource efficiency

Council's four year priorities

- Liaison and partnering with other government representatives and community members to facilitate optimum transport outcomes for Newcastle
- Provide a cycling education program
- Completion of concept plans, detailed designs and commencement of construction of a safe east-west cycle route from Broadmeadow to the city centre and a north-south route from Merewether to the city centre
- Improvements to bus stops, shelters and seating throughout the city
- Development and implementation of a workplace travel plan for Council
- Expansion of the footpath and shared path networks throughout the city
- Improvements in way-finding signage throughout the city
- Completion of the city centre parking study and implementation of its recommendations
- Completion of a comprehensive audit of cycling facilities in the city
- Improved safety for all road users, through implementation of pedestrian access and mobility plan projects and local area traffic management projects





PROTECTED AND ENHANCED ENVIRONMENT

IN 2030 OUR UNIQUE ENVIRONMENT
WILL BE UNDERSTOOD,
MAINTAINED AND PROTECTED.

To achieve these outcomes over the next 10 years our strategic objectives for Newcastle are:

- 2.1 Greater efficiency in the use of resources
- 2.2 Our unique natural environment is maintained, enhanced and connected
- 2.3 Environment and climate change risks and impacts are understood and managed

Council's four year priorities

- Improved measurement and education about carbon footprint
- Expand green corridors
- Grow our canopy cover including appropriate street trees
- Enhance riparian zones
- Regenerate the coastal environment with endemic species
- Education and monitoring of the environment to encourage appropriate behavior
- Socialising our streets through greening
- Plant more vegetation including green roofs and walls and planter boxes
- A strong and wetland rehabilitation program
- Support and promote volunteer environmental programs
- Seek solutions to improve air quality
- Be a water sensitive city





VIBRANT AND ACTIVATED PUBLIC PLACES

IN 2030 WE WILL BE A CITY OF GREAT PUBLIC PLACES AND NEIGHBOURHOODS PROMOTING PEOPLE'S HEALTH, HAPPINESS AND WELLBEING.

To achieve these outcomes over the next 10 years our strategic objectives for Newcastle are:

- 3.1 Public places that provide for diverse activity and strengthen our social connections
- 3.2 Culture, heritage and place are valued, shared and celebrated
- 3.3 Safe and activated places that are used by people day and night

Council's four year priorities

- Implement the Newcastle Heritage Strategy 2014
- Partner with the NSW state government to deliver the Newcastle Urban Renewal Strategy and various catalyst projects and infrastructure initiatives, which will stimulate activities, jobs, development and investment in the City
- Further develop the Bathers Way program
- Implement the Parklands and Open Space Strategy 2014
- Continue to provide small grants for façade improvement and place making projects
- Facilitate and support broad participation in community arts based programs/initiatives
- Facilitate night time economy and safety initiatives
- Identify a site for the development of a district playground
- Deliver events for the local community and visitors





CARING AND INCLUSIVE COMMUNITY

IN 2030 WE WILL BE A THRIVING COMMUNITY WHERE DIVERSITY IS EMBRACED, EVERYONE IS VALUED AND HAS THE OPPORTUNITY TO CONTRIBUTE AND BELONG.

To achieve these outcomes over the next 10 years our strategic objectives for Newcastle are:

- 4.1 A welcoming community that cares and looks after each other
- 4.2 Active and healthy communities with physical, mental and spiritual wellbeing
- 4.3 A creative, culturally rich and vibrant community

Council's four year priorities

- Continue to provide programs for the Civic Theatre, Playhouse, City Hall and Fort Scratchley
- Increase following on social media sites, like Facebook, Twitter and Pinterest
- Council to maintain active and passive sports facilities throughout our parks
- Source more government funding, fund-raising and advertising to promote cultural awareness
- Prepare and deliver Youth Week and Seniors Week events
- Update internet site for new residents
- Provide support for grass-roots movements including community gardens, markets and Men's Sheds
- Creative ways to engage local people through Make Your Place grants
- Well maintain community facilities across the city
- An active health and wellness program supported by three levels of government.
- Complete and implement a social planning strategy
- Deliver a community assistance grant program





LIVEABLE AND DISTINCTIVE BUILT ENVIRONMENT

IN 2030 WE WILL LIVE IN AN
ATTRACTIVE CITY THAT IS BUILT
AROUND PEOPLE AND REFLECTS
OUR SENSE OF IDENTITY.

To achieve these outcomes over the next 10 years our strategic objectives for Newcastle are:

- 5.1 A built environment that maintains and enhances our sense of identity
- 5.2 Mixed-use urban villages supported by integrated transport networks
- 5.3 Greater diversity of quality housing for current and future community needs
- 5.4 Best practice energy and water efficient buildings and infrastructure

Council's four year priorities

- Implement the Newcastle Heritage Strategy 2014 and encourage community participation and responsibility in heritage conservation and reuse
- A mix of affordable housing which offers choice and supports a reasonable quality of life
- People-focused residential housing and commercial development along our urban corridors
- Urban form that builds in the natural environment
- Implement the renewal corridor plans for Islington, Mayfield, Hamilton, Broadmeadow and Adamstown
- Develop an Aboriginal Heritage Management Study
- Partner with the NSW state government to deliver the Newcastle Urban Renewal Strategy and various catalyst projects and infrastructure initiatives, which will stimulate activities, jobs, development and investment in the City
- Implement a city wide flood management study
- Complete and implement the local planning strategy to guide people focused residential developments





SMART AND INNOVATIVE CITY

IN 2030 WE WILL BE A LEADER IN SMART INNOVATIONS WITH A HEALTHY, DIVERSE AND RESILIENT ECONOMY.

To achieve these outcomes over the next 10 years our strategic objectives for Newcastle are:

- 6.1 A vibrant diverse and resilient green economy built on educational excellence and research
- 6.2 A culture that supports and encourages innovation and creativity at all levels
- 6.3 A thriving city that attracts people to live, work, invest and visit.

Council's four year priorities

- Working with UrbanGrowth NSW to deliver significant catalyst projects for the City's Revitalisation
- Implement the Economic Development Strategy for Newcastle City Council (2015)
- Implement the Destination Management Plan (2013)
- Support urban revitalisation
- Working in partnership with key stakeholders including the government agencies, University of Newcastle, business improvement associations, industry peak bodies including the Hunter Business Chamber and the Newcastle Tourism Industry Group
- Facilitate a formation of BIA (Business Improvement Association) for the Junction and Honeysuckle
- Provide an economic development sponsorship program to stimulate jobs and business growth
- Facilitate the BIA to achieve the goals for their local areas
- Provide an events sponsorship program to stimulate visitor numbers and promotion of Newcastle as a visitor destination





OPEN AND COLLABORATIVE LEADERSHIP

IN 2030 WE WILL HAVE A STRONG LOCAL DEMOCRACY WITH AN ACTIVELY ENGAGED COMMUNITY AND EFFECTIVE PARTNERSHIPS.

To achieve these outcomes over the next 10 years our strategic objectives for Newcastle are:

- 7.1 Integrated, sustainable long-term planning for Newcastle and the Region
- 7.2 Considered decision-making based on collaborative, transparent and accountable leadership
- 7.3 Active citizen engagement in local planning and decision-making processes and a shared responsibility for achieving our goals
- 7.4 Newcastle City Council: a local government organisation of excellence.

Council's four year priorities

- Develop partnerships and networking with community, government and business
- Actively build capacity for community participation in leadership including mentoring and support
- Promote two-way information and feedback hubs to encourage people to maintain their involvement in planning and decision-making activities
- Support decisive, collaborative and proactive leadership
- Ensure long term financial sustainability through our long term and short term goals
- Provide a State of the City Report to measure our progress towards the goals in Newcastle 2030
- Continue to provide Newcastle Voice, webcast our meetings and provide Council meetings open to the community

COUNCIL IS NOW DEEMED TO BE FINANCIALLY FIT. THIS WAS CONFIRMED BY IPART IN THEIR ASSESSMENT OF COUNCIL'S FIT FOR THE FUTURE PROPOSAL AND IS THE FIRST TIME SINCE THE TCORP REPORT IN 2012 (WHICH NOTED THAT NCC COULD BECOME INSOLVENT BY 2019) THAT A NSW GOVERNMENT ENTITY HAS PROVIDED A POSITIVE ASSESSMENT OF OUR FINANCIAL SUSTAINABILITY.



FINANCIAL OVERVIEW

An Assessment of Council's Financial Health

Achieving financial sustainability was noted as the key objective of Newcastle City Council in the original 2013-2017 Delivery Program. This has been an ongoing process and many initiatives have been undertaken to position the organisation to achieve financial sustainability in the long term. Our recent submission to the NSW Government presented out current financial status as follows:

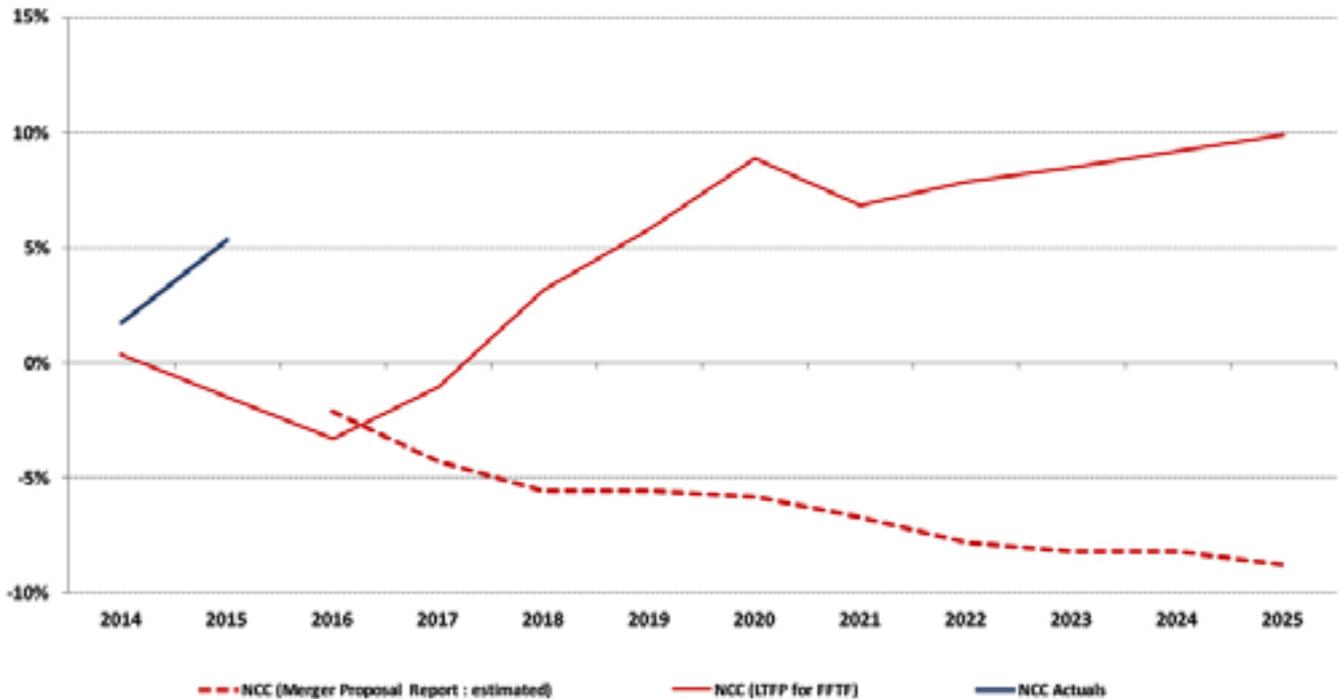
"It should be noted here, the efforts of significant internal cost containment within Council saw the Council independently assessed as financially Fit for the Future. Council implemented a number of operational improvements as part of its Long Term Financial Plan and Road to Recovery Program to enable more funds to be made available for capital improvements. The Program aimed to achieve recurrent reductions in operational expenditure without having a negative impact on the community. It has achieved this primarily through service and operational reviews, annual reviews of expenditure, review of employee resources, and realignment of fees and charges. To date, this has achieved \$15m in costs savings which have been made available for asset maintenance and renewal in a concerted effort to address Council's infrastructure renewal challenge."

The table below reflects the key metrics submitted in our Fit for the Future (FFTF) proposal and was the basis for being deemed financially fit.

Fit for the Future Measure	Assessment Criteria	2016/17	2017/18	2018/19	2019/20	Benchmark Metric	Achieves FFTF benchmark?	Meets Assessment Criteria?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	Must meet within 5 years	-1.08%	3.19%	5.78%	8.85%	5.94%	YES	YES
Own Source Revenue Ratio (Greater than 60% average over 3 years)	Must meet within 5 years	90.69%	91.25%	91.74%	92.21%	91.73%	YES	YES
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	Meet or improve/inform within 5 years	127.8%	137.8%	144.0%	141.1%	141.00%	YES	YES
Infrastructure Backlog Ratio (using the FFTF formula) (Less than 2%)	Meet or improve/inform within 5 years	8.79%	7.09%	4.92%	2.97%	2.97%	NO (achieves benchmark 2020/21)	YES
Infrastructure Backlog Ratio (using corrected ratio) (Less than 2%)	Meet or improve/inform within 5 years	4.42%	3.56%	2.48%	1.51%	1.51%	YES	YES
Asset Maintenance Ratio (Greater than 100% average over 3 years)	Meet or improve/inform within 5 years	103.8%	106.6%	106.7%	101.7%	105.00%	YES	YES
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	Must meet within 5 years	2.82%	2.71%	2.56%	2.42%	2.56%	YES	YES
Real Operating Expenditure per capita (A decrease in Real Operating Expenditure per capita over time)	Must demonstrate operational savings (net of IPR supported service improvements) over 5 years	1.17	1.15	1.14	1.12	Falling over 5 years	YES	YES

Our merger proposal submission also noted that perceptions of our financial position and financial health are lagging behind our actual performance. The NSW Government merger proposal utilised out of date data which did not accurately reflect the substantial progress in addressing its financial sustainability. The graph below reflects Council's projected performance (solid line).

Operating Ratio Comparison (Proposal Report, LTFFP, Actual)

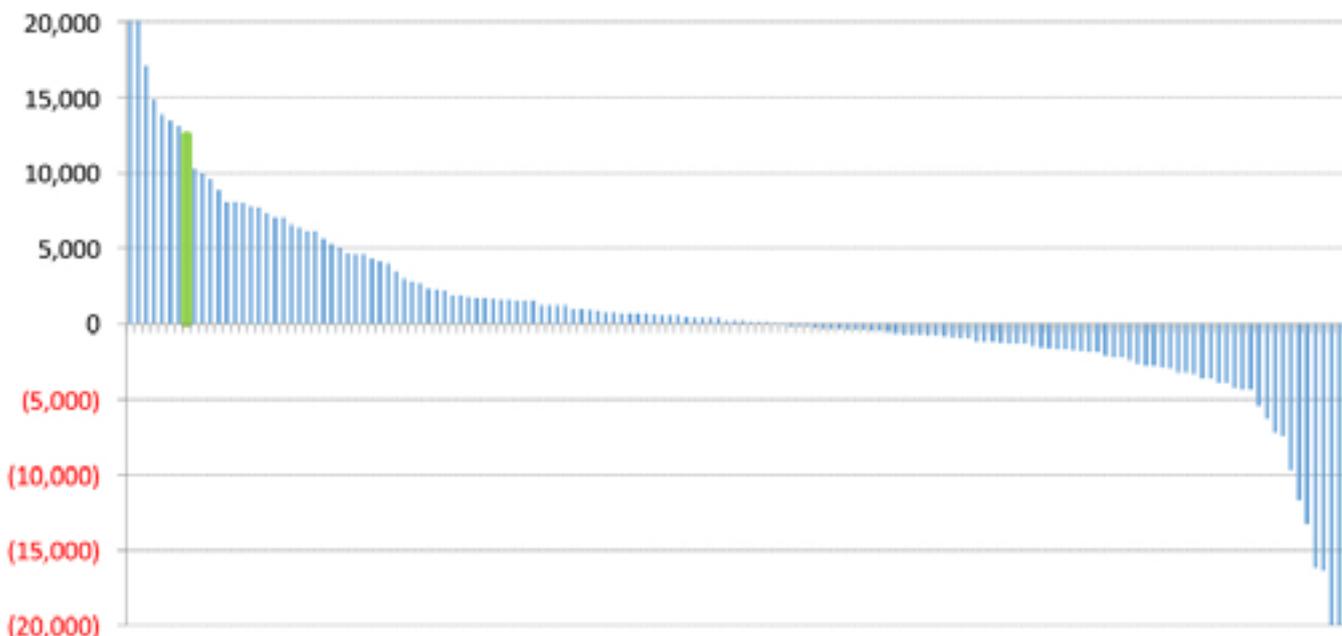


Road to Recovery strategy

The graph below is based on OLG data and reflects the operating performance of the 152 NSW councils (from largest surplus to largest deficit). It confirms that Newcastle City Council now has the strongest operating position among its neighbouring councils in the region.

Newcastle was the eighth strongest performing council in NSW based on this metric.

**Surplus (Deficit) before Capital Income FY15
\$'000**



The 2015/16 budget in context

All NSW councils are required to comply with the regulatory and reporting frameworks and guidelines which apply to local government. The purpose of these frameworks and guidelines are to align council priorities with community expectations and to ensure councils direct resources towards the priorities that have been agreed and established and to measure progress against these goals. These goals have been supplemented or reinforced over the last year under the fit for the future initiative. Councils currently impacted by the proposed merger process need to comply with additional criteria which restricts the capacity to consider new strategic initiatives. Budgetary considerations include the following:

- NCC must work towards the objectives that have been agreed already and endorsed as part of the Delivery Program including the objectives of the 2030 Community Strategy, Corporate Objectives and Budget Principles
- NCC needs to maintain a strong focus on financial sustainability. This is already supported by prior assessments from TCorp, Council's own planning documents (noted above) and has been a key focus area of IPART and the Office of Local Government (OLG) as part of the fit for the future initiative. A number of key metrics are used to measure the current state and future trends.
- Council has successfully sought additional ratepayer funds (2012 and 2015 SRV's).
 - The 2012 Special Rate Variation (SRV) was sought to undertake a capital works program based on community priorities. This has been documented in more detail in prior budget documents however the specific areas of focus are: Hunter Street Revitalisation, Coastal Revitalisation, Cycleways and Blackbutt.
 - The purpose of the 2015 SRV was predominantly to address a funding shortfall which was impacting Council's capacity to fund asset renewal (in particular to address the infrastructure backlog). This was one of the core initiatives reflected in the Budget Principles established in 2012. The 2015 SRV application approved by IPART also included a number of service improvement initiatives. These initiatives include capital works to improve community assets.

The SRV applications approved by IPART include a number of conditions. NCC needs to quarantine funds for the purposes sought, ensure the funds are applied to the agreed purpose and report on progress against the associated projects and initiatives.

- Council's FFTF submission identified further initiatives to achieve financial sustainability. IPART's determination that NCC is deemed financially fit is based on NCC projections and the associated initiatives. As will be noted below Council is progressing well against the metrics IPART used to assess council performance. Some of Council's financial performance is moderately ahead of the trends projected in the LTFP developed as part of the fit for the future submission.
- As noted in the introductory paragraph OLG has issued additional expenditure guidelines which apply during the Merger Proposal process. This places further constraints on Council's operational plan.

How can Council meet these obligations?

Council will meet these obligations by incorporating the following as part of the budget process:

Approach	Rationale / Impact
The Council Balanced Scorecard captures all core objectives	Makes it easier for ratepayers, councillors, management and staff to understand and track progress against the objectives reflected in the 203 Community Strategic Plan, 2013-17 Delivery Program and the Operational Plan
Implement the LTFP to ensure NCC remains deemed financially fit	This reflects considerable progress however the assessment is forward looking (based on Council delivering its plan through to 2020) and therefore any significant deviation from current plans could result in a reassessment.
Reserve funds required for the capital works necessary to address infrastructure in poor condition.	By utilising a combination of current reserves and future operating surpluses will be able to fund work on addressing the infrastructure backlog. The funds will be restricted to reflect Councils obligations to apply these funds to address infrastructure backlog and ensure they are not used for other purposes.
Reserve funds for new / enhanced NCC services and infrastructure identified as part of the 2012 and 2015 SRV's and prioritised based on community feedback.	These initiatives are planned for within the delivery Program and are included in LTFP projections. Reserves for these purposes will continue to be maintained and restricted to these initiatives.
Ensure the council operating plan covers all commitments established as conditions of the 2012 and 2015 SRV determinations	NCC will be held to account by IPART for the delivery of both the service / infrastructure improvements and applying funds generated from the recent SRV towards agreed projects (including the infrastructure backlog).
Tightly control expenditure and ensure all expenditure and staff recruitment and contracts / procurement is in line the adopted budget.	Continue to tightly control expenditure so that council resources can be directed towards community priorities in a financially sustainable manner.
Address resourcing gaps which hinder Council's capacity to more rapidly increase the asset renewal program.	Council has already accelerated the level of capital works over the last two years (50% growth in capital works. Council now needs to undertake the next wave of building resources to support the next significant increase in the scale of the capital works program. The LTFP already reflects this capacity building in future projections. The asset renewal and other SRV priorities remain.

Using the Balanced Scorecard to capture Council Objectives

In prior years the Delivery Program and Operational Plans have captured Council objectives under three separate sections (2030 Community Strategic Plan, Corporate Objectives and Budget Principles). Council is implementing a Balanced Scorecard to capture these objectives in one framework and thereby enable Council and the community to more easily understand the interaction and dependency between Councils objectives.

Council must ensure it has the resources, capabilities and processes in place to deliver services and associated infrastructure to meet community needs and effective financial and environmental management to remain sustainable in the longer term and continue to deliver services that meet community expectations.



Councils Funding Capacity

Current financial projections indicate Council will be able to fully fund the capital works necessary to address infrastructure in poor condition by 2020. This represents significant progress from when the Delivery Program 2013-2017 was first established.

If Council is amalgamated with another council there will be sufficient funds to fully fund the backlog prior to any harmonisation of council rates. Funding from a merger partner would not be required.

This funding will be sourced from a combination of current reserves and future operating surpluses.

We have updated our reserve requirements to cover the full cost of the infrastructure backlog. This approach has been taken to recognise that the backlog must be addressed to meet all Fit for the Future (FFTF) criteria and comply with IPART SRV conditions.

Based on the updated reserves position we currently have a modest deficit in funds to meet future obligations and this will continue to be the case in FY17. This deficit has been substantially reduced from prior years.

The combination of the improved commercial revenues, the organisational restructuring which lowered operating costs, and the 2015 SRV will enable council to achieve modest operating surpluses which will fully close the funding gap by 2020.

Funding projections in the LTFP already reflect the increases necessary in both maintenance and asset renewal to achieve sustainable levels (i.e. to maintain an infrastructure backlog at below 2% once the current backlog has been addressed)

Restricting the funds for this specific purpose is a prudent measure to ensure the funds remain available for the intended purpose.

Now the threat of insolvency has been overcome, we are able to concentrate on we are funding priority projects and services. The current challenge is for Council to have the capacity to plan, design and deliver the projects required and to provide sustainable levels of maintenance.

Capital Works Program implications for the Budget and FFTF

Infrastructure is a core area of focus for all councils and we are no exception. The Office of Local Government (OLG) recognises this and this accounts for why three of the eight FFTF sustainability metrics are infrastructure related. The infrastructure backlog has been reduced significantly and our budget reflects the required levels of infrastructure renewal and maintenance.

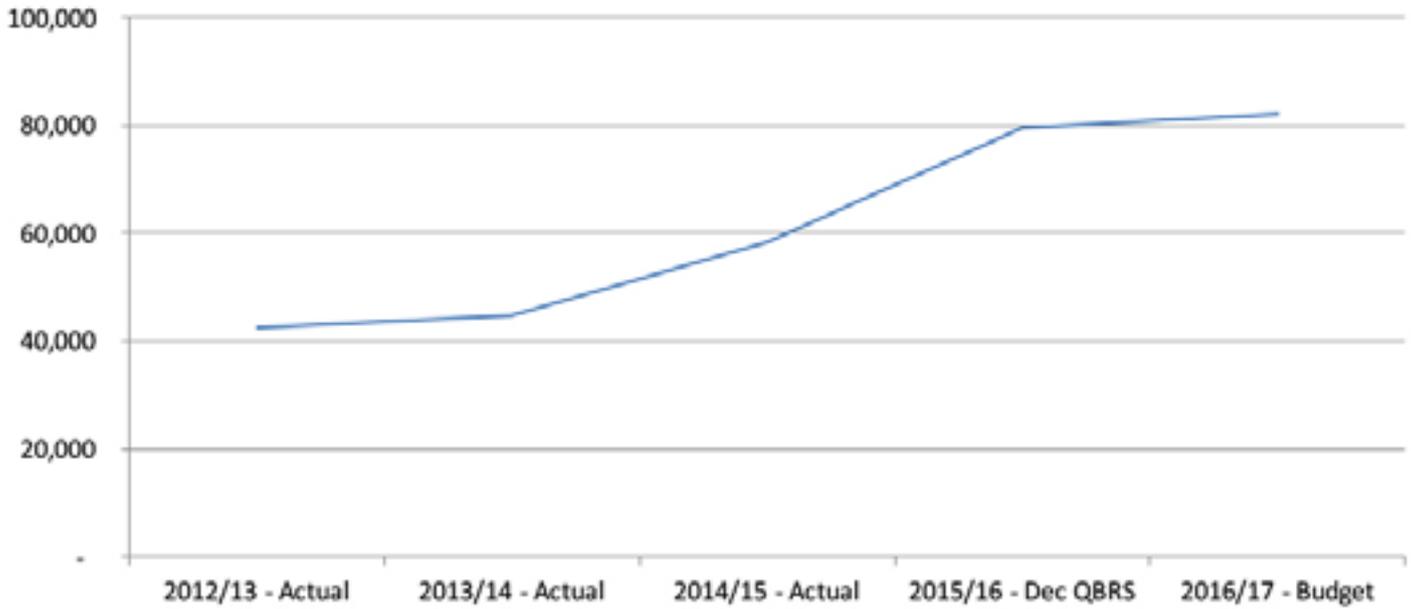
As our funding capacity has increased, it has accelerated the level of capital works. There has been an increase of approximately 50% in capital expenditure from 2012/13 to 2014/15. The graph opposite highlights the recent trend in capital expenditure.

After completion of the increased levels of capital works noted above the infrastructure backlog stands at \$94m (as reported in the Financial Statements for 2014/15). This amount represents only the capital cost of constructing the replacement asset. Other associated operating costs, such as demolition of existing assets which are in poor condition prior to their replacement are also significant. The total funding cost, including these operating costs is likely to be closer to \$130m. This projected cost, along with the costs associated with maintaining our remaining community assets (gross value in excess of \$2 billion) and undertaking the significant program of service and infrastructure improvement (such as Coastal walkways, Hunter Street Revitalisation, Cycleways and Blackbutt) require significant funding and resources (both management and staff).

We will have the necessary funding capacity but we must continue to build the internal delivery capacity required to continue progress on all of the infrastructure metrics.

To achieve this resourcing has been increased in targeted areas to support the increased renewal work, however filling all the necessary positions has been a challenge due to the specialised planning and design skills required. This constraint is being reflected in the FY17 budget (Capex and Opex) as the increase in the annual capital works program is moderated in response to these constraints. Due to these labour market constraints and the design and planning lead times associated with the complexity of brownfield

Capital Works Program (Opex & Capex) \$,000



infrastructure projects, we have recalibrated the short term budget to establish a realistic baseline from which to continue sustainable medium to long term growth in the capital works program . This will result in higher operating surpluses in the next few years which will be offset by more moderate surpluses in later years in the LTFP. The moderation of growth in capital works will result in infrastructure backlog being addressed over a longer timeframe than originally planned.

This is a more effective approach and will deliver a better outcome for the community than the more aggressive approach originally planned. This approach will still result in Council meeting seven of the eight FFTF metrics in 2016/17. The infrastructure backlog will be contained and reach the FFTF target by FY24.

IPART SRV Conditions of Approval & OLG Guidelines during merger proposal period

As noted, Council's budget is constrained by both IPART's SRV conditions and guidelines under the merger process

More specifically, IPART's conditions for the approved special rate variation in 2015 are extracted below. IPART requires NCC to apply the additional funds provided by the SRV in accordance with the terms of approval.

Extract from IPART's determination of Council's 2015 SRV application:

Box 1.2 Conditions attached to Newcastle City Council's approved special variation

IPART's approval of Newcastle City Council's application for a special variation over the period from 2015-16 to 2019-20 is subject to the following conditions:

- The council uses the additional income from the special variation to improve its financial sustainability and fund the program of expenditure outlined in its application and listed in Appendix A.
- The council reports in its annual report for each year from 2015-2016 to 2024-25 on:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix B
 - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and any corrective action taken or to be taken to address any such variation
 - expenditure consistent with the council's application and listed in Appendix A. and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.
- The council reports in its financial statements (currently in Special Schedule 9) each year from 2015-16 to 2024-25 on its compliance with the special variation and these conditions.

Relevant sections of the OLG guidelines on Council Decision Making During Merger Proposal Period have also been extracted and included below. There is clear direction that each council impacted by the merger proposal process should continue delivering to the plans already in place and not deviate from these plans unless they are inconsistent with the needs of the proposed new council.

INTEGRATED PLANNING AND REPORTING

During a merger proposal period, councils should continue to implement and operate in accordance with their adopted Community Strategic Plan, Delivery Program, Operation Plan and Resourcing Strategy.

Annual reporting requirements continue in accordance with the Act, and a report on the progress on implementation of the Community Strategic Plan should be presented at the final meeting of each of the outgoing councils.

Preparation of Operational Plans

Should councils prepare Operational Plans during a merger proposal period, these should be prepared as sub-plan of the council's adopted Delivery Program and should not depart from the council's adopted Delivery Program.

The Operational Plan should directly address the actions outlined in the council's adopted Delivery Program and identify projects, programs or activities that the council will undertake within the financial year towards addressing these actions.

The Operational Plan should include a detailed budget for the activities to be undertaken in that year.

Council's 2016/17 budget has taken into account these requirements from IPART and the OLG to ensure that we will comply with their respective requirements.

The Delivery Program: Road to Recovery

NCC has been reporting annually on the Road to Recovery initiatives since 2013. During this period Council has been able to achieve a dramatic turnaround in its financial position. This will be reinforced with the 2016/17 budget which projects a moderate operating surplus. In summary the key factors have been:

- (1) growth in commercial revenues,
- (2) tight control over operating costs (included an organisational restructure) with limited reductions in certain services (this has been one of the most significant factors in the turnaround),
- (3) the sale of non-core assets particularly where they contributed to the infrastructure backlog,
- (4) disciplined expenditure on capital works; and
- (5) the final piece in the financial sustainability jigsaw – a special rate variation to cover the remaining funding shortfall.

This first phase focused primarily on improving our operating position and constraining capital expenditure to immediately address TCorp's assessment of our potential insolvency by 2017 unless decisive corrective action was taken.

The impact of these initiatives is already apparent in the current 2013-2017 Delivery Program. The 2017/18 financial year forecast has also been included below to demonstrate the improving trend in operating performance is enduring.

In 2012/13 Council incurred an operating deficit of \$13.4m. A significant factor in this deficit was the scale of operating expenses (\$230.9m) of which Employee Costs were a significant component. Employee costs were reduced significantly from \$94.7m in 2012/13 to \$87.2m in 2013/14 via the organisational restructure. This was approximately a 10% reduction in real terms. Operating expenditure has also been contained since and this has been a key factor in Council becoming financially sustainable.

	2013/14 Actual \$'000	2014/15 Actual \$'000	2015/16 December Quarterly Review \$'000	2016/17 Adopted Budget \$'000	2017/18 Long Term Financial Plan \$'000
Operating Revenue					
Rates & charges	124,781	128,031	137,126	144,941	155,333
User charges & fees	61,542	65,822	62,588	66,809	69,904
Interest	10,117	10,259	9,107	8,340	8,632
Other operating revenues	12,846	10,666	10,616	8,673	10,787
Grants & contributions - Operating	14,305	20,101	16,773	17,731	18,047
Net Gain from disposal of assets	235				
Total Operating Revenue	223,591	234,879	236,210	246,494	262,703
Operating Expenses					
Employee costs	87,229	87,308	90,936	95,220	96,772
Borrowing costs	4,450	4,254	4,074	3,901	3,697
Materials & contracts	41,575	46,411	53,113	58,119	59,345
Depreciation & amortisation	42,653	41,136	39,517	40,776	43,209
Other operating expenses	44,047	42,011	43,401	41,214	41,871
Net Loss from disposal of assets		1,362	2,309	1,846	1,748
Total Operating Expenses	219,954	222,482	233,350	241,076	246,642
Total Operating Revenue Less Operating Expenditure	3,872	12,397	2,860	5,418	16,061

Council's original projected capital expenditure plans for the 2013-2017 Delivery program are not reflected in any of the budgets. The original plan was curtailed in recognition that Council did not have the capacity to fund the program and that undertaking significant borrowings without the capacity to repay would not be prudent. However, as noted above, Council has significantly increased the actual expenditure on capital works. This increased expenditure has however been carefully targeted to the areas required to enable Council to meet key sustainability metrics.

The table below reflects how Council's available funds continued to increase year-on-year with the exception of 2016/17. These funds are required to address the

infrastructure backlog. The primary reason for this budgeted anomaly is the significant drop in asset sales anticipated for next year, as the elected Council withdrew a number of properties from the sales program.

Council is now in a strong financial position and is sustainable. It has a strong balance sheet with net assets of \$1.5 billion reflecting the roads, pathways, drainage and built infrastructure required to meet the needs of the community.

Council is projecting a surplus of 3% of revenue for FY17. This is consistent with the Budget Principles. A sustainable modest surplus, as is now being achieved, remains Council's objective.

	2013/14 Actual \$'000	2014/15 Actual \$'000	2015/16 December Quarterly Review \$'000	2016/17 Adopted Budget \$'000	2017/18 Long Term Financial Plan \$'000
Capital Revenues					
Grants & contributions - Capital	18,000	24,058	25,921	11,821	13,817
Proceeds from the sale of Assets	8,275	15,126	16,500	2,500	7,097
Total Capital Raising revenue	26,275	39,184	42,421	14,321	20,914
Net Surplus/(deficit) after capital revenue	30,147	51,581	45,281	19,739	36,975
Adjustments for Non Cash Items					
Add back Depreciation	42,653	41,136	39,517	40,776	43,209
Add back loss on Disposal	(235)	1,362	2,309	1,846	3,709
Less land & infrastructure donations	8,150	12,926	13,057	1,528	1,786
Funding available for capital expenditure	64,415	81,153	74,050	60,833	82,107
Capital Expenses					
Asset Renewal	19,586	21,930	28,000	28,688	29,041
2012 SRV - Priority Projects	3,853	10,055	7,042	7,410	9,333
New / Upgrade	5,261	5,910	9,502	16,739	20,788
Non-Infrastructure Projects	10,213	11,471	18,446	11,515	10,520
Total capital spend	38,913	49,366	62,990	64,352	69,682
Less Net Loans Borrowings/(Repayments)	7,085	2,596	2,600	2,600	3,358
Net Funds Generated / (Used)	18,417	29,191	8,460	(6,119)	9,067

The Impact of a Possible Merger with Port Stephens

If the proposed merger with Port Stephens does proceed the newly formed Council's combined financial position will need to be fully reassessed. NCC is in a robust financial position and due to NCC's scale should remain financially sustainable whether or not a merger takes place.

There is however some uncertainty regarding the full financial impact of a merger. There has been no detailed due diligence undertaken to assess the comparative financial health of the two councils.

In addition both NCC and PSC have identified there will be significant cost associated with a merger (estimated by NCC as approximately \$35m). There is a strong likelihood that a merger will require significant commitment of both funds and resources over an extended period of time. The impact of the proposed merger has not been included in the budget or the LTFP.

Consistent with the OLG guidelines NCC has completed its 2016/17 budget and LTFP as a standalone council. If the merger does proceed the new council will need to complete all the required IP&R documents as a new council. It is expected that further guidance on this process will be issued by the OLG if a merger is proclaimed.

Conclusion

Council has adhered to the Budget Principles detailed in the original 2013-17 Delivery Program developed in 2013. Where possible it has undertaken all the initiatives outlined in that document including an organisational restructure, various efficiency initiatives and an SRV and is now in a strong funding position. Its recent operational performance has also been strong. As a consequence Council is confident it will be able to fund all asset renewal work including addressing the infrastructure backlog.

Council has reassessed the way in which it plans and manages its multi-year capital works programs to ensure that this work is completed in a cost effective and efficient manner. As a result of this Council has recalibrated its budget and moderated its capital works program while it builds internal program delivery capacity. There is a multi-year plan in place to continue to increase the program and develop the capabilities necessary to increase the capital works program in future years to ensure the infrastructure is effectively addressed. Council has the funding capacity to support these necessary resourcing increases to ensure the infrastructure backlog is addressed.

Despite some challenges in delivering the capital works program at the level originally forecast Council is progressing well on the Road to Recovery and its overall financial position is substantially better than the prognosis only a few years ago.

SPECIAL RATE VARIATION

2012 Special Rate Variation

In 2012, we successfully applied for a section 508(2) special rate variation (2012 SRV) of 5% above the rate cap for one year. The variation occurred in the 2012/13 financial year increasing the base rate charge. The variation was granted for works of a capital nature for specific projects, these are outlined below.

The 2012 SRV has raised \$19 million in funds towards these special projects, with Council spending \$25 million since July 2012.

Special Projects

These priorities are set according to the level of community support as follows:

- 1. Revitalising Hunter Street**
- 2. Revitalising our coast**
- 3. Upgrading Blackbutt Reserve**
- 4. Providing new cycleways**
- 5. Improving our swimming pools**
- 6. Modernising our libraries**
- 7. Expanding parking meters**
(Note: Council resolved not to expand the parking meter network.)
- 8. Off-street parking stations**
(Note: in 2012 Council sold two of three parking stations.)
- 9. Expanding our Art Gallery**

First four priority projects

Based on funding constraints, the NSW Government was advised of Council's decision to concentrate on the top four priority projects.

- 1. Hunter Street Revitalisation**
- 2. Coastal Revitalisation**
- 3. Blackbutt Reserve**
- 4. Cycleways**

2015 Special Rate Variation

Road to Recovery

The 'Road to Recovery' SRV was approved by IPART in May 2015 and will increase Council's revenue by 46.9% (inclusive of rate rise) over the five years to 2019/20 (an annual increase of between \$8.5 million and \$11.7 million over the five years).

The revenue provided by the section 508A Special Rate Variation (2015 SRV) has been critical to ensure Council achieves financial sustainability. It will also allow Council to accelerate the completion of our four priority projects as well as make substantial reductions to our infrastructure backlog.

2015/16 is Council's first year of the 2015 SRV and the funds have and will continue to be allocated to:

- Additional expenditure on Asset Renewal to help reduce the back log
- Replacement of bus shelters
- Lower fees for Beresfield Pool
- Commencement of the online DA tracking system
- Expanding the community engagement program
- Increase bush generations work
- Schedule more pedestrian and local traffic improvements
- Increase road maintenance, mowing and concrete footpath repair
- Increase weekend maintenance/clean up call out service.

FOUR YEAR FINANCIAL PLAN

The Delivery Program 2013-2017 was proposed at the start of the current Council's four-year term. It was prepared in response to a number of reports, outlined below, which highlighted Council's dire financial position at that time. The Newcastle Report - Issues of Sustainability (Percy Allan 2007) also highlighted the weak financial position of Council.

Integrated Strategic Financial Analysis (ISFA)

- Extensive coverage of adverse financial position and asset backlog
- Highlighted both systemic issues in NSW and factors unique to Newcastle City Council
- Broad range of actions recommended including significant capital works.

Report of the Financial Advisory Panel (FAP)

- Noted a significant capital works program was not viable due to weak financial position
- Recommended against funding new capital works via debt.

Long Term Financial Plan (LTFP)

- Modelled financial projections - based on ISFA and economic assumptions
- Identified specific actions such as areas of cost reductions, asset sales (reducing backlog) and revenue actions (including multi-year SRV) to achieve a sustainable outcome
- Scenarios demonstrated the need for a broad based response as the only sustainable outcome.

Financial Sustainability

FiscalStar in a 2009 Local Government Review defined sustainability as: *"Maintaining an investment grade credit rating through achieving three primary goals:*

1. *A minimum 2.5% budget surplus ratio, so that future ratepayers are not left with excessive share of the cost of capital*
2. *A maximum 60% Net debt and other financial liabilities to total operating revenue, and*
3. *A maximum 2% unsatisfactory infrastructure, unsafe or unsightly".*

Secondary goals were:

4. More revenue through own sources than through Government grants
5. Keeping operating expenditure growth less than revenue growth making extra infrastructure renewal monies available for backlog
6. Having a modest physical asset base
7. Keeping rates to no more than between 1 and 1.66 times CPI each year and unsustainable was more than two times or more than the CPI.

High Level Assessment

- A 2.5% budget surplus ratio would require Council to have an operating surplus of approximately \$5.5 million to \$6 million (based on a \$215 million revenue base)
- Asset backlog (as a proxy for this unsatisfactory infrastructure) would need to be approximately \$18 million (based on ISFA) to meet the 2% target
- Wages cost would need to increase less than CPI if revenue (per rate cap) remained constrained below CPI. Australian labour cost indices are usually a significant increment above CPI
- Newcastle City Council has gross assets of approximately \$2 billion and net assets of approximately \$1.6 billion. A significant asset base
- Implication is rate increases based on guidelines indicate sustainable increases are in the range of 2.8% to 4.7% (assuming CPI of 2.8%*) and rates increases above 5.6% per annum would not be sustainable in the longer term.

Four year financials

	2013/14 Actual \$,000	2014/15 Actual \$,000	2015/16 Dec Quarterly Budget Review \$,000	2016/17 Adopted Budget	2017/18 LTFP \$,000
Operating Revenue					
Rates & charges	124,781	128,031	137,126	144,941	155,333
User charges & fees	61,542	65,822	62,588	66,809	69,904
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Adjustments for Non Cash Items					
Adjustments for Non Cash Items					0
Add back Depreciation	42,653	41,136	39,517	40,776	43,209
Add back loss on Disposal	(235)	1,362	2,309	1,846	3,709
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Net Loans Borrowings/ (Repayments)	(7,085)	(2,596)	(2,600)	(2,600)	(3,358)
Net Funds Generated / (Used)	18,417	29,191	8,460	(6,119)	9,067



RESOURCING THE DELIVERY PROGRAM

Newcastle City Council has 931 Equivalent Full-time Employees (EFT) and is responsible for providing services and facilities to more than 148,531 people in our LGA. Sound resource planning is required to ensure Council is able to efficiently deliver services and facilities.

This includes a suitably experienced and qualified workforce (within financial constraints) to deliver on both community expectations for customer-focused services and the community's vision for a smart, liveable sustainable city.

To resource the **Newcastle 2030 Community Strategic Plan** and the **Delivery Program 2013-2017 (including the 2016/17 Operational Plan)**, Council maintains three resourcing strategies:

- **Long Term Financial Plan**
- **Workforce Management Plan**
- **Asset Management Strategy.**





Aquatic Services
The City of Newcastle provides frequent services and maintains a range of facilities.
• Newcastle Aquatic Centre, Newcastle Beach, Newcastle Boat Shed, Newcastle Boat Shed and Newcastle Boat Shed
• Newcastle Aquatic Centre, Newcastle Beach, Newcastle Boat Shed, Newcastle Boat Shed and Newcastle Boat Shed
• Newcastle Aquatic Centre, Newcastle Beach, Newcastle Boat Shed, Newcastle Boat Shed and Newcastle Boat Shed

Waste and Recycling
Improved range and efficiency of waste and recycling services.
Council is proud to offer our residents:
• 24-hour 24/7 bin collection
• 24-hour 24/7 bin collection
• 24-hour 24/7 bin collection

Safety in Newcastle
Strategies to address the issues of safety prevention in our community.

Complete
Encouraging responsible pet ownership.
Things to consider:
• Identify your dog
• register your cat
• keep your dog in
• consider desexing
• always keep your
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NSW Council was awarded
Plan of the Year Award
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LONG TERM FINANCIAL PLAN

Council has, as per requirements of the local government Integrated Planning and Reporting Framework (IP&R), Revised the Long Term Financial Plan (LTFP) and updated the Delivery Program for 2013-2017. The LTFP is a key input into the Delivery Program. Prior projections undertaken in early versions of the LTFP highlighted the dire financial position of the Council if no remedial action was taken.

As reflected in the latest LTFP Council continues to make significant progress in turning around council's financial position. The LTFP has been updated as part of the 2016/17 budget process and includes the impact of any changes arising from the 2016/17 Operating Plan and the impact of the Fit for the Future (FFTF) Improvement Plan across all years of the LTFP.

Council has been performing strongly as a result of the "Road to Recovery" initiatives and this is bearing results which justify Council being deemed by IPART to be financially fit for the future.

Operating Surplus

As can be seen from the graph on the right Council is performing substantially better than projections from just a few years ago would indicate. The FY17 budget reflects a stronger operating performance than the FFTF submission until FY20 and which then moderates from FY22. The reasons for this are predominantly the timing of the asset renewal expenditure.

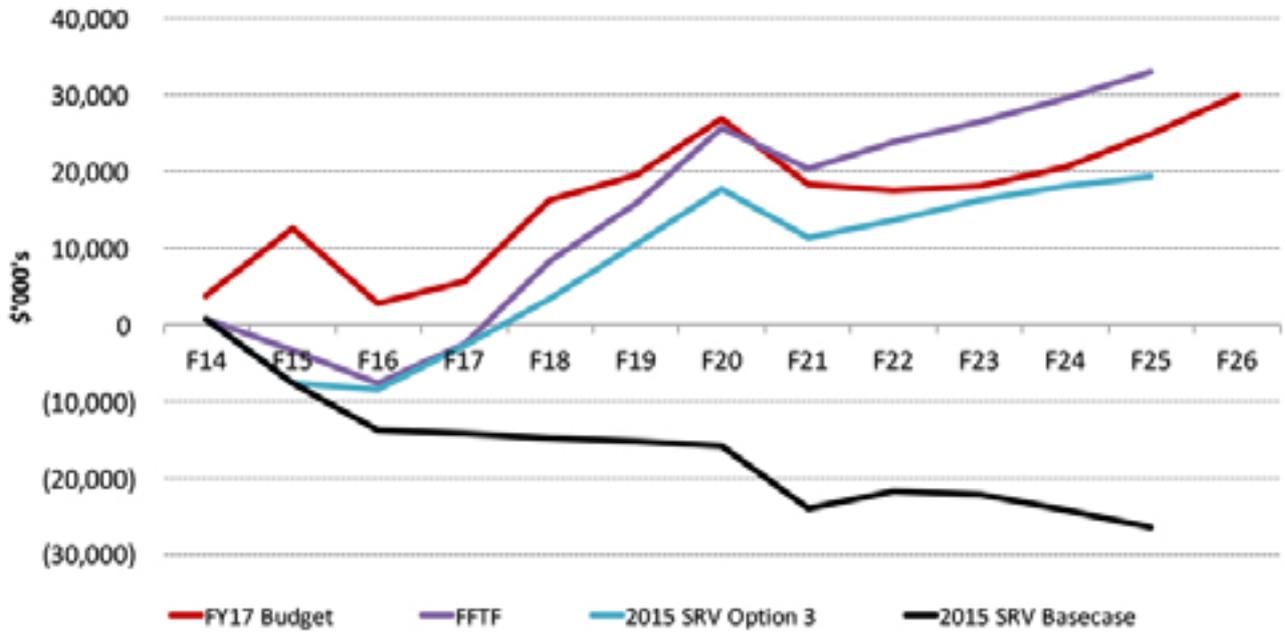
Irrespective of the timing differences both the FY17 and FFTF reflect Council maintaining a healthy operating position into the future. The Operating Surplus is within recommended parameters as a percentage of Total Operating Expenses.

Asset Renewal

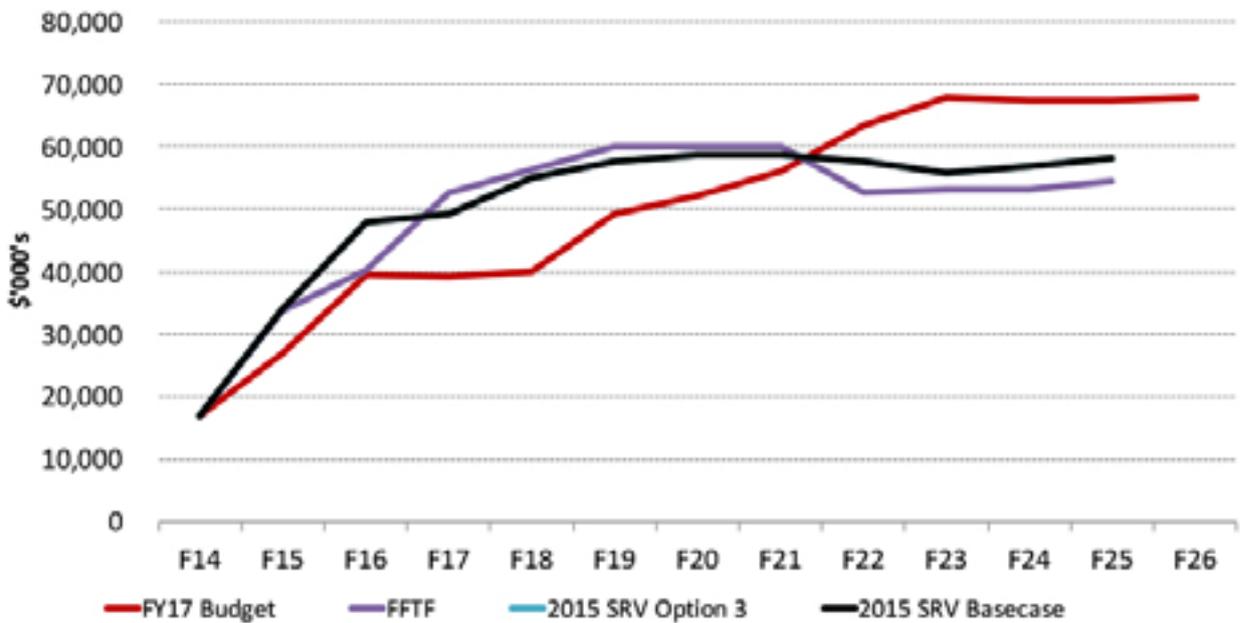
The graph on the right highlights the impact of a more staged approach of increasing asset renewal under the FY17 budget. The increases for FY17 scenario are still significant and enable Council to build resources internally which will be a more cost effective and efficient approach. The higher expenditure from FY23 to FY26 compensates for the relatively lower expenditure from FY17 to FY21 compared to the previously forecast FFTF scenario.

Once the infrastructure backlog has been reduced to below 2% the level of expenditure can be reduced to levels which will maintain Council assets at levels which maintain the infrastructure backlog at sustainable levels. This would result in the FY17 expenditure reducing to levels similar to that for the FFTF scenario from FY27.

Operating Surplus (Deficit)



Asset Renewal (Capex & Opex)



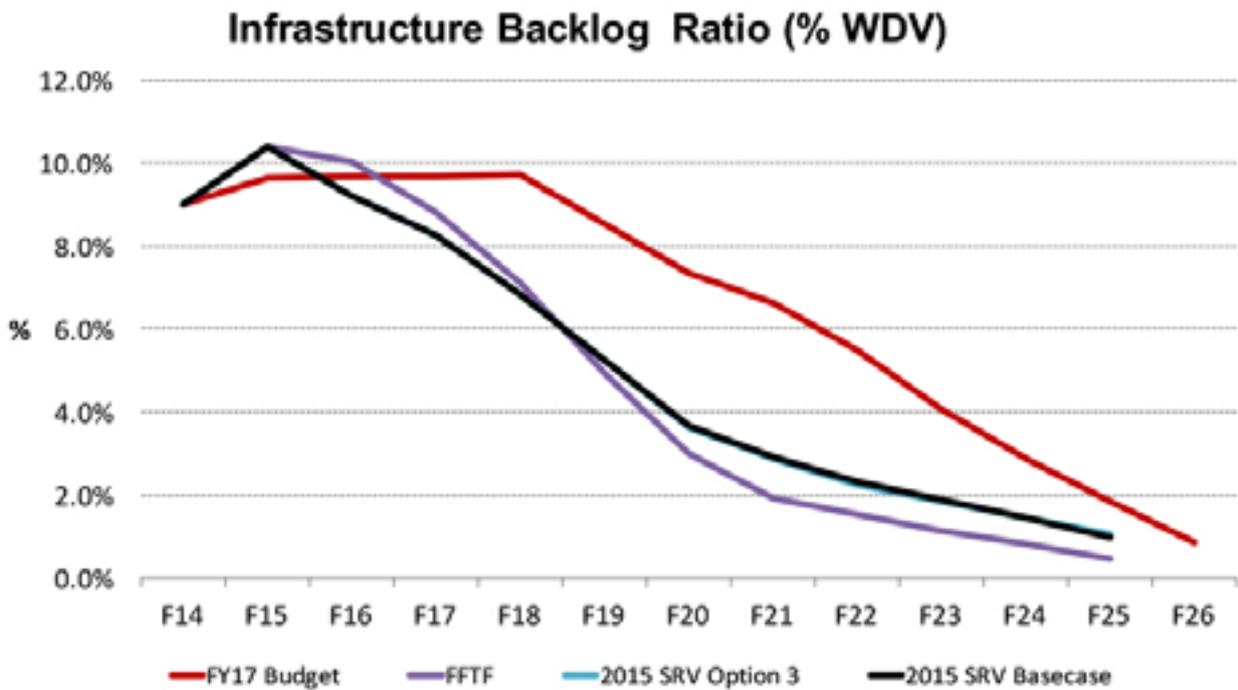
Infrastructure Backlog

Accurately forecasting the value of the infrastructure backlog is difficult. Often protracted levels of under expenditure will ultimately result in certain assets having a condition which is not deemed to be of a satisfactory standard in the future (i.e. they will contribute to the backlog).

Council's LTFP recognises any under expenditure on maintenance and renewal as an immediate impact on the infrastructure backlog. This assists council in ensuring that under expenditure is not masked (and possibly ignored until it is more difficult and expensive to address). It is therefore possible that the actual

Infrastructure Backlog becomes larger despite above trend expenditure on asset maintenance and renewal or the reverse occurs where under expenditure does not result in an immediate increase in the actual infrastructure backlog.

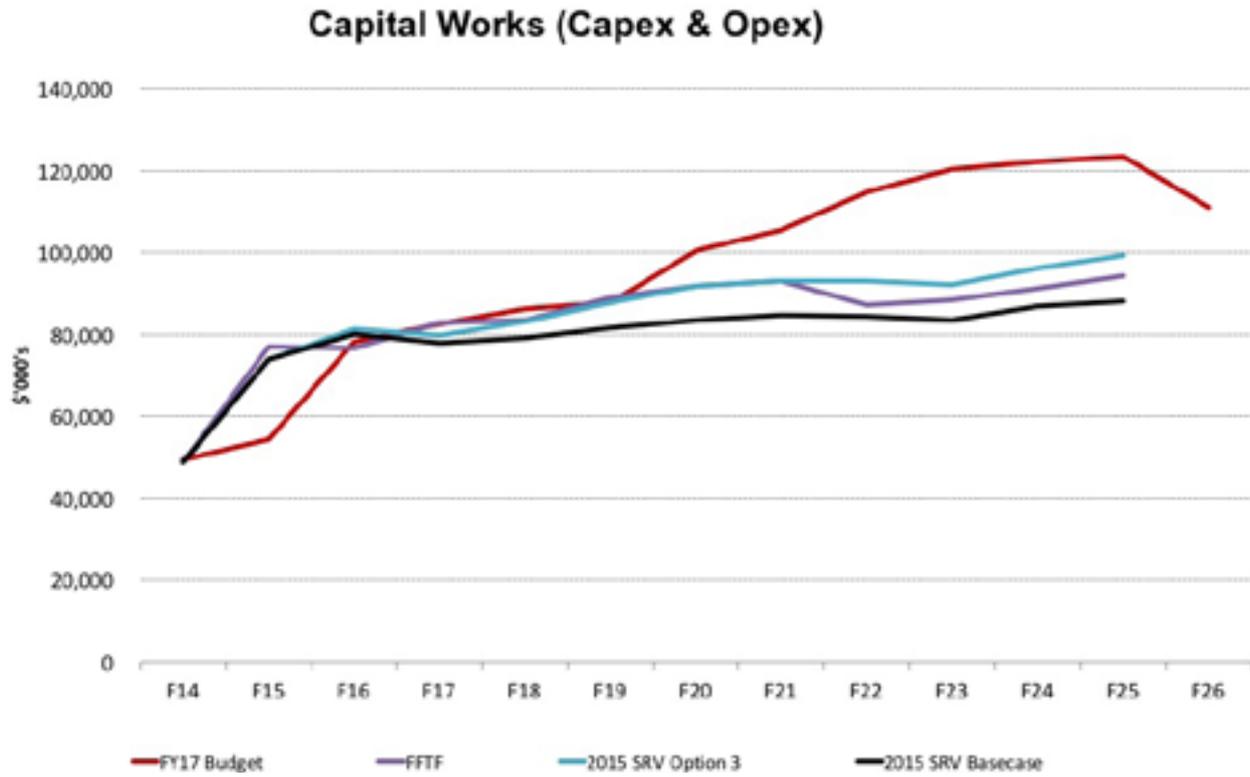
Asset Renewal expenditure will be maintained at sustainable levels under the FY17 LTFP and then as the asset renewal program accelerates the backlog will diminish significantly year-on-year. As a consequence of not having the same scale of increase in asset renewal expenditure it will take longer to achieve the 2% target. However in line with FFTF guidelines there will be a clear trend reduction in the infrastructure backlog based on LTFP projections.



The Capital Works Program

As a result of asset renewal expenditure being stepped up over the term of the FY17 LTFP the capital works

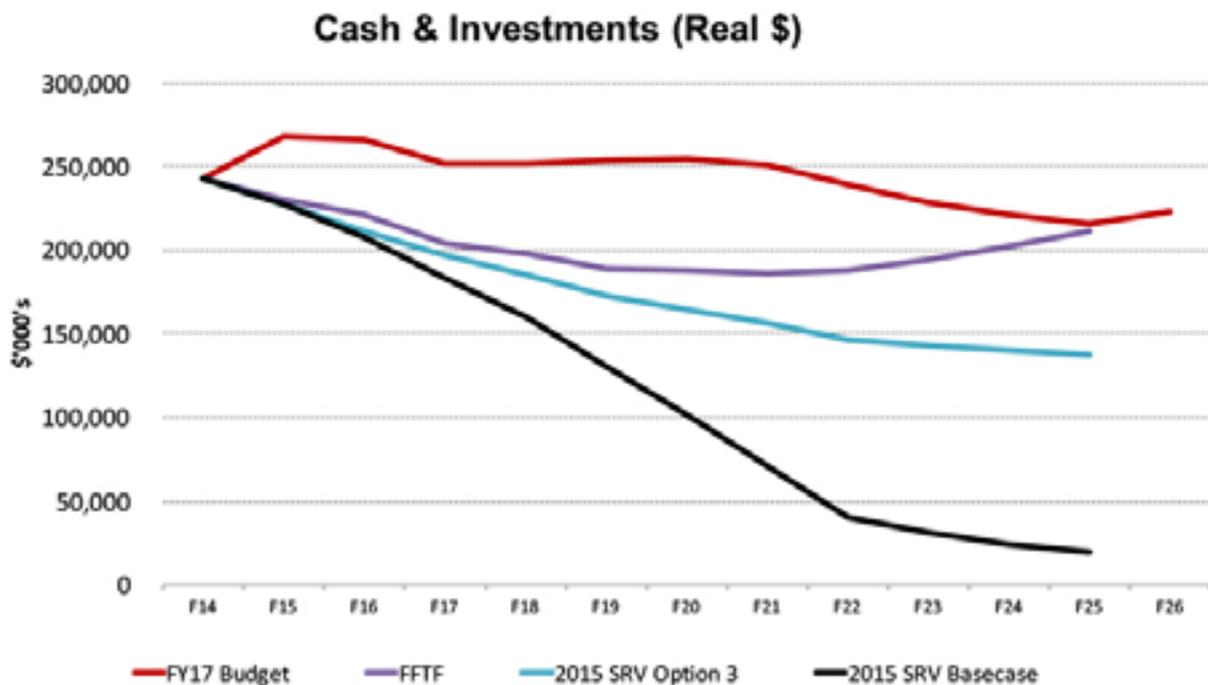
expenditure in the second half of the plan reflects a significant increase compared to previous forecasts.



Cash and Investments

The current cash & investments position (FY16) reflects lower current levels of capital expenditure than previously forecast and the earlier realisation of funds from asset sales than originally planned. The ongoing increase in funds under the FY17 LTFP (until FY21), prior to adjustment for inflation, reflects the more moderate increase in expenditure on asset renewal in the current forecasts. However the growth in the asset renewal program from FY21 under the FY17 LTFP results in cash and investments dropping slightly till FY25.

The graph below reflects the Cash & Investments Position in terms of Real dollars (i.e. adjusted for inflation at an assumed rate of 2.5%). Based on this graph councils Cash and Investments are largely maintained in real terms (without a significant increase or decrease).



LTFP in Conclusion

The budget developed for FY17 has generally maintained the themes presented in both the 2015 SRV application and Councils FFTF submission. The primary difference is that the growth in expenditure on Asset Renewal is moderated and spread over a longer period. This results in Council's FY17 LTFP having higher operating surpluses in the early years. This situation is reversed in the second half of the LTFP when Asset Renewal expenditure increases.

The funds will be held in restricted reserves and used specifically to address asset renewal work ensuring that IPART approval conditions are met and that the funds are applied to the purpose for which they were intended. The infrastructure backlog will as a consequence take a few years longer to address than originally planned.



WORKFORCE MANAGEMENT

Workforce Management Plan

The aim of the Workforce Management Plan is to ensure Council has planned its workforce for the foreseeable future (next four years), and is able to meet the objectives of the Newcastle 2030 Community Strategic Plan (CSP) which documents the community's aspirations. While the initial focus of this Workforce Management Plan is on the next four years; it is important to note that workforce planning is a continuous process of matching workforce requirements to organisational objectives in delivering the CSP, as well as analysing and forecasting the human resource implications when undertaking particular operational or strategic activities. In developing and maintaining the Workforce Management Plan consideration has been given to both internal and external factors that may affect Council's ability to meet its current and future workforce needs. These factors include an ageing population, identified skills shortages, past recruiting experience, Council's financial position and also the expectations of the community.

The key strategies are outlined below.

Key strategies

- **Attracting and retaining talent**

Having people with the right skills, knowledge and behaviours to ensure delivery of our strategic and operational programs.

- **Investing in the capabilities of our people**

Developing the required capabilities of our people to ensure they can contribute at a high level of performance.

- **Planning for our future workforce needs**

Implementing workforce planning processes that identify future workforce needs and put strategies in place to address them.

- **Facilitating a culture of cooperation, respect and wellbeing**

Building a workplace culture that ensures that all employees act in accordance with our values at all times.

Equivalent Full Time (EFT) staff numbers

In 2013/14 an organisational restructure was undertaken which resulted in staff reductions of 97.47 EFT's delivered over a 12 month period. This included both staff and management and was effectively a 10% reduction in the workforce. As outlined in the table below this organisational restructuring delivered a larger reduction in staff numbers than was anticipated in the Delivery Program 2013-2017 and achieved this result 12 months ahead of schedule.

The cost savings achieved by the restructure have been sustained and have resulted in significant ongoing financial benefits to the organisation.

Directorate	EFT 2015	% EFT	EFT 2016	Business Units
Executive Management	20.8	0.3%	3	ICEO Office Lord Mayors Office
Corporate Services	142.1	17.6%	163.3	Finance Information Technology Commercial Property Communications and Engagement Human Resources Customer Service Legal and Governance
Planning and Regulatory	213.06	23.0%	214.46	Development and Building Regulatory Services Libraries Strategic Planning Cultural Facilities
Infrastructure	543.67	59.1%	550.27	Civil Works Infrastructure Planning Facilities and Recreation Projects and Contracts Waste Management
Total	919.63	100%	931.03	

ASSET MANAGEMENT

Asset Management Policy

The Asset Management Policy applies to all Newcastle City Council owned and managed assets. It provides a framework and understanding of management principles with regard to sustainably managing assets to meet agreed levels of community service expectations. The policy sets out the purpose of asset management and identifies a number of principles applied to asset management for Council. These include:

- Managing assets proactively from a lowest whole-of-life cost perspective in accordance with industry practice whilst meeting agreed levels of service;
- Using suitable performance indicators linking customer service standards to costs of service provision for more informed decision-making;
- Measuring and monitoring asset performance to drive continuous improvement;
- Utilising innovative and cost effective processes and technologies to enhance operational efficiency, asset performance and reliability;
- Undertaking a risk management approach to asset management across the entire life of the asset;
- Ensuring social, economic, cultural and environmental evaluations are integrated into asset management processes;
- Appropriately resource, document and maintain systems and processes;
- Ensuring employee and contractor awareness and accountability for asset management responsibilities; and
- Managing assets in accordance with State and Federal legislative requirements and relevant standards

The Asset Management Policy supports Council's Asset Management Strategy which establishes Council's asset management objectives. This strategy sets out how Council aims to achieve its objectives and provides direction for asset management activities contained within Asset Management Plans and Council's work programs.

Snapshot of current asset profile

Council currently manages an asset portfolio of \$1.6 billion, delivering services across eight asset classes.

Buildings and Structures

68 Council operational buildings	26 Community halls and facilities
64 Toilet blocks	8 Commercial buildings
236 Sporting facilities	21 Accommodation facilities eg. aged care
41 Cultural buildings/libraries	20 Community facilities
23 Council structures i.e. wharves	81 Bus shelters
	1 Parking station

Stormwater Drainage

18,862 Pits	16 km Culverts
423 km Pipes	237 Stormwater quality improvement devices

Library Collection

369,300 General collection	46,438 Local studies collection
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Art Gallery Collection

6,100 Objects in the permanent collection	94 Objects in the study collection
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Museum Collection

10,124 Accessioned collections	38 Inward loan objects
8,123 Non-accessioned collections	526 Intangible heritage collections

Transport

264 Bridges	4 Underpasses
• 29 Major bridges	3 Weighbridges
• 19 Minor bridges	124 Transport shelters
• 35 Major culverts	913km Footpaths (including 59km of shared path)
• 98 Minor culverts	1,246 km Kerb and gutter
• 1 Tunnel	810 km roads

Key issues - Infrastructure backlog

The infrastructure backlog has been reduced from \$117 million (Special Schedule 7 of the 2011/12 financial statements) to \$94 million (Special Schedule 7 of the 2014/15 financial statements). This is a significant reduction in the asset backlog. The IPART approved rate increases will fund further reductions in the backlog in future years.

Key strategies

To improve our asset management we have developed the below key strategies that will form a four year action plan.

- The development and implementation of a corporate asset management system for all asset classes
- The development and implementation of a single source of truth asset management register, enabled by the OneCouncil enterprise solution
- Define existing levels of service in consultation with the community
- Undertake condition based programmed inspections
- Develop a four year rolling program for capital works.

Asset Class	Predicted	Maintenance	Renewal	Total
Art Gallery	Lifecycle	\$25,000	\$162,600	\$187,000
	1 year	\$25,000	\$162,000	\$187,000
Buildings and Structures	Lifecycle	\$5,461,000	\$4,416,000	\$9,877,000
	10 Year	\$5,461,000	\$1,883,000	\$7,344,000
	1 year	\$3,182,000	\$7,248,000	\$10,430,000
Library collection	Lifecycle	\$1,260,000	\$1,300,000	\$2,560,000
	1 year	\$1,260,000	\$1,100,000	\$2,360,000
Museum Collection	Lifecycle	\$20,000	\$26,000	\$46,000
	1 year	\$25,000	\$21,000	\$46,000
Natural Assets	Lifecycle	\$2,105,000	\$4,386,000	\$6,491,000
	10 Year	\$2,105,000	\$4,943,000	\$7,048,000
	1 year	\$2,096,000	\$1,795,000	\$3,891,000
Parks and Recreation	Lifecycle	\$8,837,000	\$3,626,000	\$12,463,000
	10 Year	\$8,837,000	\$6,783,000	\$15,620,000
Stormwater Drainage	Lifecycle	\$925,000	\$3,837,000	\$4,762,000
	10 Year	\$925,000	\$3,148,000	\$4,073,000
	1 year	\$461,000	\$1,126,000	\$1,587,000
Transport	Lifecycle	\$8,808,000	\$22,551,000	\$31,359,000
	10 Year	\$8,808,000	\$19,334,000	\$28,142,000
	1 year	\$7,890,000	\$6,453,000	\$14,343,000

Note: The above table represents average trends based on historical actual expenditure.



