



**REPORT ON PROPOSED SPECIAL
RATES VARIATION**

For Coffs Harbour City Council

REPORT ON PROPOSED SPECIAL RATES VARIATION

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15003 Coffs Harbour City Council SRV/Report

EXECUTIVE SUMMARY

Coffs Harbour City Council seeks to build a sustainable future for rate payers. In order to address the sustainability challenge, the Council is considering securing its rates revenue by increasing rates across residential, farmland and business categories through a special rates variation (SRV)¹.

Under the proposed SRV, Coffs Harbour City Council considers increasing ordinary rates by:

- 8.14% in 2015/16; and
- 7.75% in 2016/17.

It should be noted that the proposed annual rate increase for the year 2015/16 is 8.14% which includes a determined rate peg of 2.4%.² For the year 2016/17 Coffs Harbour City Council estimates an increase of 7.75% which includes a forecasted peg rate of 3%.³

The Western Research Institute (WRI) was engaged to assess the impact of the implementation of the proposed rate increases. As part of this impact assessment, WRI considered the following questions:

- Is the proposed rates increase comparable to other price and cost increases in Coffs Harbour City LGA?
- What is the impact of the proposed rates increase on household expenditure and business viability?
- What is the impact of the proposed rates increase on Coffs Harbour City LGA's ranking relative to its peers in terms of personal income and socio-economic indicators?

Summary

The analysis of the proposed rate increase on Coffs Harbour City households indicates that the reasonableness test is only partially satisfied. The following results were found:

- The increase is below assumed changes for education, childcare and gas cost categories. However, the rate increase exceeds all other forecasted changes in all other cost categories. The proposed rate increase under the SRV only partially satisfies the reasonableness test as the SRV will achieve some form of "catch up" with only 2 out of 19 categories (gas and education). However, when examining the impact on price changes over the past 5 years the picture is more favourable, with the planned SRV going some way to "catching up" with experienced and forecast changes for 8 out of 19 cost categories.
- Rates as a proportion of household expenditure are considered significant as the change is greater than 1%. However, households across all classification categories will be able to pay their rates without unduly compromising their expenditure because the ratio will decline over the SRV implementation period by 0.01 percentage points.

¹ Coffs Harbour City Council has two business rate categories: business and business city centre. For this iteration, aggregated business rates have been used.

² See IPART. Local Government Rate Peg 2015/16, Local Government – Fact Sheet 2 December 2014.

³ Coffs Harbour City Council has assumed an estimated rate peg increase of 3% for forward estimates and long term financial planning for 2016/17.

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- Residential rates in Coffs Harbour City LGA have been steadily rising in line with increases in residential rates of peer LGAs. Under the SRV, the proposed rates will remain below Group 5 LGAs, however will track above the rates of neighbouring LGAs.
- Regarding the affordability of the proposed rates' increase and associated socio-economic standing, Coffs Harbour City was ranked relatively poorly in terms of socio-economic indicators against its peers, as well as NSW LGAs. However, WRI notes that Coffs Harbour City Council has a rates hardship policy in place that provides assistance to ratepayers who are experiencing genuine difficulties with the payment of their rates and charges. Whilst against NSW, the rankings were also below the median, they were not extremely poor being placed in the "middle of the pack" for many indicators. This suggests that the peer groups are not extremely disadvantaged.

Farmland businesses in Coffs Harbour City make up 2.30% of rate assessments which constitutes 3.50% of Council's total rates revenue. The proposed increase in farm rates has produced varied results for farmland businesses, and the reasonableness tests are only partially satisfied.

- The proposed rate increase under the SRV will be above changes in all input/output categories and wage costs, therefore the reasonableness test is not satisfied. However, when examining the impact on price changes over the past 5 years the picture is slightly improved with the planned SRV going some way to "catching up" with experienced and forecast changes for 1 out of 14 cost categories.
- Coffs Harbour City's farms rates / value added ratios are expected to increase over the SRV implementation period. However, the ratio is only expected to increase by less than one percentage point following the SRV implementation thereby satisfying the reasonableness test.
- Farmland rates have historically been tracking below those of both peer groups, however under the SRV farm business rates will grow in line with Group 5 and neighbouring LGAs with farmland rates slightly below the average of Group 5 and above neighbouring LGAs in 2016/17.
- The forecasted rate ranking suggests that Coffs Harbour City farmland rank will deteriorate over the SRV implementation period, from 7th highest in 2013/14 to 3rd highest in 2016/17.

The proposed rate increase for non-farm businesses has also produced varied results; however the reasonableness tests are partially satisfied. The analysis found the following results:

- The proposed rate increase under the SRV for non-farm businesses is unfavourable as it will be above changes in all input/output cost categories and wage costs. However, when examining the impact on price changes over the past 5 years the picture is slightly improved with the planned SRV going some way to "catching up" with experienced and forecast changes for 3 out of 20 cost categories.
- Non-farm business rates/value added ratio will only marginally increase over the SRV implementation period but by less than one percentage point, thereby satisfying the reasonableness test.
- Non-farm business rates in Coffs Harbour City have been steadily increasing in line with Group 5 LGAs and under the SRV will remain below Group 5 peers in 2016/17.
- For non-farmland businesses, Coffs harbour City Council is considered to have high rates and is ranks 3rd highest out of the 10 'Group 5 and neighbouring' LGAs. However this ranking remains constant through the SRV period.

1. INTRODUCTION

Coffs Harbour City Council seeks to maintain public assets, infrastructure and services by means of a Special Rate Variation (SRV). According to its 2013 Resourcing Strategy, the Council's current position is unsustainable and has arisen as a result of two key factors:

- A widening gap between expenditure and revenues; and
- A deterioration of infrastructure.⁴

In order to address the sustainability challenge, Coffs Harbour City Council undertook a community survey ('Level of Service') in October 2013 and a review of all the functions undertaken by Council, both internally and externally. The survey identified that the local community values the current services provided by the Council and were willing to pay more to maintain these services rather than see the services reduced.⁵

As a result of the community engagement, Coffs Harbour City Council seeks to secure its rate revenue and increase the ordinary rates by means of an SRV. The SRV is important for the Council in order to maintain long term financial sustainability and to sustain council services to the community.

Coffs Harbour City Council made an application to the Independent Pricing and Regulatory Tribunal (IPART) for a multi-year SRV in February 2014. In June 2014 IPART approved only one permanent rate increase of 7.9% for 2014/15, which includes the rate peg of 2.3%.⁶

In order to address the sustainability challenge, Council proposes to increase residential, farmland and business rates over a two year period commencing 1 July 2015. Under the proposed SRV, Coffs Harbour City Council considers increasing ordinary rates by:

- 8.14% in 2015/16; and
- 7.75% in 2016/17.

It should be noted that the proposed annual rate increase for the year 2015/16 is 8.14% which includes a determined rate peg of 2.4%.⁷ For the year 2016/17 Coffs Harbour City Council estimates an increase of 7.75% which includes a forecasted peg rate of 3%.⁸

By the end of the SRV implementation period, the cumulative increase across residential, farmland and business rates in Coffs Harbour City will be 16.52%, with 5.47% of this figure attributable to the rate peg.⁹ Thus, Council's proposal would see the rate yield increased by 11.05% more than what it would have been under a rate peg only scenario. Growing the rate yield by this amount over the period of the SRV implementation is expected to allow financial sustainability to be attained.

⁴ Coffs Harbour City Council 2013 Resourcing Strategy May 2013, p3.

⁵ *Your Council – Your Community Funding our Future* Coffs Harbour City Council p1

⁶ *Your Council – Your Community Funding our Future* Coffs Harbour City Council p2

⁷ See IPART. Local Government Rate Peg 2015/16, Local Government – Fact Sheet 2 December 2014.

⁸ Coffs Harbour City Council has assumed an estimated rate peg increase of 3% for forward estimates and long term financial planning for 2016/17.

⁹ Coffs Harbour City Council has two business rate categories: business and business city centre. For this iteration, aggregated business rates have been used.

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The rate increase will be in excess of the pegging percentage set by IPART, and therefore a separate application by Council has to be made to IPART, providing justification for a rates increase above the pegging threshold.

IPART guidelines specify that the relevant evidence supporting the application for the rate increase should include a discussion of the community's capacity to bear the effects of the rate increase (e.g. the SEIFA rankings, disposable income levels, land values), and a comparison of rate levels and socio-economic indicators with peer group councils.

The following report gives due consideration to IPART guidelines and examines three issues pertaining to the proposed rate increases and Coffs Harbour City Council's application to IPART. The three issues are:

- The comparison of the proposed rate increases with the increase in costs and prices, recently experienced by Coffs Harbour City residents and farm and non-farm businesses.
- The impact of the proposed rate increases on Coffs Harbour City residents' household expenditure, and viability (financial bottom line) of Coffs Harbour City farm and non-farm businesses.
- A comparison of the socioeconomic indicators in Coffs Harbour City and peer local government areas (LGAs), following the implementation of the rate increases.

2. METHODOLOGY

This report analyses the proposed rate increases for reasonableness. Three aspects of reasonableness are considered - price comparison, impact and peer comparison.

Price comparisons

To determine the reasonableness of the rate increases for households, this report first considers cost increases of major items of goods, services and utilities borne by households over the last 2 years. It is assumed, for the purposes of this report that similar increases will occur over the 2 year SRV implementation phase.

To determine the reasonableness of the rate increases for farm businesses, input price increases over the last 2 years for major farm inputs are considered, while for non-farm businesses, input price increases over the last 2 years for each of the major industries in Coffs Harbour City LGA are considered. Again it is assumed that similar increases will occur over the 2 year SRV implementation phase.¹⁰

The rate increase is considered reasonable, if it is in line with the majority of other price and cost increases over the next 2 years, or if the proposed rate increases will “catch up” with the majority of other price and cost increases over the 2 year period.¹¹

Impact

The impact of the rate increase for households will depend upon the relative size of the rate increase in the household budget. Actual estimates of household expenditure and individual expenditure items in Coffs Harbour City are not available, but proxy estimates can be constructed from the Australia-wide household expenditure survey and Coffs Harbour City’s average household income. Proposed residential rates can then be compared to the average expenditure of Coffs Harbour City households. The relevant calculations are performed for all households, as well as for households that have various income levels (income quintiles), sources of income (wages and salaries, superannuation and annuities etc), and households that receive various forms of government payments (age pension, unemployment benefits etc).

The impact of the rate increase on households is considered insignificant if rates, as a percentage of household expenditure, change by less than 1 percentage point, and the level of rates as a percentage of household expenditure remains under 1%.

The impact of the rate increase for Coffs Harbour City farm and non-farm businesses will depend upon how the increase affects the business bottom line or gross operating surplus (GOS). Figures for GOS across businesses in Coffs Harbour City are not available but GOS is part of the value-added of Coffs Harbour City industry and the two concepts are related. Therefore, the ratio of rates to industry value

¹⁰ The timeframes over which price index changes are measured may shift slightly depending on the data available at the time of reporting.

¹¹ Catch up takes place if the rate increase equals or exceeds the actual price/cost increase of related items over the last 2 years plus the assumed increase of related items over the next 2 years minus the actual rate increase over the last 2 years.

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added is a good proxy for the impact of rates on industry viability and is used in the analysis of Coffs Harbour City industries over the 2015/16 – 2016/17 period.¹²

The impact of the rate increase on the viability of Coffs Harbour City farm and non-farm businesses is considered insignificant if the rate increase as a percentage of industry value added changes by less than 1 percentage point, and the level of rates as a percentage of industry value added remains under 1%. This assumes company tax of 30% has been deducted.

Peer Comparison

Coffs Harbour City Council is compared to three peers: New South Wales as a whole, 'Group 5 LGAs' to which Coffs Harbour City belongs and a combined 'Group 5 & neighbouring LGAs'. Group 5 LGAs include Coffs Harbour, Lake Macquarie, Newcastle, Port Macquarie-Hastings, Shoalhaven, Tweed and Wollongong. Neighbouring LGAs include Bellingen, Clarence Valley, Nambucca and Port Macquarie-Hastings.¹³

Specifically, WRI has examined whether rates in Coffs Harbour City have been in line with its peers, and how Coffs Harbour City Council has ranked relative to its peers in areas such as socio-economic disadvantage of its population and average personal incomes. This latter aspect is crucial, as a low ranking in this area may point to the unaffordability of the rates' increase. In addition WRI makes a projection of the future ranking of Coffs Harbour City in terms of rates.

The rate increases are considered consistent with Coffs Harbour City rankings in terms of personal income and socio-economic (dis-)advantage, if:

- Following the implementation of the SRV, the rates ranking of Coffs Harbour City is brought in line with its average personal income ranking;
- Some form of assistance accompanying the rate increases is provided in order to compensate for the rate increases in Coffs Harbour City over the 2 year period.

Appendix 1 outlines the methodological procedures employed, assumptions made, intermediate results and data sources.

¹² It should be noted that rates are tax deductible so for the comparison the company tax rate should be deducted from the rate increase.

¹³ See Appendix 2 for Map of Coffs Harbour City and Neighbouring LGAs.

3. RESULTS

3.1 Price comparisons

a. Households

When comparing proposed rate increases in Coffs Harbour City, WRI assumed that for all cost items, the past growth trend is likely to continue in the short term with cumulative price increases between 2014/15 – 2016/17 being commensurate with Consumer Price Index (CPI) gains between September 2012 - 2014. This view is based on forecasts by the Reserve Bank of Australia¹⁴ and the Commonwealth Government of no major acceleration or deceleration of inflation in the short term.

Table 1 (overleaf) shows uneven inflation over the past two years across selected industries and sectors. The cumulative All groups CPI change for the period September 2012 to September 2014 was 4.31%. Utilities, as a combination of all services, rose by 2.38%. Gas (22.74%), education (21.44%) and childcare (17.28%) experienced the greatest cost changes while communications (-0.20%) experienced the smallest change. Household equipment and clothing and footwear, declined by 1.51% and 6.19% respectively, while healthcare, travel and accommodation and property rates and charges rose by 9.39%, 6.29% and 9.07% respectively. The cost of goods component of the All groups CPI rose by 2.85% over the past two years, while the services component experienced a 6.13% growth for the same period.

The data in Table 1 (Column 2) suggests the proposed SRV (including rate peg), which will see a 16.52% cumulative increase in residential rates over the SRV implementation period, will be:

- below assumed price changes for education, childcare and gas; and
- above assumed price changes for all other categories.

Table 1 (Column 3) also indicates that the proposed rate increase will go some way to “catching up” with, changes in education and gas prices. The rate increase will exceed experienced and forecast price changes in all other cost categories.

When examining the impact on price changes over the past 5 years the picture is more favourable for Coffs Harbour City Council. The planned SRV will go some way to “catching up” with experienced and forecast changes for 8 out of 19 cost categories.

¹⁴ <http://www.rba.gov.au/media-releases/2014/mr-14-19.html>

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Table 1: Actual and projected costs for Coffs Harbour City Council households based on Sydney CPI (cumulative % change)

Period	Past change (Sept 2012– Sept 2014)	Assumed change (2015/16 – 2016/17)	Past change + Assumed change - past rate change
All groups CPI	4.31	4.31	-11.49
1. Services	6.13	6.13	-7.83
Healthcare	9.39	9.39	-1.31
Education	21.44	21.44	22.79
Insurance and financial services	5.15	5.15	-9.80
Travel and accommodation	6.29	6.29	-7.52
Recreation and culture	2.52	2.52	-15.06
Communications	-0.20	-0.20	-20.50
Child care	17.28	17.28	14.46
2. Goods	2.85	2.85	-14.40
Food and beverages	2.46	2.46	-15.17
Alcohol and tobacco	10.72	10.72	1.34
Clothing and footwear	-6.19	-6.19	-32.49
Household equipment	-1.51	-1.51	-23.12
3. Utilities	2.38	2.38	-15.34
Electricity	-2.88	-2.88	-25.87
Electricity (AEMO forecast)*	-14.02	2.54	-31.58
* Past change period is from 2012/13 to 2014/15.			
Gas	22.74	22.74	25.37
Water and sewerage	5.64	5.64	-8.81
4. Property rates and charges	9.07	9.07	-1.95
5. Coffs Harbour City rates	20.10		
Special rate variation (including Rate Peg)		16.52	

WRI has sought to verify likely electricity price projections from a number of sources. The information available is highly variable. The Australian Energy Market Operator, which operates Australia's National Electricity Market (NEM), provides aggregated State data on both electricity consumption and price. The Total Electricity Price Index (TEPI) forecasts a 2.54% cumulative price change for NSW electricity over the SRV implementation period. Electricity prices were forecast to decline in the 2014/15 driven by the anticipated removal of the carbon price. Prices are forecast to decline steadily in the short term, however in the medium to long term prices are forecasted to increase moderately (due to wholesale and green

costs largely attributable to the large-scale renewable energy target (LRET), small-scale renewable energy scheme (SRES), and other state based schemes¹⁵).

This information implies that it is likely that the rate increases proposed by Coffs Harbour City Council will exceed anticipated changes in electricity prices in the short term.

For Coffs Harbour City households:

- *The proposed cumulative rates increase under the SRV will be below assumed price changes for education, childcare and gas.*
- *Under the SRV, the proposed cumulative rates increase will achieve “catch up” with changes in education and gas prices, but will exceed experienced and forecast price changes in all other cost categories.*

Overall, the reasonableness criterion is only partially satisfied (2 of 19 categories).

b. Farm businesses

Rates in New South Wales are largely linked to land value. Currently, farmland makes up 2.30% of rate assessments for Coffs Harbour City which constitutes 3.50% of total Council rate revenue.

In comparing proposed farmland rate increases in Coffs Harbour City, WRI assumed that input cost changes that Coffs Harbour City farm businesses will experience over the SRV implementation period (2015/16 – 2016/17) will be identical in terms of magnitude to the input cost changes experienced over the 2011/12 - 2013/14 period.¹⁶

Table 2 (overleaf) shows a variation in farm input costs over the 2011/12 - 2013/14 period. Large increases were seen in costs associated with seed, seedling and plants (12.93%) and fodder and feedstuff (10.75%), while major farm inputs relating to fertiliser (7.45%), fuel and lubricants (3.10%) and store and breeding stock (11.07%), declined over the period. Other major farm inputs including chemicals, labour, and electricity rose by 0.86%, 4.93%, and 5.02% respectively.

The proposed farmland rate increases under the SRV (16.52% cumulative increase over 2014/15 – 2016/17 period) will be above all input price changes likely to be experienced by farm businesses in Coffs Harbour City.

When examining the impact on price changes over the past 5 years the picture is slightly improved for Coffs Harbour City Council. The planned SRV will go some way to “catching up” with experienced and forecast changes for 1 out of 14 cost categories.

¹⁵ National Electricity Forecasting Report (NEFR)2014 NSW

¹⁶ However, it is plausible for agriculture that future price changes will not mirror past price changes as it is unlikely the Australian dollar will appreciate to the same extent as in the past.

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Table 2: Farm business input costs¹⁷ (cumulative % change)

Farm Inputs	Past change (2011/12– 2013/14 ¹⁸)	Assumed change (2015/16 – 2016/17)	Input prices (past change + assumed change - past rate change)
Materials and services			
Fodder and feedstuffs	10.75	10.75	5.60
Seed, seedlings and plants	12.93	12.93	9.97
Store and breeding stock	-11.07	-11.07	-38.03
Chemicals	0.86	0.86	-14.18
Electricity	5.02	5.02	-5.85
Fertiliser	-7.45	-7.45	-30.79
Fuel and lubricants	-3.10	-3.10	-22.10
Labour	4.93	4.93	-6.03
Marketing	3.25	3.25	-9.39
Overheads			
Insurance	4.93	4.93	-6.03
Interest paid	-25.81	-25.81	-67.51
Rates and taxes	4.93	4.93	-6.03
Other Overheads	5.71	5.71	-4.48
Capital items	5.33	5.33	-5.24
Coffs Harbour City rates			
Past farmland rate change	15.90		
Special Rate Variation (including rate peg)		16.52	

Note. "Catching up" is measured as changes in input prices over the past 2 years plus assumed changes in input prices over the next 2 years minus past farmland rate changes.

For Coffs Harbour City farmland holders, the rates increase under the SRV will be above assumed changes in all input and output prices and wage costs.

Overall, the reasonableness criterion is not satisfied.

¹⁷ ABARES Agricultural Commodity Statistics 74a and b - Indexes of prices paid by farmers in Australia. December 2014.

¹⁸ Farm input data not available for 2014/15, therefore past change calculated from 2011/12 to 2013/14.

c. Non-farm businesses

Table 3 (below) shows disparity in input/output prices and wage costs across non-farm business industries over the 2012/13 - 2014/15 period. Wage cost increases were seen in electricity (6.76%), education and training (6.57%), house construction (5.78%), health care and social assistance (5.91%) and public administration and safety (5.66%) industries. Output prices for road and bridge construction (5.85%) and road freight (4.45%) exceeded the cumulative CPI (4.31%) for the same period. The smallest change in non-farm business costs over the 2012/13 - 2014/15 period occurred in manufacturing (1.01%).

The proposed cumulative business rates increase under the SRV (16.52%) will be above all price and cost changes likely to be experienced by non-farm businesses in Coffs Harbour City.

Table 3: Non-farm business costs (2012/13 – 2014/15 cumulative % change)

Industry	Input prices	Output prices	Wages
Electricity	6.18		6.76
Manufacturing	1.01		5.87
House construction	4.76		5.78
Road & bridge construction		5.85	
Non-residential construction		3.09	
Accommodation & food services		3.47	4.93
Rail freight		1.56	
Road freight		4.45	
Public administration & safety			5.66
Education & training			6.57
Health care & social assistance			5.91
Imported materials	4.06		
Domestic materials	-1.21		
Intermediate inputs	3.27		
Coffs Harbour City rates variation (2015/16 – 2016/17)			
Special rate variation (non-farm businesses)	16.52		

WRI has also examined the possibility of the proposed business rates catching up with price and costs changes (Table 4, overleaf). Under the SRV, the proposed business rates increase exceeds experienced and forecast price changes in all input price categories.

When examining the impact on price changes over the past 5 years the picture is slightly improved for Coffs Harbour City Council. The planned SRV will go some way to “catching up” with experienced and forecast changes for 3 out of 20 cost categories.

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Table 4: The catching up of proposed rate increases with price and costs changes

Industry	Input prices (past change + assumed change - past rate change)	Output prices (past change + assumed change - past rate change)	Wages (past change + assumed change - past rate change)
Electricity	-8.42		-7.27
Electricity (AEMO forecast)	-12.06		-7.27
Manufacturing	-18.76		-9.05
House construction	-11.26		-9.22
Road construction & maintenance		-9.08	
Non-residential construction		-14.61	
Accommodation & food services		-13.84	-10.92
Rail freight		-17.67	
Road freight		-11.89	
Public administration & safety			-9.46
Education & training			-7.64
Health care & social assistance			-8.97
Imported materials	-12.67		
Domestic materials	-23.22		
Intermediate inputs	-14.25		
Past business rate change (2012/13-2014/15)	20.79		
Coffs Harbour City rates variation (2015/16 – 2016/17)			
Special rate variation (business)	16.52		

Notes:

1. "Catching up" is measured as changes in input prices over the past 2 years plus assumed changes in input prices over the next 2 years minus past business rate changes.
2. For the purpose of this assessment an assumption was also made that changes in imported and domestic material prices and intermediate input prices would affect all industries. The catching up of the proposed rates increase with price changes in these inputs was calculated using past business rate changes in Coffs Harbour City.

For Coffs Harbour City non-farm businesses:

- The rates increase under the SRV will be above assumed changes in all input and output prices and wage costs.
- Under the SRV the proposed business rate increase will exceed experienced and forecast price changes in all other non-farm cost categories.

Overall, the reasonableness criterion is not satisfied.

COFFS HARBOUR CITY COUNCIL

3.2 Impact

a. Household expenditure

Table 5 presents residential rates as a proportion of overall expenditure of Coffs Harbour City households currently and under the proposed SRV.

Table 5: Coffs Harbour City Council rates as a proportion of total expenditure (% in 2016/17)

a). Level of income

	Lowest	Second	Third	Fourth	Highest	All households	Second and third deciles
Initial (2014/15)	2.71	1.89	1.43	1.16	0.94	1.44	2.28
After 2 years (2016/17)	2.69	1.89	1.42	1.16	0.93	1.44	2.27
Change (2014/15 – 2016/17)	-0.02	-0.01	-0.01	-0.01	0.00	-0.01	-0.01

b). Sources of income

	Wages and salaries	Own unincorporated business income	Other income	All households
Initial (2014/15)	1.21	1.18	1.30	1.44
After 2 years (2016/17)	1.20	1.17	1.29	1.44
Change (2014/15 – 2016/17)	0.00	-0.01	-0.01	-0.01

c). Sources of government transfers

	Receives age Pensions	Receives disability and carer payments	Receives unemployment and study payments	Receives family support payments	Receives other payments
Initial (2014/15)	3.33	2.68	2.61	2.34	3.27
After 2 years (2016/17)	3.31	2.66	2.59	2.32	3.25
Change (2014/15 – 2016/17)	-0.02	-0.02	-0.03	-0.02	-0.02

Notes:

1. Changes are calculated as rates/household expenditure ratio in 2016/17 minus rates/household expenditure ratio in 2014/15.
2. The change from 2014/15 – 2016/17 is not exact due to rounding.

WRI notes that Coffs Harbour City Council has a rates financial hardship policy in place that provides assistance to ratepayers who are experiencing genuine difficulties with the payment of their rates and charges.¹⁹ Council also provides eligible pensioners with rebates on rates and annual charges of up to \$250.00 off ordinary rates, \$87.50 off water charges and \$87.50 off sewer charges.²⁰ As a result, rates as

¹⁹ A person may be eligible for financial hardship assistance under Coffs Harbour City financial hardship policy when the person is unable to pay rates when due for reasons beyond the persons control; or payment when due would cause the person hardship.

²⁰ Pensioner Rebate <https://www.coffsharbour.nsw.gov.au/coffs-and-council/rates/Pages/pension-rebates.aspx> Accessed 20.1.15

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a proportion of total expenditure are likely to be smaller for these ratepayer categories than the numbers in Table 5 indicate.

It is shown that:

- Under the proposed SRV, the total cost of residential rates incurred by the households in the lowest quintiles will not exceed 2.69% of the total expenditure by 2016/17.
- For those households receiving the age pension, the costs will stand at 3.31% of total expenditure under the proposed SRV.
- For all categories of government support recipients, under the proposed SRV the rates/household expenditure ratio will range from 2.32% to 3.25% in 2016/17 and on average will be 2.83%.
- For all households, the cost of residential rates will be 1.44% of total expenditure under the proposed SRV in 2016/17 financial year.

Despite the fact that residential rates as a proportion of household expenditure is above 1% for all household categories, the proposed increase of residential rates in Coffs Harbour City is likely to have a negligible impact, because under the proposed SRV, rates as a percentage of total household expenditure will decline marginally by 0.01 percentage points between 2014/15 and 2016/17 in the 'All households' category. Therefore, the SRV will not unduly compromise the overall expenditure of households and the reasonableness criterion will be satisfied.

The ranking of Coffs Harbour City against its peers in terms of rates/household expenditure ratio is modelled, assuming that Coffs Harbour City increases its rates under the proposed SRV, while rates in Group 5 and neighbouring LGAs increase under two alternative scenarios:

Scenario 1. Rates in Group 5 and neighbouring LGAs increase by 8.04% per annum over 2015/16 – 2016/17 period. This weighted average rate increase is based on historical IPART determinations for NSW LGAs. These increases were permitted by IPART between 2011/12 and 2014/15 for the ten year period ending in 2020/21.

Scenario 2. Rates in Group 5 and neighbouring LGAs increase at 5.4% and 4.7% per annum respectively over 2015/16 – 2016/17 period in line with 10 year past trend data. This past trend data has been calculated using average rates from the Department of Local Government for the period of 2004/05 to 2012/13, WRI forecasted the average rates for 2013/14 and 2014/15 based on the LGAs past rate trend and applied this to the 2015/16-2016/17 period.²¹

As shown in Table 6, assuming peer LGAs grow at Scenario 1 growth rate, the rates/household expenditure ranking of Coffs Harbour City LGA against its peers will remain steady if the SRV is implemented, with Coffs Harbour City having the 3rd highest rates/household expenditure ratio (out of 10 LGAs).

If peer LGAs grow at Scenario 2 growth rates, the ranking of Coffs Harbour City LGA will decline moving Coffs Harbour City from 3rd highest to 2nd highest.

²¹ Office of Local Government, NSW Government. Comparative Information on NSW Local Government Councils, 1994/95 – 2010/11; Office of Local Government, NSW Government. Comparative Information on NSW Local Government Councils: Measuring Local Government Performance, 2012-13, October 2014.

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Despite rates as a percentage of household expenditure being greater than 1%, the SRV will see this decline very marginally and therefore the rate increase is considered serviceable.

WRI notes that Coffs Harbour City's peer LGAs also have rates that are greater than 1% of total household expenditure under scenario 1 and 2.

Table 6: Rates as a percentage of total household expenditure in Coffs Harbour City and peer LGAs

LGA	Current (2014-15)	After 2 years	
		Scenario 1	Scenario 2
Coffs Harbour City Council	1.44	1.44	1.44
Lake Macquarie City Council	1.21	1.21	1.15
Newcastle City Council	1.10	1.09	1.04
Port Macquarie-Hastings Council	1.48	1.47	1.40
Shoalhaven City Council	1.24	1.23	1.17
Tweed Shire Council	1.85	1.85	1.76
Wollongong City Council	1.32	1.31	1.25
Bellingen Shire Council	1.43	1.42	1.34
Clarence Valley Council	1.40	1.39	1.31
Nambucca Shire Council	1.39	1.38	1.30
Ranking of Coffs Harbour City Council	3rd highest 8th lowest	3rd highest 8th lowest	2nd highest 9th lowest

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b. Farm and non-farm business viability

The impact of farmland rates on the viability of farm enterprises will vary depending on projections of agricultural value added in Coffs Harbour City and the forecast of the number of farms.

WRI examined the factors that affect agricultural production in rural NSW and Coffs Harbour City and considered that a growth scenario where farm value added fluctuates around a 3 year mean is the most plausible, taking into account seasonal factors, the likelihood of drought and certain adverse economic conditions (e.g. weakening Australian dollar putting pressure on input costs) that may affect agricultural producers in Coffs Harbour City during 2014/15 and 2016/17.

WRI has also examined the number of farms over the last 11 years and assumed that the number of farms in 2015/16 – 2016/17 will follow a long term deterministic trend.

Table 7 shows that during the SRV implementation period, the number of farms and agricultural value added in Coffs Harbour City will decline. The implementation of the proposed SRV will result in:

- The farmland rate/value added ratio standing at 0.72% in 2016/17; and
- The farmland rate/value added ratio increasing by 0.17 percentage points between 2014/15 and 2016/17

Table 7: Farmland rates and farm business viability

Year	Farmland rates (\$)	No. of farms	Value added (\$'000)	Rates/value added (%)
2014-15	1847	717	169,106	0.55
2015-16	1997	700	158,117	0.62
2016-17	2152	683	142,409	0.72
Change (2014/15 – 2016/17)				0.17

Notes:

1. The results presented in the table have been generated assuming the random fluctuation of aggregate farm value added in Coffs Harbour City LGA. The magnitude of fluctuation and the aggregate farm value added levels were based on WRI's estimate of agricultural value added for Coffs Harbour City as at December 2013.
2. Rates have been deflated by the 30% company tax rate before calculating the rates/value added ratio.
3. Coffs Harbour City Council provided the number of farm assessments for 2014/15. The number of farms in 2015/16 – 2016/17 is assumed to follow a long term trend, with an annual decrease of 0.03%.

Coffs Harbour farms rates / value added ratios are expected to increase over the implementation period. However, farmland rates as a percentage of farm value added are only expected to increase by less than one percentage point following the SRV implementation

Overall the reasonableness criterion is satisfied.

Regarding the viability of non-farm businesses, WRI has also examined the number of non-farm businesses over the last 11 years and assumed that the number of non-farm businesses in 2015/16 – 2016/17 will follow a long term deterministic trend. This trend suggests that the number of non-farm businesses will increase by 1.21% per annum over the SRV implementation period.

Table 8 shows that the implementation of the proposed SRV is expected to result in:

- The business rates/value added ratio being 0.20% by 2016/17; and
- The business rates/value added ratio increasing by 0.02 percentage points between 2014/15 and 2016/17.

Table 8: Business rates and non-farm business viability

Year	Business rates (\$)	No. of businesses	Value added (\$'000)	Rates/value added (%)
2014-15	4360	1757	2,942,507	0.18
2015-16	4715	1778	3,071,469	0.19
2016-17	5080	1800	3,206,084	0.20
Change (2014/15 – 2015/16)				0.02

Notes:

1. The number of businesses for 2014/15 has been provided by Coffs Harbour City Council. The number of businesses in 2015/16 – 2016/17 is assumed to follow a long term trend.
2. Rates have been deflated by the 30% company tax rate before calculating the rates/value added ratio.
3. The results presented in the table have been generated assuming the growth of non-farm value added in Coffs Harbour City is 4.4% per annum over the next 3 years. Aggregate non-farm value added levels were based on WRI's estimate of non-agricultural value added for Coffs Harbour City as at December 2013.

The proposed rates increases under the SRV are considered serviceable for non-farm businesses and will not have a significant impact on their financial bottom line, with the rates/value added ratio only marginally increasing over the SRV implementation period.

Overall the reasonableness criterion is satisfied.

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3.3 Coffs Harbour City Council and its peers

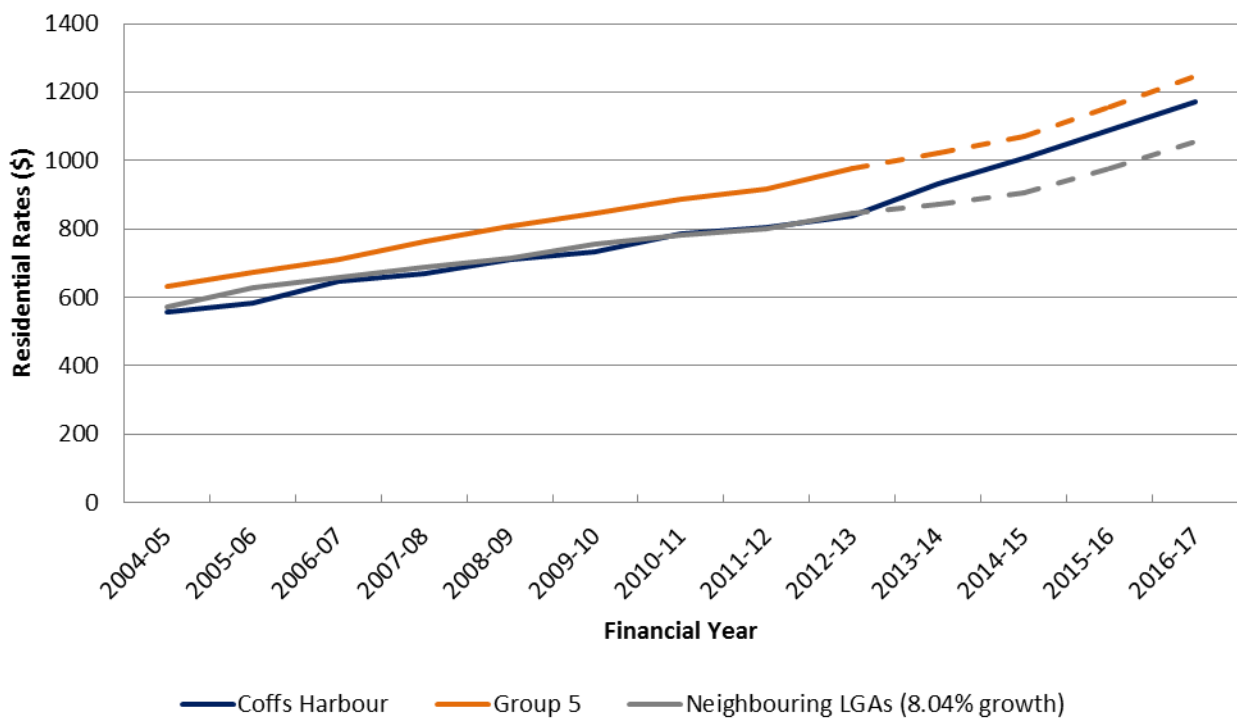
WRI has examined past and projected council rates in Coffs Harbour City, Group 5 peer LGAs and neighbouring LGAs (Bellingen, Clarence Valley, Nambucca and Port Macquarie-Hastings) in the context of the proposed SRV.

In addition, WRI considered the likelihood of rate changes in peer LGAs over the 2016/17 period. As stated in the 2009 - 2012 NSW Treasury Corporation report, the financial position of 78% of NSW local governments was either moderate or unsustainable, meaning that raising funds via rate increases to address operational deficits and infrastructure backlogs would be needed²².

As to the magnitude of the likely rates' increase, historical IPART determinations can provide guidance. The weighted average annual rate increase permitted under IPART determinations for Group 5 LGAs has been estimated at 11.02%, while the weighted average for Coffs Harbour neighbouring LGAs has been estimated at 9.59%. For the purpose of this assessment, WRI has assumed rates in all peer LGAs will grow at a weighted average annual rate of 8.04% over 2015/16 – 2016/17, based on historical IPART determinations for NSW LGAs (scenario 1).

a. Residential, farmland and business rate comparisons using Scenario 1 for peer LGAs – Growth at 8.04% per annum

Figure 1: Growth in annual residential rates

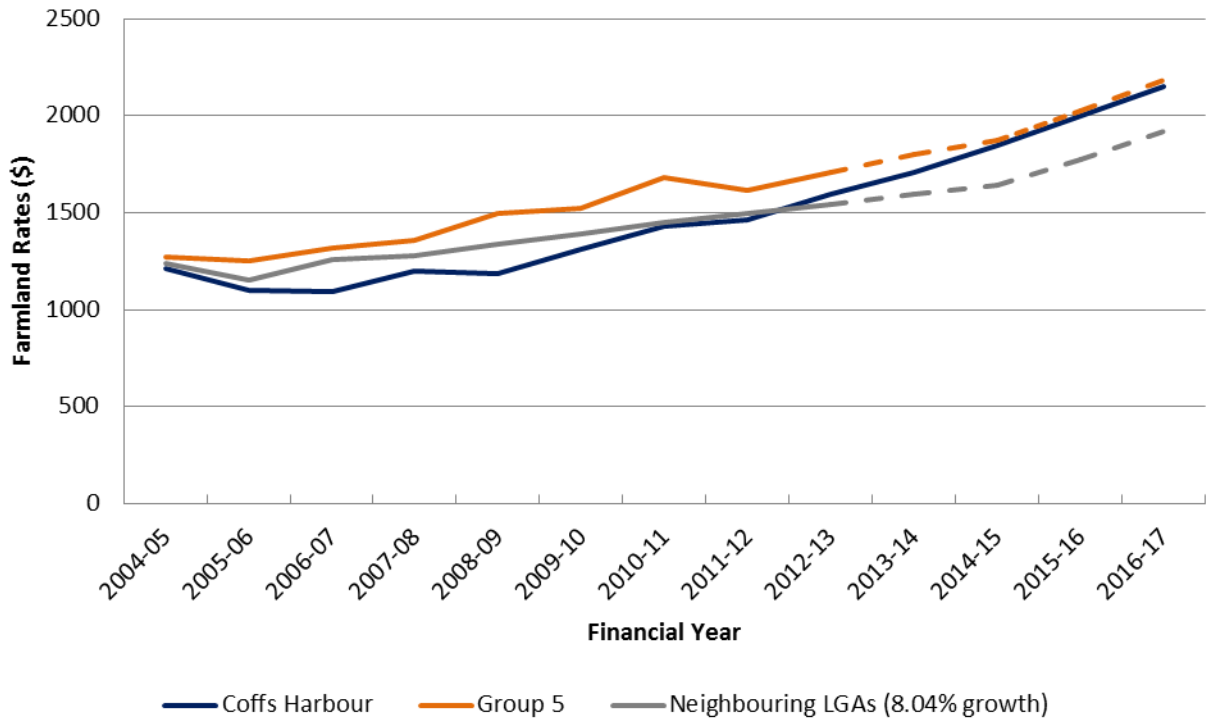


²² New South Wales Treasury Corporation. Financial Sustainability of the New South Wales Local Government Sector: Findings, Recommendations and Analysis, April 2013, p. 10.

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Residential rates in Coffs Harbour City LGA have been rising steadily since 2004/05, this is in line with increases in the rates of peer LGAs. Under the 8.04% growth scenario in peer LGAs and SRV implementation, Coffs Harbour City residential rates will be above neighbouring LGA levels by 9.91% and below G5 peer levels by 6.46% in 2016/17. The SRV will result in a deterioration of Coffs Harbour City Council’s position relative to neighbouring LGAs, with the rates trajectory tracking above that of this group, after historically being in line with this group.

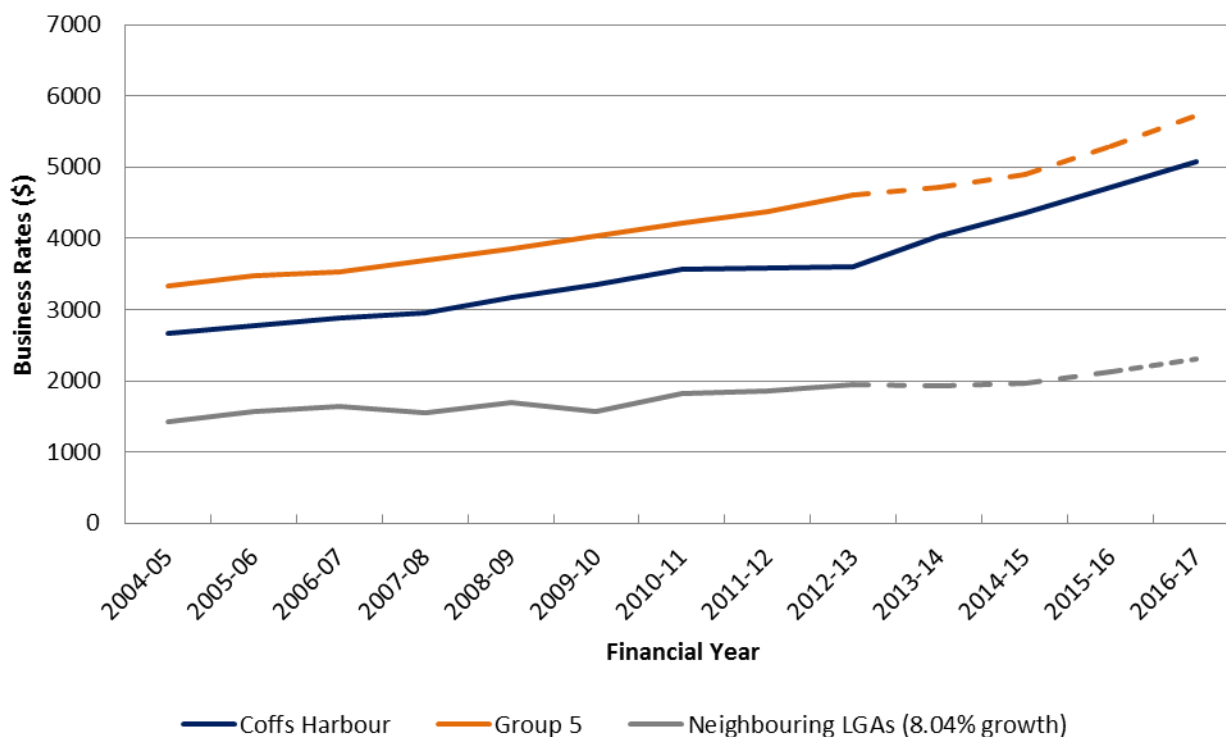
Figure 2: Growth in annual farmland rates



Under the 8.04% growth scenario Coffs Harbour City SRV farmland rates will be above neighbouring LGA levels by 10.83% and slightly below Group 5 LGAs by 1.53% in 2016/17. Coffs Harbour City farmland rates are moving in line with the rates of Group 5 peers. The SRV will cause Coffs Harbour City Council’s farmland rates to move in line with those of its Group 5 peers, when historically, they have been lower. Under the SRV, Coffs Harbour City Council’s rates trajectory will track further above that for neighbouring LGAs, a trend started in 2012.

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Figure 3: Growth in annual business rates



WRI notes that over the past 10 years business rates in Coffs Harbour City LGA have been below Group 5 levels. Assuming business rates in peer LGAs grow at 8.04% per annum and the SRV is implemented; business rates in Coffs Harbour City will still remain below Group 5 LGAs. By 2016/17 Coffs Harbour City business rates will be 12.62% below Group 5 LGAs and 54.71% above neighbouring LGA levels. Coffs Harbour City business rates are moving in line with the rates of Group 5 peers, but are tracking further above those of neighbouring LGAs.

Note: Comparisons to Scenario 2 did not reveal any significant differences in Coffs Harbour City's comparative position to those presented for Scenario 1 above.

b. Comparison of outstanding rates

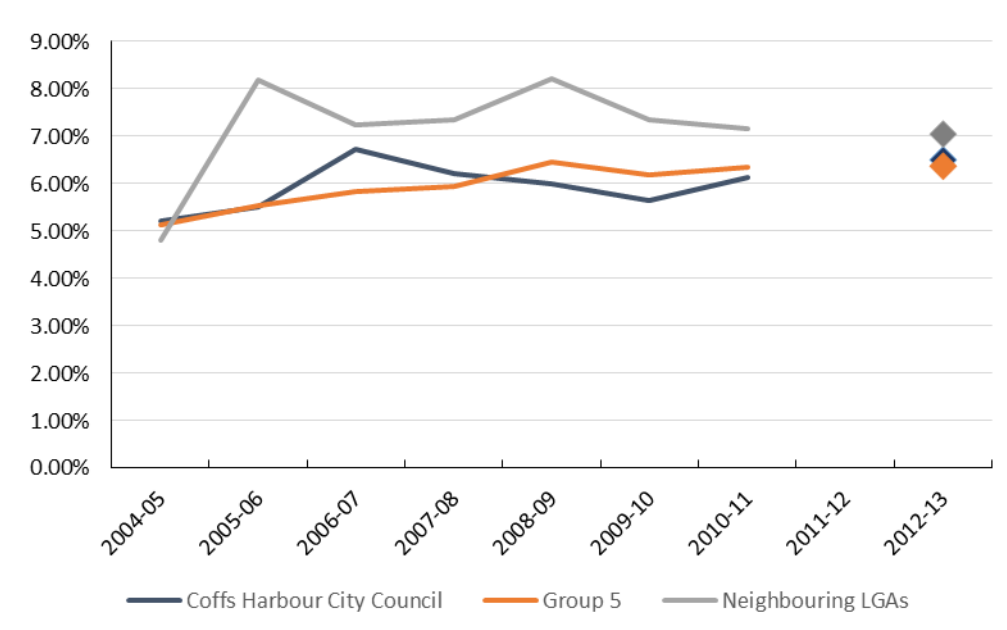
WRI has examined the ratio of outstanding rates to total rates collected in Coffs Harbour City, Group 5 peer LGAs and neighbouring LGAs (Bellingen, Clarence Valley, Nambucca and Port Macquarie-Hastings).

As shown below, the ratio of outstanding rates to total rates collected in Coffs Harbour City has been below Group 5 levels and neighbouring LGA levels between 2008/09 and 2010/11. The ratio has been steadily increasing in recent years with the ratio standing at 6.50% in 2012/13 for Coffs Harbour City. This ratio is above Group 5 levels (6.37%) and below neighbouring LGA levels (7.05%).

Overall, outstanding rates for Coffs Harbour City appear to be in line with Group 5 levels as at 2012/13.

The assessment of the level of outstanding rates to total rates ratio suggests that the ratio may increase once the SRV is implemented. The magnitude of this increase cannot be known in advance. This implies that Council should monitor the trend in the ratio, as the trend line from 2009/10 to 2012/13 show outstanding rates increasing.

Figure 4: Outstanding rates



Coffs Harbour City's position, when ranked against its peers on outstanding rates, is favourable relative to Group 5 LGAs and 'Group 5 and neighbouring LGAs'. When compared with Group 5 LGAs, Coffs Harbour City ranked 3rd lowest out of 7 LGAs. Coffs Harbour City was ranked 5th lowest out of 10 LGAs when compared with 'Group 5 and neighbouring LGAs'. However, when compared to NSW, Coffs Harbour City ranks 65th highest out of 152 LGAs with their level being above the median 6.09% for the state.

c. Comparison of council rate rankings

WRI has undertaken an analysis of the rates ranking of Coffs Harbour City relative to its peer groups. Whilst it is acknowledged that the relative rankings do not necessarily reflect the ability of residents and businesses to bear the increased rates proposed, the SRV may change the relative position of Council amongst its peers and this may indicate that the impacts warrant monitoring.

As shown in Table 9, Coffs Harbour City Council was ranked favourably relative to NSW, Group 5 and 'Group 5 & neighbouring LGAs' in terms of average farmland rates, having its farmland rates below the respective peer groups' median (Coffs Harbour City's average farmland rate for 2012/13 was \$1,593, whilst Group 5 and 'Group 5 & neighbouring LGAs' reported an average farmland rate of \$1,677 and \$1,654 respectively). Among 152 NSW LGAs, Coffs Harbour City Council had the 34th lowest farmland rates with their level also being below the median of \$2,033 for the state.

For average residential rates, Coffs Harbour City was ranked favourably relative to Group 5 and 'Group 5 & neighbouring' LGAs, with levels being below the median (Coffs Harbour City average residential rates for 2012/13 stood at \$838, compared to a median of \$988 and \$907 for Group 5 and 'Group 5 & neighbouring LGAs' respectively). However, when compared to NSW, Coffs Harbour City ranks 52nd highest out of 152 LGAs with their level being above the median for the state (median for NSW was \$729).

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Coffs Harbour City's position when ranked with its peers on business rates is considered to be unfavourable. When compared to 'G5 and neighbouring LGAs', Coffs Harbour City ranks 3rd highest out of 10 LGAs. Coffs Harbour City also ranks 3rd highest out of 7 LGAs when compared to Group 5 levels. Compared to NSW, Coffs harbour City ranks 41st highest out of 152 LGAs with their level being above the median of \$2,221 for the state (Coffs Harbour City reported an average business rate of \$3,610 for 2012/13).

Table 9: Council rates (2012-13)

LGA	Sample	Residential	Farmland	Business
NSW	n=152	52nd Highest	34th Lowest	41st Highest
G-5	n=7	6th Highest	2nd Lowest	3rd Highest
G-5 & neighbouring LGAs	n=10	6th Highest	4th Lowest	3rd Highest

Note. Rates ranking pertain to the 2012-13 Financial Year.

d. Comparison of socio-economic rankings

WRI uses the socio-economic index for areas (SEIFA)²³ along with personal income information to assess the viability of rate variations in areas. When examining the results for SEIFA a lower score indicates that an area is relatively disadvantaged compared to an area with a high score. In WRI's analysis all areas have been ranked from lowest to highest, an area that has the lowest rank is given a 1, the LGA with the second lowest score is given a 2, and this is completed for all areas that are included in the analysis.

Regarding the affordability of the proposed rates' increase and associated socio-economic standing, Coffs Harbour City was ranked poorly in terms of socio-economic indicators against its peers, as well as NSW LGAs.

Coffs Harbour City is ranked below Group 5, 'Group 5 and neighbouring' and NSW LGA medians in 11 of the 12 components of SEIFA. Coffs Harbour City is only slightly above the index of relative socio-economic advantage & disadvantage median for 'Group 5 and neighbouring LGAs'.

Overall, relative to their Group 5 peers, there is a greater level of socio-economic disadvantage in Coffs Harbour City. Additionally against NSW, the rankings were also below the median. However, they were not extremely poor being placed in the "middle of the pack" for many indicators. This suggests that the peer groups are not extremely disadvantaged.

²³ Australian Bureau of Statistics, 2033.0.55.001 - Census of Population and Housing: Socio-Economic Indexes for Areas (SEIFA), Australia, 2011

Table 10: SEIFA (2011)

LGA	Sample	Index of relative socio-economic advantage & disadvantage	Index of relative socio-economic disadvantage	Index of economic resources	Index of education & occupation
NSW	n=153 ²⁴	70th Lowest	67th Lowest	42nd Lowest	73rd Lowest
G-5	n=7	3rd Lowest	2nd Lowest	Lowest	3rd Lowest
G-5 & neighbouring LGAs	n=10	6th Lowest	5th Lowest	4th Lowest	5th Lowest

Note. The LGAs are ranked by the level of SEIFA indexes, with more disadvantaged areas (low level of SEIFA) having a lower rank.

The average personal income of Coffs Harbour City superannuation and annuity owners was above the median of NSW, Group 5 and 'Group 5 and neighbouring' LGAs (the average income for Coffs Harbour City \$24,228 whilst the median average income for NSW, Group 5 and 'Group 5 and neighbouring' LGAs stood at \$22,170, \$23,342 and \$23,607 respectively). The average personal income of Coffs Harbour City wage and salary earners and investment income earners was below the median of NSW, Group 5 and 'Group 5 and neighbouring' LGAs.²⁵ Own unincorporated businesses were ranked below median levels for NSW and Group 5 LGAs but above the median of 'Group 5 and neighbouring' LGAs.

Overall, Coffs Harbour City superannuation and annuity owners are likely to be able to accommodate rate increases better than wage and salary and investment income earners. In terms of total average personal income, Coffs Harbour City residents are less likely to be able to accommodate rate increases compared to many of its peers.

Table 11: Average personal income (2010/11)

LGA	Sample	Wage and salary earners	Own unincorporated businesses	Investment income earners	Superannuation & annuity earners	Total income
NSW	n=153 ²⁶	51st Lowest	68th Lowest	42nd Lowest	35th Highest	28th Lowest
G-5	n=7	Lowest	3rd Lowest	2nd Lowest	2nd Highest	Lowest
G-5 & neighbouring LGAs	n=10	4th Lowest	5th Highest	4th Lowest	4th Highest	4th Lowest

e. Forecasted rate rankings for councils

WRI has modelled the ranking of Coffs Harbour City among its respective peer groups in terms of all three rating categories, assuming that rates in Group 5 & neighbouring LGA peer groups grow at 8.04% (scenario 1), while Coffs Harbour City rates increase as per the proposed SRV.

²⁴ Includes unincorporated NSW as an LGA

²⁵ Australian Bureau of Statistics, Estimates of Personal Income for Small Areas, Time Series, 2005-06 to 2010-11

²⁶ Includes unincorporated NSW as an LGA

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As shown in Table 12, Coffs Harbour City residential rates ranking will remain constant, with rate levels in 2016/17 remaining below the median of respective peers (the median residential rate in 2016/17 in Coffs Harbour City is \$1,172 compared to 'Group 5 & neighbouring' LGA median \$1,186). Coffs Harbour City farmland rates ranking will weaken and will be above the median of its respective peers over the same time period (the median farmland rate in 2016/17 in Coffs Harbour City is \$2,152 compared to 'Group 5 & neighbouring' LGA median \$2,102). Business rates ranking will remain unchanged, however, in 2016/17 the average business rate for Coffs Harbour City will be above the median for 'Group 5 & neighbouring' LGAs (the median business rate in 2016/17 in Coffs Harbour City is \$5,080 compared to 'Group 5 & neighbouring' LGA median \$3,765).

Table 12: Dynamics of Coffs Harbour City Council rate rankings

Year	Sample	Residential	Farmland	Business
2013/14	n=10	5th lowest	7th highest	3rd highest
2014/15	n=10	5th lowest	3rd highest	3rd highest
2015/16	n=10	5th lowest	3rd highest	3rd highest
2016/17	n=10	5th lowest	3rd highest	3rd highest

WRI notes that the rates ranking of Coffs Harbour City does not necessarily indicate an inability of Coffs Harbour City residents or businesses to bear the costs of proposed rates increases.

Overall, the comparison of Coffs Harbour City with its peers provided the following results:

- *Coffs Harbour City's rates have been steadily increasing in line with its peer LGAs. Growth rates across residential, farmland and non-farmland business are above neighbouring LGAs but below Group 5 LGAs. Overall it does not change their position. The proposed SRV has minimal impact for residents, farmland or non-farmland businesses*
- *Outstanding rates for Coffs Harbour City appear to be in line with Group 5 levels. However, Coffs Harbour City ranked unfavourably in terms of socio-economic indicators against its peers, as well as NSW LGAs.*
- *When ranked against its peers on average Council rates for 2012/13, Coffs Harbour City farmland rates were considered favourable. Residential rates were also considered to be favourable when compared to Group 5 and neighbouring LGAs. However, Coffs Harbour City's business rates are considered to be unfavourable.*
- *Coffs Harbour City's forecasted rate ranking amongst peer LGAs will remain stable over the SRV implementation period for residents and non-farm businesses. Farm business ranking will weaken over the SRV implementation period.*

CONCLUSION

WRI has analysed the rates increases proposed by Coffs Harbour City Council in terms of comparison with other costs and prices, impact on households, farm and non-farm businesses, and the ranking of Coffs Harbour City Council against peer LGAs.

The analysis of the proposed rate increase on Coffs Harbour City households indicates that the reasonableness test is only partially satisfied. The following results were found:

- The increase is below assumed changes for education, childcare and gas cost categories. However, the rate increase exceeds all other forecasted changes in all other cost categories. The proposed rate increase under the SRV only partially satisfies the reasonableness test as the SRV will achieve some form of “catch up” with only 2 out of 19 categories (gas and education). However, when examining the impact on price changes over the past 5 years the picture is more favourable, with the planned SRV going some way to “catching up” with experienced and forecast changes for 8 out of 19 cost categories.
- Rates as a proportion of household expenditure are considered significant as the change is greater than 1%. However, households across all classification categories will be able to pay their rates without unduly compromising their expenditure because the ratio will decline over the SRV implementation period by 0.01 percentage points.
- Residential rates in Coffs Harbour City LGA have been steadily rising in line with increases in residential rates of peer LGAs. Under the SRV, the proposed rates will remain below Group 5 LGAs, however will track above the rates of neighbouring LGAs.
- Regarding the affordability of the proposed rates’ increase and associated socio-economic standing, Coffs Harbour City was ranked relatively poorly in terms of socio-economic indicators against its peers, as well as NSW LGAs. However, WRI notes that Coffs Harbour City Council has a rates hardship policy in place that provides assistance to ratepayers who are experiencing genuine difficulties with the payment of their rates and charges. Whilst against NSW, the rankings were also below the median, they were not extremely poor being placed in the “middle of the pack” for many indicators. This suggests that the peer groups are not extremely disadvantaged.

Farmland businesses in Coffs Harbour City make up 2.30% of rate assessments which constitutes 3.50% of Council’s total rates revenue. The proposed increase in farm rates has produced varied results for farmland businesses, and the reasonableness tests are only partially satisfied.

- The proposed rate increase under the SRV will be above changes in all input/output categories and wage costs, therefore the reasonableness test is not satisfied. However, when examining the impact on price changes over the past 5 years the picture is slightly improved with the planned SRV going some way to “catching up” with experienced and forecast changes for 1 out of 14 cost categories.
- Coffs Harbour City’s farms rates / value added ratios are expected to increase over the SRV implementation period. However, the ratio is only expected to increase by less than one percentage point following the SRV implementation thereby satisfying the reasonableness test.
- Farmland rates have historically been tracking below those of both peer groups, however under the SRV farm business rates will grow in line with Group 5 and neighbouring LGAs with farmland rates slightly below the average of Group 5 and above neighbouring LGAs in 2016/17.

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- The forecasted rate ranking suggests that Coffs Harbour City farmland rank will deteriorate over the SRV implementation period, from 7th highest in 2013/14 to 3rd highest in 2016/17.

The proposed rate increase for non-farm businesses has also produced varied results; however the reasonableness tests are partially satisfied. The analysis found the following results:

- The proposed rate increase under the SRV for non-farm businesses is unfavourable as it will be above changes in all input/output cost categories and wage costs. However, when examining the impact on price changes over the past 5 years the picture is slightly improved with the planned SRV going some way to “catching up” with experienced and forecast changes for 3 out of 20 cost categories.
- Non-farm business rates/value added ratio will only marginally increase over the SRV implementation period but by less than one percentage point, thereby satisfying the reasonableness test.
- Non-farm business rates in Coffs Harbour City have been steadily increasing in line with Group 5 LGAs and under the SRV will remain below Group 5 peers in 2016/17.
- For non-farmland businesses, Coffs harbour City Council is considered to have high rates and is ranks 3rd highest out of the 10 ‘Group 5 and neighbouring’ LGAs. However this ranking remains constant through the SRV period.

APPENDIX 1: TECHNICAL NOTES

1. Costs of residents

The costs incurred by Coffs Harbour City residents over 2012 - 2014 period (Table 1) are based on compounded percentage changes of the consumer price index (CPI) for relevant sub-groups and expenditure classes over the September 2012 – September 2014 period in Sydney.²⁷

The change in electricity prices (AEMO forecast) for the 2012- 2014 period is based on the percentage change in the Total Electricity Price Index (TEPI) by the Australian Energy Market Operator over the 2012/13 and 2014/15²⁸ financial years.

2. Costs of farm and non-farm businesses

The costs incurred by non-farm businesses in Coffs Harbour City over the 2011/12 – 2013/14 period (table 2) are based on the cumulative percentage changes of farm business input costs.²⁹

WRI first examined the Coffs Harbour City industrial profile and identified the major industries. It then compared proposed business rates' increases with compounded percentage changes in either input or output prices for the respective industries in Coffs Harbour City LGA. As in the case of residents' costs, it is assumed that growth in national production costs and output over the implementation periods (2015/16 – 2016/17) will not deviate from the growth in 2012 - 2014³⁰. For some industries (accommodation and food services, rail and road freight, road and bridge construction and non-residential construction), no input price indices were available and therefore output prices are used for comparison³¹. For the house construction industry, the Sydney input price index was used as a proxy. Also, wage price indices for the non-farm business industries in question were used as a proxy for labour costs to complement producer price data. The wage price index data is available at a national level.³²

3. Household expenditure

The procedure for extracting the Coffs Harbour City LGA expenditure data is as follows.

Firstly, the average weekly expenditure data for NSW households is obtained from the ABS Household Expenditure Survey, 2009-10.³³ The numbers are inflated by the compounded growth in disposable income factor for the relevant period (September 2010 – June 2014) in order to obtain 2014 data. The disposable income series are contained in the Reserve Bank of Australia statistical database.³⁴ The 2009-

²⁷ The raw data is obtained from Australian Bureau of Statistics. Table 11. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City. ABS Cat. No. 6401.0.

²⁸ Projected change for 2014/15.

²⁹ ABARES Agricultural Commodity Statistics 74a and b - Indexes of prices paid by farmers in Australia, December 2014.

³⁰ The raw data is obtained from Australian Bureau of Statistics. Tables 12-13, 17, 18-20. Producer Price Indexes, Australia. ABS Cat. No. 6427.0.

³¹ The NSW output price index was used as a proxy for road and bridge construction and non-residential construction. The raw data is obtained from Australian Bureau of Statistics. Table 17. Producer Price Indexes, Australia. ABS Cat. No. 6427.0.

³² The raw data is obtained from Australian Bureau of Statistics. Table 5b. Total Hourly Rates of Pay Excluding Bonuses: Sector by Industry, Original. ABS Cat. No. 6345.0.

³³ Australian Bureau of Statistics (2011) Household Expenditure Survey, Australia: Summary of Results, 2009-10. ABS Cat. No. 6530.0 (NSW Data Tables, Tables 5, 9 and 11).

³⁴ Reserve Bank of Australia. Statistical Tables: Gross Domestic Product, Income Components – G12. Available at <http://www.rba.gov.au/statistics/tables/index.html>.

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10 numbers are also inflated by the CPI growth for each individual expenditure item during 2012- 2014³⁵. Due to the double speed nature of the Australian economy, the CPI growth rates (and growth in individual expenditure items) are not uniform.

Secondly, the average weekly expenditure data for Coffs Harbour City households is obtained. The assumption is made that Coffs Harbour City's household expenditure is larger (or smaller) than NSW household expenditure in the same proportion as Coffs Harbour City's personal income is larger (or smaller) than NSW personal income, i.e. the savings patterns in Coffs Harbour City and NSW as a whole are similar. The average household size in Coffs Harbour City and NSW in general is similar.

Thirdly, the average weekly expenditure (total, as well as individual items) for Coffs Harbour City is calculated in the years 2015/16 and 2016/17 (corresponding to the Coffs Harbour City Council rates increase implementation timeframe). The 2013 figures are inflated by the expected growth in the disposable income (commensurate with the long term growth of Australian economy) and CPI growth rates, unique for each expenditure item. Residential rates are allowed to grow according to the SRV proposed by Coffs Harbour City Council.

As a final step, the new levels of residential rates in 2016/17 are compared to the new levels of household expenditure, and an assessment is made as to the ability of Coffs Harbour City residents to bear the new rates.

4. Farm and non-farm businesses viability

For the Coffs Harbour City agricultural sector, the relationship between proposed farmland rates and future farm value added is estimated as follows. Agricultural value added for Coffs Harbour City LGA was estimated by WRI for December 2013, the most recent figure available being for 2013/14, equal to \$144.49 million. The number of farms was obtained from Coffs Harbour City Council for the financial years for 2013/14 and 2014/15. The number of farms in 2015/16 – 2016/17 is assumed to follow a long term trend, with an annual decrease of 0.03%. The future value of Coffs Harbour City agricultural value added has been generated assuming the random fluctuation of aggregate value added in Coffs Harbour City LGA, inflated by a CPI growth factor of 2.31% per annum. WRI considers this reasonable, due to constraints on agricultural production in Coffs Harbour City LGA.

Non-farm value added has been estimated for WRI for 2013/14, equal to \$2,818.96 million. Coffs Harbour City Council provided the number of businesses for 2013/14 and 2014/15. The number of farms in 2015/16 – 2016/17 is assumed to follow a long term trend, with an annual increase of 1.21%. The non-farm value added is assumed to grow based on the past growth of NSW GDP over a 10 year period (2.03%) and inflated by a CPI growth factor of 2.31% per annum. The non-farm value added is assumed to be growing moderately in light of socio-economic challenges that Coffs Harbour City and the Australian economy face.

5. Coffs Harbour City Council and its peers

In terms of average personal income, socio-economic standing and the level of rates, Coffs Harbour City LGA is compared to 'Group 5' peers, as well as neighbouring LGAs (Bellingen, Clarence Valley,

³⁵ The raw data is obtained from Australian Bureau of Statistics. Table 11. CPI: Group, Sub-group and Expenditure Class, Index Numbers by Capital City. ABS Cat. No. 6401.0.

Nambucca and Port-Macquarie Hastings). The average personal income data is sourced from the ABS.³⁶ The socio-economic data is taken from the Socio-Economic Indexes for Areas (SEIFA) 2011 survey conducted by the ABS, and includes four indexes – Index of Relative Socio-Economic Disadvantage, Index of Relative Socio-Economic Advantage and Disadvantage, Index of Economic Resources and Index of Education and Occupation.³⁷ Historical council rates are obtained from the NSW Office of Local Government.³⁸

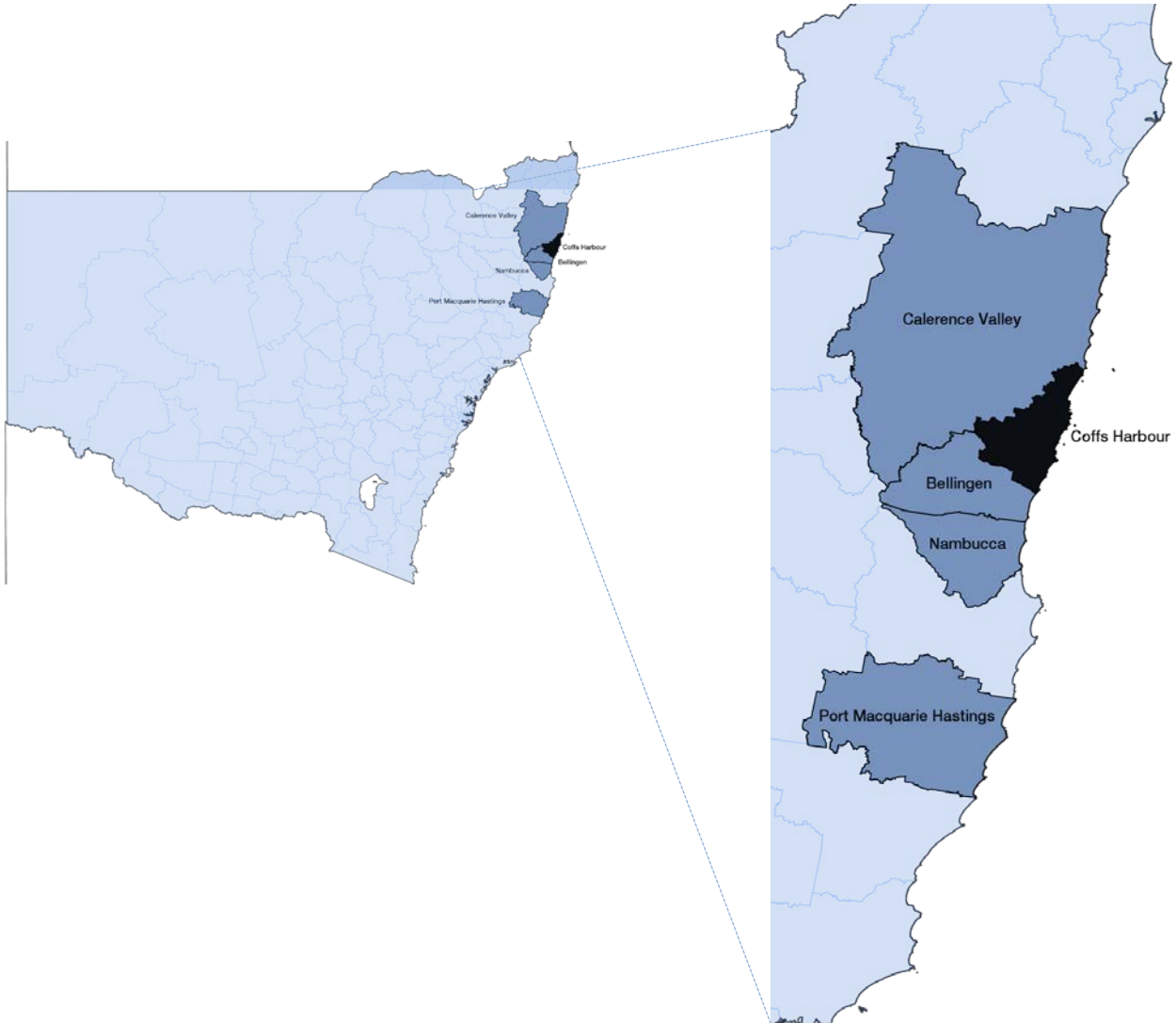
³⁶ Australian Bureau of Statistics (2011) Estimates of Personal Income for Small Areas, Time Series, 2009-10. ABS Cat. No. 6524.0.55.002 (NSW, Table 1).

³⁷ Australian Bureau of Statistics (2011) Census of Population and Housing: Socio-Economic Indexes for Areas (SEIFA). ABS Cat. No. 2033.0.55.001 (Local Government Areas, Tables 2-5).

³⁸ Office of Local Government, NSW Government. Comparative Information on NSW Local Government Councils, 1994/95 – 2010/11; Office of Local Government, NSW Government. Comparative Information on NSW Local Government Councils: Measuring Local Government Performance, 2012-13, October 2014.

REPORT ON PROPOSED SPECIAL RATES VARIATION

APPENDIX 2: COFFS HARBOUR AND NEIGHBOURING LOCAL GOVERNMENT AREAS



REPORT ON PROPOSED SPECIAL RATES VARIATION

WESTERN RESEARCH INSTITUTE

WRI is a regional development research organisation located in Bathurst, New South Wales. WRI holds a wealth of knowledge on employment, business development and investment issues affecting regional Australia. It has worked with Commonwealth, State and Local Governments and industry groups on numerous investment and development programs in regional areas. WRI has strong credentials in business and commercial market consulting and applied economic modelling including input-output analysis, shift-share, agribusiness and regional socio-economic surveys and analysis.

Ms Danielle Ranshaw – Chief Executive Officer BEc&Fin UNSW

Danielle leads the team at WRI, managing overall research output and developing the organisation's business and profile. Danielle is an experienced researcher, having worked with WRI for seven years in roles ranging from survey development, data analysis, in-depth interview, stakeholder consultation, focus group facilitation, project management and client presentation. She joined WRI having several years' experience as a project manager within the information technology sector and a few years of experience working in academic support program development at Charles Sturt University. Additionally, Danielle has extensive experience in business process analysis, performance planning and review, report writing and project planning.

Danielle is currently a member of the Australasian Evaluation Society and has considerable experience in developing monitoring and evaluation frameworks, having completed both large scale and small evaluations for organisations in the Central West of NSW. She is also enrolled in postgraduate study related to community

Ms Erin Wise – Senior Research Officer BBus Marketing, BBus Honours Class 1 (CSU)

Erin is a passionate market researcher with over 10 years' experience in the industry. Erin joins WRI after gaining a wealth of experience in brand strategy and development, and understanding consumer sentiment from her previous role as a Research Director at Pollinate. She is a skilled quantitative researcher with background in brand tracking, consumer segmentation, advertising testing and evaluation. Erin is proficient in multivariate data analysis techniques, project management, presenting and is dedicated to ensuring her clients solve their research problems.

Erin is currently a member of the Australian Marketing and Social Research Society and has been certified by the society as a Qualified Practicing Market Researcher (QPMR).

Mr Alistair MacLennan – Senior Research Officer BA Political Economy, First Class Honours (UNE)

Having served in a variety of parliamentary, public service and private sector roles, Alistair brings a wealth of research experience to WRI. Alistair has well developed skills in data analysis, economics and business, and has a wide understanding of government. In addition, Alistair also has experience in policy development in the energy sector, where he engaged with industry, government agencies and NGOs to inform policy. Alistair's experience in engaging with clients, stakeholders and the public assists WRI to fully understand its client's needs and provide tailored research.

Ms Rebecca Hood Research Officer BBus (Fin/Acc) With Distinction CSU

With several years' experience in the Financial Services Industry, coupled with a degree in Finance and Accounting from Charles Sturt University, Rebecca brings strong skills in finance, economics, business and accounting to WRI projects. Rebecca's extensive experience in the finance field and her high level understanding of current market knowledge gives Rebecca a solid understanding of the financial needs of regional and rural Australia. Having prior experience with local councils and retail, Rebecca also brings a robust understanding of the needs of regional businesses in our local economy to her role at WRI.

Ms Dale Curran - Executive Officer

BA (ANU)

Dale is responsible for all administrative processes at WRI including executive support, finance, management of the Board of Directors and maintenance of policies. Dale has worked in a variety of roles at WRI, including Fieldwork Supervisor and Research Assistant, and has worked on several community and business surveys. As a result, she brings a strong understanding of research processes to her administrative role. Dale brings a high level of organisational skill and efficiency to her role as Executive Officer.

