



REPORT ON PROPOSED SPECIAL RATES VARIATION

For Willoughby City Council

CONTENTS

CONTENTS	2
EXECUTIVE SUMMARY	3
1. INTRODUCTION	7
2. METHODOLOGY	9
3. RESULTS	11
CONCLUSION	29
APPENDIX 1: TECHNICAL NOTES	31
WESTERN RESEARCH INSTITUTE	34

Disclaimer

Any representation, statement, opinion or advice, expressed or implied, in this publication is made in good faith, but on the basis that the Western Research Institute (WRI) or its employees are not liable (whether by reason of negligence, lack of care or otherwise) to any person for any damage or loss whatsoever, which has occurred or may occur in relation to that person taking (as the case may be) action in respect of any representation, statement or advice referred to above.

Contact Details

Street Address

The Flannery Centre
341 Havannah St
Bathurst NSW 2795

Mailing Address

PO Box 9374
Bathurst NSW 2795

Ph: 02 6333 4000

Email: team@wri.org.au

Website: www.wri.org.au

Prepared for Willoughby Council

5th February 2014

13028 Willoughby Rates/Report

EXECUTIVE SUMMARY

Willoughby City Council seeks to establish Willoughby as a vital hub of Sydney's North Shore, where residential, cultural, economic and environmental interests are respected and balanced and communities enjoy a diversity of lifestyles. Recognising the issue of financial sustainability, the need to maintain assets and to provide services at an adequate level, the Council is considering securing its funds by increasing the council rates through a special rates variation (SRV).

This report examines two alternative proposals for rates increases:

- To increase council rates by 2.3% in 2014/15 and by 3% over 2015/16 – 2018/19 period in line with the Independent Pricing and Regulatory Tribunal (IPART) local government cost index (hereinafter 'Option 1').
- To implement an SRV and increase council rates by 8.3% in 2014/15, by 5.5% in 2015/16 and by 5% over 2016/17 – 2018/19 period (hereinafter 'Option 2').

The Western Research Institute (WRI) was engaged to assess the impact of the implementation of the proposed rates increases. WRI asked the following questions:

- Is the proposed rates increase comparable to other price and cost increases in Willoughby 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 Willoughby LGA's ranking relative to its peers in terms of personal income and socio-economic indicators?

The summary results of the assessment are:

Option 1

Under Option 1 the proposed rates increase:

- will be below anticipated utilities price increases for households, and will also be below price increases in many other cost categories; and
- will be above anticipated price changes in most input cost and output price categories for businesses,¹ and will also be below wage cost increases in most categories.

The proposed rate increase will be going some way to catch up (or will achieve considerable catch up) with price increases for households and input cost increases for businesses in several price/cost categories.

Despite relatively high residential rates/household expenditure ratios for some household groups, the proposed rates increases are not expected to impose a significant burden on households, as they will change household expenditure on rates by less than one percentage point (for all households), suggesting that **overall household expenditure will not be unduly compromised**.

¹ Willoughby City Council's rating categories do not include farm business rates. Therefore, in this report, the term business refers to non-farm businesses only.

REPORT ON PROPOSED SPECIAL RATES VARIATION

For businesses, the proposed rates increases will leave rates as a proportion of business value added below 1%, indicating an **insignificant impact on business viability**. The proposed increases will see rates as a proportion of value added in the ordinary rate category increase from 0.16% to 0.20%, and in the business sub-category from 0.10% to 0.12% (less than one percentage point).

Under Option 1:

- residential rates in Willoughby LGA will be below residential rates in Group 3 LGAs and neighbouring LGAs (Lane Cove, North Sydney, Ku-ring-gai, Warringah and Mosman) by a substantial margin; and
- business rates will be above business rates in Group 3 and below business rates in neighbouring LGAs.

Option 2

Under Option 2 the proposed rates increase:

- will be below anticipated utilities and child care price increases for households, but will be above price increases in all other cost categories; and
- will be above anticipated price changes in all input cost and wage cost categories for businesses, except for input price changes in electricity production.

The proposed rate increase will be going some way to catch up (or will achieve considerable catch up) with price increases in some categories for households. In the case of businesses, it will go some way to catch up with changes in electricity input prices, will achieve considerable catch up with changes in rail freight output prices, but will exceed experienced and forecast changes in all other cost categories.

Despite relatively high residential rates/household expenditure ratios for some household groups, the proposed rates increases are not expected to impose a significant burden on households, as they will change household expenditure on rates by less than one percentage point (for all households), suggesting that **overall household expenditure will not be unduly compromised**.

For businesses, the proposed rates increases will leave rates as a proportion of business value added below 1%, indicating an **insignificant impact on business viability**. The proposed increases will see rates as a proportion of value added in the ordinary rate category increase from 0.16% to 0.22%, and in the business sub-category from 0.10% to 0.13% (less than one percentage point).

Under Option 2:

- residential rates in Willoughby LGA will be below residential rates in Group 3 LGAs and neighbouring LGAs by a substantial margin; and
- business rates will be above business rates in Group 3 and below business rates in neighbouring LGAs.

Summary

Willoughby LGA is ranked favourably in terms of average personal income, socio-economic indicators and the level of outstanding rates. However, it is ranked poorly in terms of land values and the level of council rates in the business category.

WRI notes in this regard that high land values and associated issue of high mortgage and rent payments may in the future compromise the ability of Willoughby residents to pay council rates, despite favourable socio-economic standing of Willoughby LGA.

In terms of costs for Willoughby City households, the proposed rates increase under Option 1 will be below assumed changes in utilities prices, and also below the assumed price changes for several goods and services categories. Under Option 2, the proposed rates increase will only be below the assumed price changes in utilities and child care categories.

Regarding services that are typically provided by local government (water, child care), under both rates increase options the proposed rates increase will be below the anticipated change in child care costs and water prices.

In terms of input costs, output prices and wages for businesses, the proposed rates increase under Option 1 will be above changes in most input and output price categories, but will be below most wage changes. Under Option 2, the proposed rates increase will be above changes in all input cost, output price and wages categories except for input prices in electricity production.

Under Option 1, the proposed rate increases will be going some way to catch up (or will achieve considerable catch up) with price increases for households and input cost increases for businesses in several price/cost categories. Under Option 2, this will be the case regarding price increases for households, but less so for businesses.

The rates increase proposed under both rates increase options will have insignificant impacts on the Willoughby community and businesses in terms of ability to pay rates and financial bottom line.

Under both rates increase options, Willoughby residential rates will be below Group 3 and neighbouring LGA levels in 2018/19. Willoughby business rates will be above business rates in Group 3 and below business rates in neighbouring LGAs.

Overall, the analysis of the reasonableness of the proposed rates increases delivered the following results:

- The rate increases proposed under both rates increase options pass reasonableness tests in terms of its impact on households and the financial bottom line of businesses.
- The reasonableness tests are passed when comparing Willoughby residential rates with respective peer LGAs' rates.
- The reasonableness test is partially passed in terms of comparing Willoughby business rates with peers' rates.
- In terms of comparison of proposed rates increases with other cost and price changes, the reasonableness test:

REPORT ON PROPOSED SPECIAL RATES VARIATION

- was passed in the case of Option 1 and household costs;
- was partially passed in the case of Option 1 and business costs, and Option 2 and household costs; and
- was not passed in the case of Option 2 and business costs.

1. INTRODUCTION

Willoughby City Council, through its 2013-17 Delivery Program and 2013-25 Long Term Financial Plan, seeks to establish Willoughby as a vital hub of Sydney's North Shore, where residential, cultural, economic and environmental interests are respected and balanced and communities enjoy a diversity of lifestyles.²

The achievement of Council's strategic objectives rests on Council's ability to provide a range of services and the assets required to deliver these services. Over time, the City of Willoughby has witnessed change and the dramatic expansion of services provided by the Council. In addition, while current funding appears to be sufficient to maintain some classes of assets at a level that is deemed acceptable by Council, long term analysis of degradation rates and expenditure has revealed a considerable funding gap for many other classes. While minor adjustments could be made to Council's current funding distribution, a significant funding gap exists (in particular, \$28 million maintenance backlog) that will continue to grow if not addressed.³

Willoughby City Council engaged in consultation with the Willoughby community regarding the level and breadth of assets and of public services provided by Council, and found that the community expects assets to be maintained and services to be provided at a high standard.

Therefore, recognising the issue of financial sustainability, as well as community sentiment and support for asset maintenance and services provision, Willoughby City Council is considering securing its funds by applying for a special rates variation (SRV).⁴

In this regard two rates increase options have been proposed:

- To increase council rates by 2.3% in 2014/15 and by 3% over 2015/16 – 2018/19 period in line with the Independent Pricing and Regulatory Tribunal (IPART) local government cost index (hereinafter 'Option 1').⁵
- To implement an SRV and increase council rates by 8.3% in 2014/15, by 5.5% in 2015/16 and by 5% over 2016/17 – 2018/19 period (hereinafter 'Option 2').

WRI notes that the proposed rates increases also apply to other rating categories, such as strata storage facility rates, as well as categories specific to Willoughby LGA (business rates for Chatswood Town Centre, Chatswood Chase and Westfield shopping centres).

Under Option 1, assets will decline over time, meaning increased maintenance backlogs and increased costs, and no new assets will be provided. Council would have to make further business efficiency

² Willoughby City Council. Willoughby Delivery Program, 2013-2017, p. 11.

³ Willoughby City Council. Long Term Financial Plan, 2013-2015, p. 9.

⁴ WRI notes that in 2012/13 Willoughby City Council applied to increase the minimum rate level in three rating categories (residential and business rate categories and Chatswood Town Centre business rate sub-category) by 23.6% and received approval from the Independent Pricing and Regulatory Tribunal (IPART). See IPART. Willoughby City Council's Application to Increase Minimum Rates 2012/13.

⁵ WRI notes that IPART set the pegging percentage reflecting changes in local government costs at 3.4% for 2013/14 and at 2.3% for 2014/15. Further adjustments to the rate peg may be made in subsequent years. Willoughby City Council, however assumed 3% peg over 2015/16 – 2018/19 period in its rates increase calculations and WRI will use this peg in the analysis of the proposed rates changes. See IPART. Rate Peg for NSW Councils for 2014/15, 2 December 2013.

REPORT ON PROPOSED SPECIAL RATES VARIATION

improvements and to reallocate services in the long run, resulting in the reduction in the level of certain services, closure of some buildings, reduction of the roads quality etc.⁶

Under Option 2, assets will be maintained and services will be kept at the current level, maintenance costs will be reduced and maintenance backlog will be kept in check. Willoughby City Council will be able to renew capital projects and secure assets for future generations. The proposed SRV will not allow for new assets or aspirational projects.⁷

If no rate increase above the peg is implemented (Option 1), the compounded increase across rating categories in Willoughby LGA will be 15.14% by 2018/19, whereas if the SRV is implemented (Option 2), the compounded increase across respective rating categories will be 32.27%.

Under Option 2 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 the 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 the comparison of rate levels and socioeconomic indicators with peer group councils.

The following report gives due consideration to IPART guidelines and examines three issues pertaining to the proposed rates increase and Willoughby City Council's application to IPART. The 3 issues are:

- The comparison of the proposed rates increase with the increase of costs and prices, recently experienced by Willoughby residents and businesses.⁸
- The impact of the proposed rates increase on Willoughby residents' household expenditure, and viability (financial bottom line) of Willoughby businesses.
- A comparison of the socioeconomic indicators in Willoughby and peer local government areas (LGAs), following the implementation of the rates increase.

⁶ Willoughby City Council. Community Assets: At the Core of Your Neighbourhood. Important Information About a Proposed Special Rate Variation. December 2013.

⁷ Willoughby City Council. December 2013.

⁸ Willoughby City Council's rating categories do not include farm business rates. Therefore, in this report, the term business refers to non-farm businesses only.

2. METHODOLOGY

The report analyses the proposed rates increases for reasonableness. Three aspects of reasonableness are considered. These are price comparison, impact and peer comparison.

Price comparisons

To determine the reasonableness of the rate increase for households, this report first considers cost increases of major items of goods, services and utilities borne by households over the last 5 years. It is assumed for the purposes of this exercise that similar increases will occur over the next 5 years during the rates increase implementation.

To determine the reasonableness of the rate increase for businesses, input price increases over the last 5 years for each of the major industries in Willoughby LGA are considered. Again it is assumed that similar increases will occur over the next 5 years.

The rate increase is considered reasonable, if it will be in line with other price and costs increases over the next 5 years, or if the proposed rates increase will be catching up with other price and costs increases over the 5 year period.⁹

Impact

The impact of the rate increase for households will depend upon the relative size of the rate increase in the household budget. Estimates of household expenditure and individual expenditure items in Willoughby LGA are not available, but can be reconstructed from Australia-wide household expenditure survey and Willoughby's average household income. The proposed residential rates are then compared to the average expenditure of the Willoughby household. 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 it changes rates as a percentage of household expenditure by less than one percentage point.

The impact of the rate increase for Willoughby businesses will depend upon how the increase affects the business bottom line or gross operating surplus (GOS). Figures for GOS across businesses in Willoughby are not available but GOS is part of the value-added of Willoughby industry and the two concepts are related. Therefore, the ratio of rates to industry value added is a good proxy for the impact of rates on industry viability and is used in the analysis of Willoughby industries over the 2013/14 – 2018/19 period. (It should be noted that rates are tax deductible so for the comparison the company tax rate should be deducted from the rate increase.)

The impact of the rate increase on the viability of Willoughby business is considered insignificant if 70 per cent (i.e. deducting company tax) of the rate increase changes rates as a percentage of industry value added by less than 1 percentage point.

⁹ Catching up takes place if the rate increase does not exceed the actual price/cost increase of related items over the last 5 years plus the assumed increase of related items over the next 5 years minus the actual rate increases over the last 5 years.

REPORT ON PROPOSED SPECIAL RATES VARIATION

Peer Comparison

Willoughby City Council is compared to three peers: New South Wales as a whole, 'Group 3 LGAs' to which City of Willoughby belongs, as well as to a combined 'Group 3 & neighbouring LGAs'. Group 3 LGAs include Auburn, Bankstown, Blacktown, City of Canada Bay, Canterbury, Fairfield, Holroyd, Hurstville, Ku-ring-gai, Marrickville, Parramatta, Randwick, Rockdale, Ryde, Sutherland, Warringah and Willoughby. Neighbouring LGAs include Lane Cove, North Sydney, Ku-ring-gai, Warringah and Mosman.

Specifically, WRI has examined whether the level of rates in Willoughby LGA has been in line with its peers, and at how Willoughby City Council was 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 the above areas may point to the unaffordability of the rates' increase. In addition WRI makes a projection of the future ranking of the Willoughby LGA in terms of rates.

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

- Following the implementation of the rates increases, the rates ranking of Willoughby LGA is brought in line with its average personal income ranking;
- Some form of assistance accompanying the rates increase is provided in order to compensate for the rate increases in Willoughby LGA over the 5 year period.

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

3. RESULTS

3.1 Price comparisons

a. Households

When comparing proposed rates increases in Willoughby LGA, WRI assumed that for all cost items, the past growth trend is likely to continue in the near term with compounded price increases between 2014/15-2018/19 being commensurate with CPI gains between 2008-13. This view is based on the forecasts by the Reserve Bank of Australia and the Commonwealth Government of no major acceleration or deceleration of inflation.

As shown in Table 1.1, over the past five years the inflation was uneven across industries and sectors. The compounded percentage change in the aggregate CPI was 12.51%. Utilities prices rose by 70.04%, the cost of several services rose as well (child care costs by 41.28%, education costs by 28.25%, health care costs by 27.94%) while the CPI for household equipment and recreation and culture declined (by 7.00% and 1.86% respectively). The cost of goods rose by 9.50% over the past five years.

The data in Table 1.1 (Column 2) suggests that under Option 1 (15.14% cumulative increase in residential rates over 2014/15 – 2018/19 period), the proposed rate increase will be:

- below assumed price changes for electricity, gas and water and sewerage, as well as price changes for utilities as a broad cost category;
- below assumed price changes for several goods and services (alcohol and tobacco, child care, education and health care), as well as price changes for services as a broad cost category; and
- above assumed price changes for all other cost items (food and beverages, insurance and financial services, communications, travel and accommodation, clothing and footwear, recreation and culture, and household equipment).

As shown in Table 1.1 (Column 3), under Option 1, the proposed rate increase is going a little way to “catch up” with the changes in electricity, gas, water and sewerage prices and child care costs, but will achieve considerable “catch up” with changes in alcohol and tobacco prices, as well as healthcare and education costs.

REPORT ON PROPOSED SPECIAL RATES VARIATION

Table 1.1: Actual and projected costs for Willoughby City Council households based on the Sydney CPI (compounded % change)

Period	Past change (Sept 2008 - Sept 2013)	Assumed change (2013/14 - 2018/19)	Past change + Assumed change - past rate change
All groups CPI	12.51	12.51	4.53
1. Services	16.65	16.65	12.80
Healthcare	27.94	27.94	35.38
Education	28.25	28.25	36.00
Insurance and financial services	7.94	7.94	-4.62
Travel and accommodation	2.87	2.87	-14.76
Recreation and culture	-1.86	-1.86	-24.21
Communications	4.38	4.38	-11.73
Child care	41.28	41.28	62.06
2. Goods	9.50	9.50	-1.50
Food and beverages	9.26	9.26	-1.98
Alcohol and tobacco	28.57	28.57	36.65
Clothing and footwear	1.84	1.84	-16.82
Household equipment	-7.00	-7.00	-34.50
3. Utilities	70.04	70.04	119.59
Electricity	88.55	88.55	156.60
Electricity (AEMO forecast)		5.00	73.05
Gas	51.20	51.20	81.91
Water and sewerage	37.48	37.48	54.47
4. Willoughby rates			
Past rates	20.50		
Proposed rates (Option 1)		15.14	
Proposed rates (Option 2)		32.27	

The data in Table 1.1 also suggests that under Option 2 (32.27% cumulative increase in residential rates over 2014/15 – 2018/19 period), the proposed rate increase will be:

- below assumed price changes for electricity, gas and water and sewerage, as well as price changes for utilities as a broad cost category;
- below assumed price changes for child care; and
- above assumed price changes for all other cost items.

As shown in Table 1.1, under Option 2, the proposed rate increase is going a little way to “catch up” with the changes in gas and electricity prices, some way to “catch up” with water and sewerage prices and childcare costs, but will achieve considerable “catch up” with changes in alcohol and tobacco prices and healthcare and education costs.

WRI has sought to verify likely electricity price projections from a number of sources. The information available is highly variable. One of regulatory bodies (Australian Energy Market Operator) suggests that NSW electricity prices will grow by 5% over 2014/15 – 2018/19 period.¹⁰ In its later papers, AEMO forecasted smaller growth over the same period (less than 1.0%).¹¹ Factors that may have a downward effect on electricity prices include energy efficiency, changes in manufacturing output, the state of international energy markets, consumer response to rising prices etc. This information implies that it is likely that the rates increase proposed by Willoughby City Council may exceed anticipated changes in electricity prices.

b. Businesses

In comparing proposed rates increases in Willoughby LGA and input costs, wages and output prices, WRI assumed that cost and price changes that Willoughby businesses will experience over the next 5 years are identical in terms of magnitude to the cost and price changes in the past 5 years.¹²

As shown in Table 2.1, over the 2008-13 period input prices increased substantially in electricity production (71.51%) and less so in house construction (9.73%) and manufacturing (4.60%). Output prices increased in accommodation and food services (13.24%) and rail and road freight (28.50% and 12.23% respectively). Wages increased in all industries in question, with electricity experiencing the highest growth (21.98%).

With the exception of electricity input prices and rail freight output prices, the proposed business rates increases under Option 1 (15.14% cumulative increase over 2014/15 – 2018/19 period) will be above the changes in both the input and output prices that Willoughby businesses are likely to experience. The proposed business rates increases will be below the wage increases in all industries, except accommodation and food services.

10 Australian Energy Market Operator. Economic Outlook Information Paper: National Electricity Forecasting, 2012, p. 19.

11 Australian Energy Market Operator. Economic Outlook Information Paper: An Input to the National Electricity Forecasting Report, 2013, p. 5-16.

12 However, it is less plausible for agriculture and manufacturing that future price changes will mirror past price changes, because it is unlikely that the Australian dollar will appreciate to the same extent as in the past.

REPORT ON PROPOSED SPECIAL RATES VARIATION

Table 2.1: Actual and projected costs for businesses

Industry	Input prices	Output prices	Wages
Electricity	71.51		21.98
Manufacturing	4.60		16.90
House construction	9.73		20.16
Accommodation & food services		13.24	15.05
Rail freight		28.50	
Road freight		12.23	
Public administration & safety			16.55
Education & training			19.98
Health care & social assistance			18.03
Imported materials	13.93		
Domestic materials	-11.92		
Intermediate inputs	5.84		
Proposed business rate change (Option 1)	15.14		
Proposed business rate change (Option 2)	32.27		

Note. The rates changes under the maintained services plan were calculated based on the data provided by Willoughby City Council.

With the exception of electricity input prices, the proposed business rates increases under Option 2 (32.27% cumulative increase over 2014/15 – 2018/19 period) will be above the changes in input and output prices, as well as wages (Table 2.1).

WRI has also examined the possibility of the proposed business rates catching up with price and costs changes (Table 2.2).

Under Option 1, the proposed rate increase is going a little way to catch up with experienced and forecast electricity input price changes, some way to catch up with rail freight output price changes, but will have achieved considerable “catch up” with experienced and forecast changes in wages growth in all industries in question. The proposed rate increase will exceed experienced and forecast changes in:

- Road freight and accommodation and food services output prices,
- Manufacturing and housing construction input prices, as well as
- Prices of domestic and imported materials and intermediate inputs.

Table 2.2: The catching up of proposed rate increases with input price 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	128.47		29.42
Electricity (AEMO forecast)	118.92		29.42
Manufacturing	-5.35		19.26
House construction	4.91		25.78
Accommodation & food services		11.94	15.55
Rail freight		42.45	
Road freight		9.92	
Public administration & safety			18.55
Education & training			25.41
Health care & social assistance			21.52
Imported materials	13.32		
Domestic materials	-38.38		
Intermediate inputs	-2.86		
Past business rate change (2008-2013)	14.54		
Proposed business rate change (Option 1)	15.14		
Proposed business rate change (Option 2)	32.27		

Note. The “catching up” is measured as past changes in input prices over the past 5 years plus assumed changes in input prices over the next 5 years minus past business rates changes.

Under Option 2, the proposed rate increase is going some way to catch up with experienced and forecast electricity input price changes, and will also have achieved considerable “catch up” with experienced and forecast changes in rail freight output prices. The proposed rate increase will exceed experienced and forecast changes in:

- Wages (in all categories),
- Output prices in accommodation and food services and road freight,
- Input prices in manufacturing and house construction, and
- Prices of imported and domestic materials and intermediate inputs.

REPORT ON PROPOSED SPECIAL RATES VARIATION

For Willoughby households:

- The proposed rates increases under Option 1 are below assumed changes in electricity, gas and water and sewerage prices, price changes for several goods and services, as well as price changes for utilities and services as broad cost categories.
- Under Option 1, the proposed rates increases are going a little way to “catch up” with price changes for utilities and child care costs changes, but will achieve considerable “catch up” with changes in several other goods and services categories.
- Under Option 2, the proposed rates increases are below assumed changes in electricity, gas and water and sewerage prices, child care costs and price changes for utilities as a broad cost category.
- Under Option 2, the proposed rates increases are going a little way to catch up with prices changes for electricity and gas, some way to catch up with water and sewerage and child care price changes, but will achieve considerable “catch up” with changes in some of the goods and services categories.

Overall, the reasonableness criterion is satisfied under Option 1 and is partially satisfied under Option 2.

For Willoughby businesses:

- The rates increase under Option 1 is above the changes in most input costs and output prices, but below changes in most wages categories.
- Under Option 1, the proposed rate increases are going a little way to catch up with changes in input prices for electricity, some way to catch up with changes in rail freight output prices, but will achieve considerable “catch up” with changes in all wages categories.
- The rates increases under Option 2 are above the changes in all input costs except for electricity input prices, and above all output prices and wages.
- Under Option 2, the proposed rates increases are going some way to catch up with changes in input prices for electricity, will achieve considerable catch up with rail freight output prices, but will exceed experienced and forecast changes in all other cost categories.

Overall, the reasonableness criterion is partially satisfied in the case of rates increase under Option 1 and is not satisfied in the case of rates increase under Option 2.

3.2 Impact

a. Household expenditure

Tables 3.1 and 3.2 present the proportion of residential rates under Options 1 and 2 in the overall expenditure of Willoughby households.

Table 3.1 Willoughby City Council rates as a proportion of total expenditure (% in 2018/19) – Option 1

a). Level of income

	Lowest	Second	Third	Fourth	Highest	All households	Second and third deciles
Initial (2013/14)	1.18	0.82	0.62	0.50	0.40	0.62	0.99
After 6 years (2018/19)	0.87	0.61	0.46	0.37	0.30	0.47	0.74
Change (2013/14-2018/19)	-0.31	-0.21	-0.16	-0.13	-0.10	-0.15	-0.25

b). Sources of income

	Wages and salaries	Own unincorporated business income	Other income	All households
Initial (2013-14)	0.52	0.51	0.56	0.62
After 6 years (2018/19)	0.39	0.38	0.42	0.47
Change (2013/14-2018/19)	-0.13	-0.13	-0.14	-0.15

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 (2013-14)	1.45	1.17	1.15	1.02	1.42
After 6 years (2018/19)	1.08	0.87	0.84	0.75	1.05
Change (2013/14-2018/19)	-0.37	-0.30	-0.31	-0.27	-0.37

Note. Changes are calculated as rates/household expenditure ratio in 2018/19 minus rates/household expenditure ratio in 2013/14.

WRI notes that Willoughby 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.¹³ Council also provides up to \$250 in annual rebate to eligible pensioners in accordance with the Local Government Act, as well as a domestic waste management (DWM) fee that is \$100 lower than the normal DWM fee.

¹³ Applications under hardship policy are generally only for exceptional circumstances and are limited to residential properties. Willoughby City Council. Willoughby Delivery Program, 2013-2017, p. 27.

REPORT ON PROPOSED SPECIAL RATES VARIATION

As a result, rates as a proportion of total expenditure are likely to be smaller for these ratepayer categories than the numbers in Table 3.1 above indicate.

Table 3.2 Willoughby City Council rates as a proportion of total expenditure (% in 2018/19) – Option 2

a). Level of income

	Lowest	Second	Third	Fourth	Highest	All households	Second and third deciles
Initial (2013-14)	1.18	0.82	0.62	0.50	0.40	0.62	0.99
After 6 years (2018/19)	1.00	0.70	0.53	0.43	0.35	0.54	0.85
Change (2013/14-2018/19)	-0.18	-0.12	-0.09	-0.07	-0.05	-0.08	-0.14

b). Sources of income

	Wages and salaries	Own unincorporated business income	Other income	All households
Initial (2013-14)	0.52	0.51	0.56	0.62
After 6 years (2018/19)	0.45	0.44	0.48	0.54
Change (2013/14-2018/19)	-0.07	-0.07	-0.08	-0.08

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 (2013-14)	1.45	1.17	1.15	1.02	1.42
After 6 years (2018/19)	1.23	1.00	0.96	0.86	1.21
Change (2013/14-2018/19)	-0.22	-0.17	-0.19	-0.16	-0.21

Note. Changes are calculated as rates/household expenditure ratio in 2018/19 minus rates/household expenditure ratio in 2013/14.

It is shown that:

- Under Options 1 and 2, the total cost of residential rates incurred by the households in the lowest quintiles will not exceed 0.87% and 1.00% of the total expenditure respectively by 2018/19.
- For those households receiving the age pension, the costs will stand at 1.08% and 1.23% of total expenditure.
- For all categories of government support recipients, under Option 1 the rates/household expenditure ratio will range from 0.75% to 1.08% in 2018/19 and on average will be 0.92%. Under Option 2, the rates/household expenditure ratio for all categories of government support will range from 0.86% to 1.23% in 2018/19 and on average will be 1.05%.
- For all households, the cost of residential rates will be 0.47% and 0.54% of total expenditure under Options 1 and 2 respectively in 2018/19 financial year.

Despite the fact that residential rates as a proportion of the household expenditure is above 1% for some household categories, the proposed increase of residential rates in Willoughby LGA is likely to only have a moderate impact, because:

- Under Option 1, rates as a percentage of total household expenditure will decline by 0.15 percentage points between 2013/14 and 2018/19 in the 'All households' category, by 0.31 percentage points in the low-income category and by 0.37 percentage points in the pensioner category.
- Under Option 2, rates as a percentage of total household expenditure will decline by 0.08 percentage points between 2013/14 and 2018/19 in the 'All households' category, by 0.18 percentage points in the low-income category and by 0.22 percentage points in the pensioner category.
- Therefore, under both rates increase options the reasonableness criterion will be satisfied.

The ranking of Willoughby LGA against its peers in terms of rates/household expenditure ratio is modelled, assuming that:

- Willoughby LGA increases its rates under either Option 1 or 2.
- Rates in Group 3 LGAs increase by 6.35% per annum over 2014/15 – 2018/19 period (the average rates increase permitted by IPART in 2011-13 for several Group 3 LGAs – Auburn, Ku-ring-gai, Parramatta, Randwick and Rockdale)
- Rates in neighbouring LGAs increase by 8.02% per annum over 2014/15 – 2018/19 period (the average rates increase permitted by IPART in 2011-13 for Ku-ring-gai, Lane Cove and North Sydney)

As shown in Table 3.3, the rates/household expenditure ranking of Willoughby LGA against its peers will remain unchanged under Option 1, provided peer LGAs grow in line with 7-year trend. However, if peer LGAs grow at the average rates permitted by IPART, the rates/household expenditure ranking of Willoughby LGA will improve under Option 1, with Willoughby LGA moving from 4th lowest to 3rd lowest rate/household expenditure ratio.

Under Option 2, the ranking of Willoughby LGA will worsen, with Willoughby LGA moving from 4th lowest to 5th lowest rate/household expenditure ratio, assuming peer LGAs grow in line with 7-year trend. However, if peer LGAs grow at the average rates permitted by IPART, the rates/household expenditure ranking of Willoughby LGA will remain unchanged under Option 2.

WRI also notes that under Options 1 and 2 between 2013/14 and 2018/19, the change in rates/household expenditure ratio in Willoughby LGA will not exceed one percentage point.

Overall, it appears that, despite relatively high rates/household expenditure ratios in some of the income categories, in 2018/19 (i.e. by the end of rates increase implementation under Options 1 and 2) households across all classification categories will be able to pay the rates without unduly compromising their overall expenditure.

REPORT ON PROPOSED SPECIAL RATES VARIATION

Table 3.3. Rates as a proportion of total household expenditure in Willoughby and peer LGAs

LGA	Current (2013-14)	After 5 years	After 5 years
		(*)	(**)
Auburn Council	0.86	0.63	0.76
Bankstown City Council	1.31	1.01	1.16
Blacktown City Council	1.27	0.97	1.12
Canada Bay City Council	0.78	0.59	0.69
Canterbury City Council	1.29	0.97	1.14
Fairfield City Council	0.94	0.60	0.83
Holroyd City Council	0.93	0.68	0.82
Hurstville City Council	1.16	0.91	1.02
Ku-ring-gai Council	0.36	0.18	0.34
Marrickville Council	0.86	0.66	0.76
Parramatta City Council	1.03	0.86	0.91
Randwick City Council	0.92	0.70	0.81
Rockdale City Council	1.05	0.78	0.93
Ryde City Council	0.72	0.53	0.63
Sutherland Shire Council	1.22	0.95	1.07
Warringah Council	1.06	0.84	1.01
Willoughby City Council (Option 1)	0.62	0.47	0.47
Willoughby City Council (Option 2)	0.62	0.54	0.54
Lane Cove Municipal Council	0.84	0.70	0.80
North Sydney Council	0.33	0.26	0.32
Mosman Municipal Council	0.54	0.43	0.52
Ranking of Willoughby City Council			
Option 1 (no SRV)	4th lowest	4th lowest	3rd lowest
Option 2 (SRV)	4th lowest	5th lowest	4th lowest

(*) Assuming Group 3 and neighbouring LGAs increase their rates in line with 7-year trend. Willoughby LGA increases rates by 15.14% (Option 1) or 32.27% (Option 2).

(**) Assuming Group 3 LGAs increase their rates at 6.35% per annum, while neighbouring LGAs increase rates at 8.02% per annum. Willoughby LGA increases rates by 15.14% (Option 1) or 32.27% (Option 2).

Rates increases of 6.35% and 8.02% per annum are increases permitted by IPART over the 2011-13 period for Group 3 LGAs and neighbouring LGAs respectively.

b. Business viability

Industrial structure in the City of Willoughby is characterised by the presence of businesses of various sizes. Specifically in a retail sector, small retail businesses exist side by side with large shopping centres, such as Chatswood Chase and Westfield.¹⁴ Respectively, the City of Willoughby has several business rating sub-categories in place:

- Chatswood Town Centre;
- Chatswood Major Retail – Chase;
- Chatswood Major Retail – Westfield;
- Strata Storage Facility; and
- Business

In this report, the impact of the proposed business rates increase on the business viability is considered for:

- The ordinary rate category (including businesses in all above mentioned sub-categories); and
- The business rating sub-category (i.e. businesses excluding two large shopping centres, businesses located in Chatswood Town Centre, and strata storage facilities)

The impact of business rates on the viability of business enterprises will vary depending on projections of business value added in Willoughby and the forecast of the number of businesses.¹⁵

WRI examined the factors that affect business conditions in the City of Willoughby and considered that a growth scenario where business value added grows moderately is the most plausible, taking into account the slow economic growth in Willoughby LGA over the past 12 years,¹⁶ as well as certain adverse economic conditions (e.g. rising input costs, slow growth in export markets) that may affect businesses in Willoughby LGA during 2014/15-2018/19.

WRI has also examined the number of businesses over the last 12 years and assumed that the number of businesses in 2014/15-2018/19 will follow a long term deterministic trend.

Regarding the viability of businesses, since their number has been increasing at a faster rate than the value added for Willoughby LGA, the average revenues of businesses have been decreasing and business rates/value added ratios have been growing. WRI assumes that this structural pattern will be preserved during the course of the rates increase implementation (Option 1 and 2).

¹⁴ Willoughby City Council. Economy Discussion Paper, p. 14.

¹⁵ In order to examine business viability in the ordinary rate category, business value added is calculated by subtracting agricultural value added generated in Willoughby LGA from total value added. In the business sub-category, business value added is calculated by subtracting agricultural value added, as well as an estimated value added generated by Chatswood Chase, Westfield and Chatswood Town Centre businesses from the total value added generated in Willoughby LGA. The estimates of value added generated by retail businesses are based on the employment by these businesses as a proportion of total employment in Willoughby LGA.

¹⁶ National Institute of Economic and Industry Research (NIEIR). Willoughby City, Gross Regional Product Measures, 2011/12. Available at economy.id.com.au.

REPORT ON PROPOSED SPECIAL RATES VARIATION

Table 4.1 shows that by 2018/19 the business rates/value added ratio for the business sub-category will be:

- 0.12% (an increase of 0.02 percentage points) under Option 1; and
- 0.13% (an increase of 0.03 percentage points) under Option 2.

Table 4.2 shows that by 2018/19 the business rates/value added ratio for the ordinary rate category will be:

- 0.20% (an increase of 0.04 percentage points) under Option 1; and
- 0.22% (an increase of 0.06 percentage points) under Option 2.

Table 4.1 Business rates and business viability (Business rating sub-category)

a). Option 1

Year	Business rates (\$)	No. of businesses	Value added (\$'000)	Rates/value added (%)
2013-14	5,395	1,903	7,123,623	0.10
2014-15	5,519	1,975	7,336,416	0.10
2015-16	5,684	2,050	7,555,566	0.11
2016-17	5,855	2,128	7,781,262	0.11
2017-18	6,030	2,209	8,013,700	0.12
2018-19	6,211	2,293	8,253,081	0.12
Change (2013/14-2018/19)				0.02

b). Option 2

Year	Business rates (\$)	No. of businesses	Value added (\$'000)	Rates/value added (%)
2013-14	5,395	1,903	7,123,623	0.10
2014-15	5,842	1,975	7,336,416	0.11
2015-16	6,164	2,050	7,555,566	0.12
2016-17	6,472	2,128	7,781,262	0.12
2017-18	6,795	2,209	8,013,700	0.13
2018-19	7,135	2,293	8,253,081	0.14
Change (2013/14-2018/19)				0.04

Table 4.2 Business rates and business viability (Ordinary rate category)

a). Option 1

Year	Business rates (\$)	No. of businesses	Value added (\$'000)	Rates/value added (%)
2013-14	5,404	3,375	7,826,404	0.16
2014-15	5,528	3,503	8,060,191	0.17
2015-16	5,694	3,636	8,300,960	0.17
2016-17	5,865	3,774	8,548,923	0.18
2017-18	6,041	3,917	8,804,292	0.19
2018-19	6,222	4,066	9,067,289	0.20
Change (2013/14-2018/19)				0.04

b). Option 2

Year	Business rates (\$)	No. of businesses	Value added (\$'000)	Rates/value added (%)
2013-14	5,404	3,375	7,826,404	0.16
2014-15	5,825	3,503	8,060,191	0.18
2015-16	6,174	3,636	8,300,960	0.19
2016-17	6,483	3,774	8,548,923	0.20
2017-18	6,807	3,917	8,804,292	0.21
2018-19	7,148	4,066	9,067,289	0.22
Change (2013/14-2018/19)				0.06

Note. The results presented in the tables 4.1 and 4.2 have been generated assuming the growth of business value added in Willoughby LGA by 0.28% per annum over the next 5 years and the growth in the number of businesses at 3.79% per annum. This assumption was based on past growth in Willoughby LGA gross regional product.

The rates increases proposed under both Option 1 and 2 are considered serviceable for businesses and will not have a significant impact on their financial bottom line.

REPORT ON PROPOSED SPECIAL RATES VARIATION

3.3 Willoughby City Council and its peers

WRI has examined past and projected council rates in Willoughby, Group 3 peer LGAs and neighbouring LGAs (Lane Cove, North Sydney, Ku-ring-gai, Warringah and Mosman) in the context of the proposed SRV.

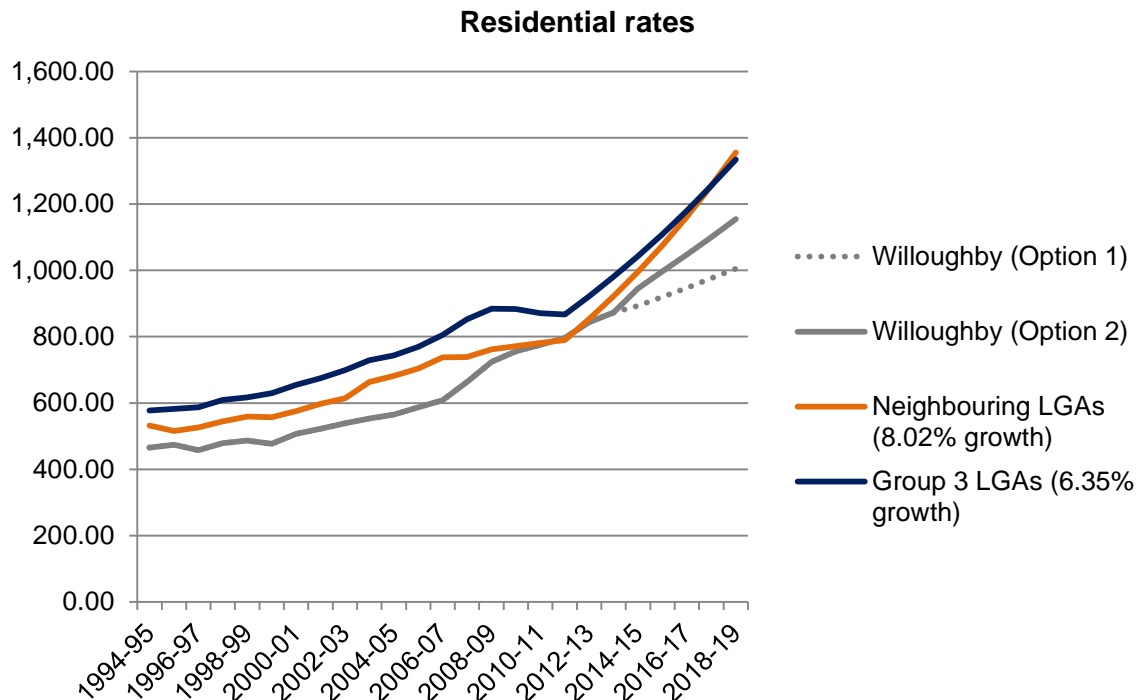
In addition, WRI considered the likelihood of rates' change in peer LGAs over 2014/15-2018/19 period. As stated in NSW Treasury Corporation report, in 2009-12 the financial position of 78% of NSW local governments was either moderate or unsustainable, meaning that raising funds via rates increase to address operational deficits and infrastructure backlogs would be needed.¹⁷

As to the magnitude of the likely rates' increase, WRI noted that:

- Over the last 3 years, the average annual rate increase permitted by IPART in NSW stood at 8.3%.
- The average annual rate increase permitted by IPART for Group 3 LGAs stood at 6.35% and for neighbouring LGAs stood at 8.02%.

For the purpose of this analysis, WRI assumed that rates in peer Group 3 LGAs will grow at 6.35% per annum and rates in neighbouring LGAs will grow at 8.02% per annum between 2014/15 and 2018/19.

Growth scenario for peer LGAs – Growth at 6.35% and 8.02% per annum

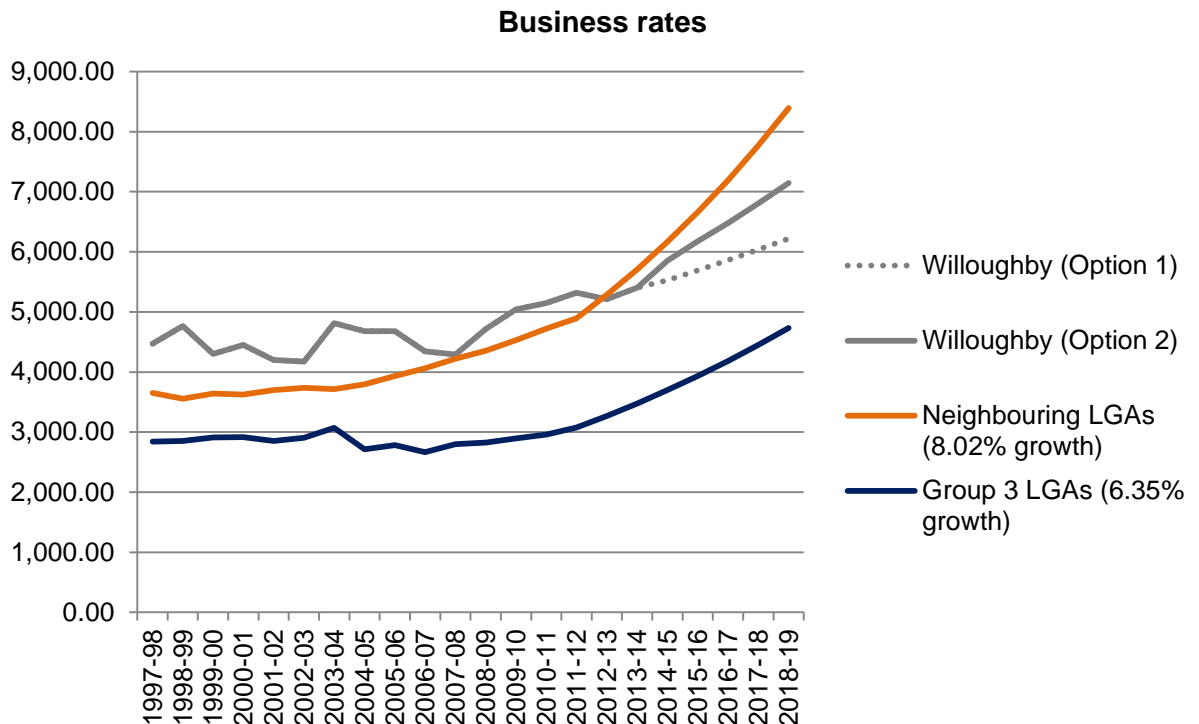


¹⁷ New South Wales Treasury Corporation. Financial Sustainability of the New South Wales Local Government Sector: Findings, Recommendations and Analysis, April 2013, p. 10.

Residential rates in Willoughby LGA were below rates in peer LGAs over the last 15 years, were in line with rates in neighbouring LGAs over the past 3 years, and have been rising steadily.

Under Option 1, Willoughby residential rates will be below Group 3 LGA levels by 24.70% and neighbouring LGA levels by 25.86% in 2018/19.

Under Option 2, Willoughby residential rates will be below Group 3 LGA levels by 13.50% and neighbouring LGA levels by 14.83% in 2018/19.



WRI notes that over the past 15 years business rates in Willoughby LGA were above Group 3 and neighbouring LGA levels.

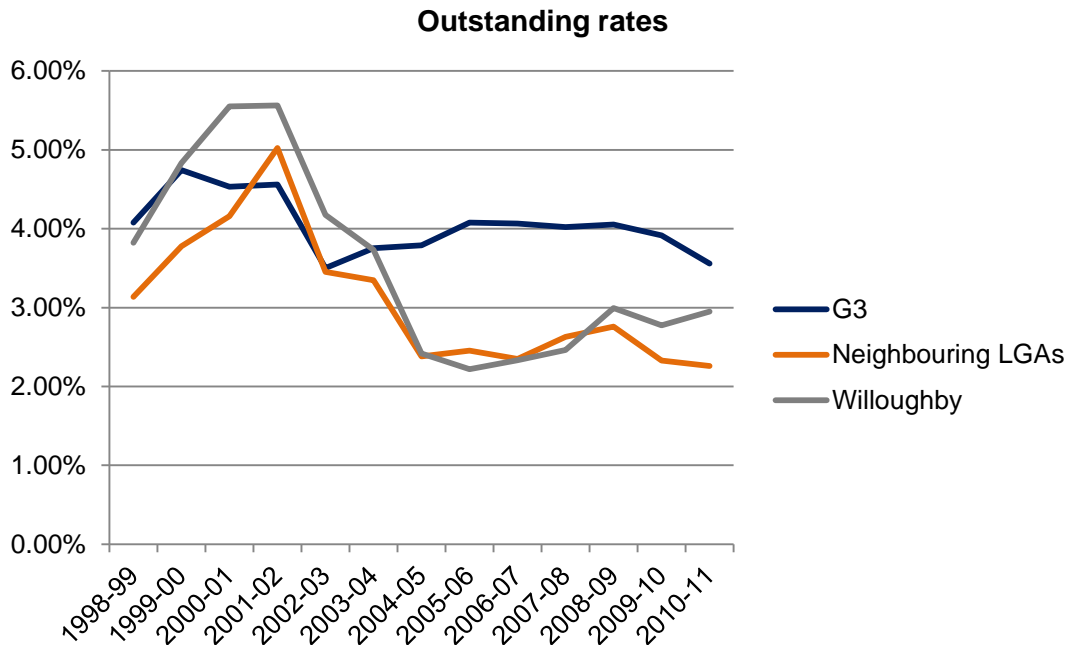
Under Option 1, business rates in Willoughby LGA will exceed rates in Group 3 by 31.49%. Business rates in Willoughby LGA will be below neighbouring LGA levels by 25.89%.

Under Option 2, business rates in Willoughby LGA will be above Group 3 levels by 51.05%. Business rates in Willoughby LGA will be below neighbouring LGA levels by 14.86%.

As shown overleaf, the ratio of outstanding rates to the total rates collected in Willoughby has been in line with neighbouring LGA averages and below Group 3 averages after 2003-04. Prior to 2003-04, the outstanding rates ratio in Willoughby LGA was above its peers' levels.

The ratio has been slightly increasing in Willoughby in recent years, reaching 2.95% in the financial year 2010-11, and at present the level of outstanding rates in Willoughby is below Group 3 level (3.56%), but above neighbouring LGA levels (2.26%). The comparison demonstrates that while at present the Willoughby community is able to pay council rates, Council should monitor the trend in this ratio, as it has been rising in recent years. WRI also notes that the ratio is likely to increase once the rate increases are implemented; the magnitude of the increase cannot be known in advance.

REPORT ON PROPOSED SPECIAL RATES VARIATION



As shown in Table 5.1, Willoughby City Council was ranked favourably relative to its peers in terms of outstanding rates, with their level being below the median of NSW LGAs and also below the median of Group 3 LGAs and ‘Group 3 & neighbouring LGAs’.

Willoughby City Council was also ranked favourably relative to Group 3 LGAs and ‘Group 3 & neighbouring LGAs’ (but not NSW) in terms of residential rates, having its residential rates at the peer groups’ median or below the median. Among 152 NSW LGAs, however, Willoughby City Council had the 55th highest residential rates.

It was also ranked poorly in terms of business rates, with their level being above the median of NSW and above Group 3 LGAs and ‘Group 3 & neighbouring LGAs’.

Table 5.1 Council rates (2010-12)

LGA	Sample	Residential	Business	Outstanding
NSW	n=152	55 th highest	14 th highest	20 th lowest
G-3	n=17	9 th highest	7 th highest	6 th lowest
G-3 & neighbouring LGAs	n=20	10 th highest	7 th highest	9 th lowest

Note. Rates ranking pertains to 2011-12, whilst outstanding rates ranking pertains to 2010-11

Regarding the affordability of the proposed rates’ increase and associated socio-economic standing, Willoughby was ranked well in terms of socio-economic indicators and average personal income against Group 3 and neighbouring LGAs, as well as NSW LGAs.

As shown in Table 5.2, Willoughby is ranked above Group 3 LGAs, ‘Group 3 & neighbouring LGAs’ and NSW median in all four components of SEIFA (index of relative socio-economic advantage and disadvantage, index of relative socio-economic disadvantage, and index of economic resources and index of education and occupation).

Overall, SEIFA rankings suggest that the socio-economic situation in Willoughby relative to its peers is sound.

Table 5.2 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=152	10 th highest	11 th highest	20 th highest	9 th highest
G-3	n=17	2 nd highest	2 nd highest	4 th highest	2 nd highest
G-3 & neighbouring LGAs	n=20	5 th highest	5 th highest	6 th highest	5 th highest

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

As shown in Table 5.3, the average personal income of Willoughby wage and salary earners, own unincorporated businesses, investment income earners and superannuation and annuity earners, as well as total income were well above the median of NSW LGAs, Group 3 LGAs and 'Group 3 & neighbouring LGAs'. This indicates that Willoughby residents are likely to be able to accommodate rate increases better than many of its peers.

Table 5.3 Average personal income (2010-11)

LGA	Sample	Wage and salary earners	Own unincorporated businesses	Investment income earners	Superannuation & annuity earners	Total
NSW	n=152	8 th highest	6 th highest	9 th highest	27 th highest	10 th highest
G-3	n=17	2 nd highest	2 nd highest	2 nd highest	2 nd highest	2 nd highest
G-3 & neighbouring LGAs	n=20	5 th highest	4 th highest	4 th highest	5 th highest	5 th highest

Willoughby LGA is ranked unfavourably in terms of the level of land values (Table 5.4). Willoughby had 11th highest land values in the representative property category among 55 areas, 3rd highest land values in retail shops category (25 areas), and 3rd highest land values in small industrial sites category (20 areas). In addition, Willoughby LGA experienced strong growth in land values relative to its peers between 2007-12 in all land value categories.

Table 5.4 Land values (2012)

	Sydney area – representative property	Retail shops	Small industrial sites (*)
Sample	n=55	n=25	n=20
2012 values	11 th highest	3 rd highest	3 rd highest
% change in land values (2007-12)	17 th highest	3 rd highest	9 th highest

Note. (*) Ranking of Artarmon suburb in Willoughby LGA

WRI has modelled the ranking of Willoughby among its respective peer groups in terms of all three rating categories, assuming that rates in 'Group 3 & neighbouring LGAs' peer group grow at 6.89% (the average

REPORT ON PROPOSED SPECIAL RATES VARIATION

rate increase permitted by IPART in 2011-13 for seven Willoughby LGA peers), while Willoughby LGA increases rates under either Option 1 or 2.

As shown in Table 5.5, Willoughby residential rates ranking will improve substantially under Option 1 and moderately under Option 2. In both cases Willoughby will move below the median of its respective peers by 2018/19. Willoughby business rates are above the 'Group 3 & neighbouring LGAs' median prior to rates increases. Under both Option 1 and 2, Willoughby business rates ranking will improve moderately, with Willoughby business rates moving to the median of its peers by 2018/19.

Table 5.5 Dynamics of Willoughby City Council rankings of rates

a). Option 1

Year	Sample	Residential	Business
2013/14	n=20	10 th highest	8 th highest
2014/15	n=20	11 th highest	10 th highest
2015/16	n=20	14 th highest	10 th highest
2016/17	n=20	14 th highest	10 th highest
2017/18	n=20	14 th highest	10 th highest
2018/19	n=20	14 th highest	10 th highest

b). Option 2

Year	Sample	Residential	Business
2013/14	n=20	10 th highest	8 th highest
2014/15	n=20	10 th highest	8 th highest
2015/16	n=20	10 th highest	8 th highest
2016/17	n=20	11 th highest	9 th highest
2017/18	n=20	11 th highest	10 th highest
2018/19	n=20	11 th highest	10 th highest

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

Overall, the proposed rates increase under both Options 1 and 2 will place:

- Willoughby residential rates below the average residential rates in Group 3 and neighbouring LGAs by a substantial margin;
- Willoughby business rates above the average business rates in Group 3 and below the average business rates in neighbouring LGAs; and

Furthermore, Willoughby is ranked favourably against Group 3 and neighbouring LGAs in terms of average personal income, socio-economic indicators and the level of outstanding and residential rates. It is however, ranked poorly in terms of the level of business rates and land values.

CONCLUSION

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

Willoughby LGA is ranked favourably in terms of average personal income, socio-economic indicators and the level of outstanding rates. However, it is ranked poorly in terms of land values and the level of council rates in the business category. WRI notes in this regard that high land values and the associated issue of high mortgage and rent payments may in the future compromise the ability of Willoughby residents to pay council rates, despite the favourable socio-economic standing of Willoughby LGA.

In terms of costs for Willoughby City households, the proposed rates increase under Option 1 will be below assumed changes in utilities prices, and also below the assumed price changes for several goods and services categories. Under Option 2, the proposed rates increase will only be below the assumed price changes in utilities and child care categories.

Regarding services that are typically provided by local government (water, child care), under both rates increase options the proposed rates increase will be below the anticipated change in child care costs and water prices.

In terms of input costs, output prices and wages for businesses, the proposed rates increase under Option 1 will be above changes in most input and output price categories, but will be below most wage changes. Under Option 2, the proposed rates increase will be above changes in all input cost, output price and wages categories except for input prices in electricity production.

Under Option 1, the proposed rate increases will be going some way to catch up (or will achieve considerable catch up) with price increases for households and input cost increases for businesses in several price/cost categories. Under Option 2, this will be the case regarding price increases for households, but less so for businesses.

The rates increase proposed under both rates increase options will have insignificant impacts on Willoughby community and businesses in terms of ability to pay rates and financial bottom line.

Under both rates increase options, Willoughby residential rates will be below Group 3 and neighbouring LGA levels in 2018/19. Willoughby business rates will be above business rates in Group 3 and below business rates in neighbouring LGAs.

Overall, the analysis of the reasonableness of the proposed rates increases delivered the following results:

- The rate increases proposed under both rates increase options pass reasonableness tests in terms of its impact on households and the financial bottom line of businesses.
- The reasonableness tests are passed when comparing Willoughby residential rates with respective peer LGAs' rates.
- The reasonableness test is partially passed in terms of comparing Willoughby business rates with peers' rates.

REPORT ON PROPOSED SPECIAL RATES VARIATION

- In terms of comparison of proposed rates increases with other cost and price changes, the reasonableness test:
 - was passed in the case of Option 1 and household costs
 - was partially passed in the case of Option 1 and business costs, and Option 2 and household costs; and
 - was not passed in the case of Option 2 and business costs

APPENDIX 1: TECHNICAL NOTES

1. Costs of residents

The costs incurred by Willoughby residents over 2008-2013 (Table 1.1) and 2008-2013 (Table 1.2) periods are based on compounded percentage changes of the consumer price index (CPI) for relevant sub-groups and expenditure classes over September 2008 – September 2013 and September 2008 – September 2013 periods in Sydney.¹⁸

2. Costs of businesses

WRI first examined the Willoughby 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 Willoughby LGA. For some industries (accommodation and food services, rail and road freight), no input price indices were available and therefore output prices are used for comparison. For the house construction industry, the Sydney input price index was used as a proxy. As in the case of residents' cost, it is assumed that growth in production costs and output over the implementation periods (2014/15 – 2018/19) will not deviate from the growth in 2008-13.¹⁹ Also, wage price indices for the 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.²⁰

3. Household expenditure

The procedure for extracting the Willoughby LGA expenditure data is as follows.

Firstly, the average weekly expenditure data for NSW households is obtained from the ABS Household Expenditure Survey, 2009-10.²¹ The numbers are inflated by the compounded growth in disposable income factor for the relevant period (September 2010 – June 2013) in order to obtain 2013 data. The disposable income series are contained in the Reserve Bank of Australia statistical database.²² The 2009-10 numbers are also inflated by the CPI growth for each individual expenditure item during 2010-13. 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 Willoughby household is obtained. The assumption is made that Willoughby's household expenditure is larger than NSW household expenditure in the same proportion as Willoughby's personal income is larger than NSW personal income, i.e. the savings patterns in Willoughby and NSW as a whole are similar. The average household size in Willoughby and NSW in general is similar.

18 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.

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

20 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.

21 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).

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

Thirdly, the average weekly expenditure (total, as well as individual items) for Willoughby is calculated in each of the years between 2014/15 and 2018/19 (corresponding to the Willoughby 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 SRV proposed by Willoughby City Council.

As a final step, the new levels of residential rates in 2018/19 are compared to the new levels of household expenditure, and an assessment is made as to the ability of the Willoughby residents to bear the new rates.

4. Businesses viability

For the Willoughby business sector, the relationship between proposed business rates and future non-farm value added is estimated as follows. The value of non-farm value added in Willoughby LGA is extracted from primary and secondary sources.²³ The most recent figure for Willoughby non-farm value added is available for 2011/12, equal to \$7.43 billion. Non-farm value added excluding value added generated by large shopping centres and Chatswood Town Centre businesses equals to \$6.76 billion. The number of businesses in the ordinary rate category is obtained from the NSW Division of Local Government publications (3132 businesses in 2011/12).²⁴ The number of businesses in the business rate sub-category is provided by Willoughby City Council (1889 businesses in 2011/12). The average value added per business is then calculated for 2011/12 (\$2.37 million in the ordinary rate category and \$3.58 million in the business rate sub-category). The number of businesses in 2014/15 – 2018/19 is assumed to follow a long term trend, with an annual increase of 3.79%.²⁵ The future value of Willoughby non-farm value added (inflated by CPI growth factor of 2.7-2.8% per annum) is assumed to grow moderately in 2014/15 – 2018/19 in light of sluggish GRP growth in Willoughby in the past few years.

5. Willoughby City Council and its peers

In terms of average personal income, socio-economic standing and the level of rates, Willoughby LGA is compared to 'Group-3' peers, as well as neighbouring LGAs (Lane Cove, North Sydney, Ku-ring-gai, Warringah and Mosman). The average personal income data is sourced from the ABS.²⁶ 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.²⁷ The historical council rates are obtained from the NSW Division of Local Government.²⁸

23 National Institute of Economic and Industry Research (NIEIR). Willoughby City, Industry Sector Analysis – All Industries, 2011/12. Available at economy.id.com.au.

24 Division of Local Government, Department of Premier and Cabinet. Comparative Information on NSW Local Government Councils, 1994/95 – 2010/11; Division of Local Government, Department of Premier and Cabinet. Comparative Information on NSW Local Government Councils: Measuring Local Government Performance, 2011-12, October 2013.

25 The long term trend is linear and is estimated by ordinary least squares, with natural logarithm of the respective variable (number of non-farm businesses, or value added) regressed against time.

26 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).

27 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).

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 NSW

Danielle's experience in project management in the information technology sector combined with qualifications in economics and finance provides a solid background for WRI projects. With skills in systems design and development, Danielle has been able to extend WRI's capability in developing robust and increasingly complex systems to support research fieldwork. Additionally, Danielle has extensive experience in business process analysis, performance planning and review, report writing and project planning.

Dr. Ivan Trofimov - Research Officer PHD (Macquarie) MEcSt (UNE) MA (Auckland)

Ivan is an economic and public policy analyst and brings experience in macroeconomics, corporate governance and international trade to WRI projects. Prior to joining WRI, he worked in corporate advisory firms, focusing on economic research and evaluation of corporate governance practices, and in a peak industry body, responsible for pharmaceutical policy formulation in Australia. He was also involved in consulting projects for the Commonwealth Secretariat, APEC Research Centre (New Zealand) and Pacific Islands Trade and Investment Commission. Ivan holds a PhD in Applied Economics from Macquarie University, and master degrees in agricultural and development economics from the University of New England and University of Auckland. He has published several papers in international economic journals.

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

After working in the Financial Services Industry for several years 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 Katherine Bell – Research Officer

Katherine is a freelance writer whose strengths lie in research, literature review and synthesis writing. She has over 20 years' experience in corporate communications, human resources and executive support across private, government, charitable and multi-national organisations. Katherine has a particular interest in psychology and social science. Katherine has assisted WRI in contract research work periodically over the last two years.

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. She has worked in a variety of roles at WRI, including Fieldwork Supervisor and Research Assistant, and has worked on several community and business surveys. Dale brings a high level of organisational skill to her role as Executive Officer.

