



# REPORT ON PROPOSED SPECIAL RATES VARIATION

For Narromine Shire Council

# REPORT ON PROPOSED SPECIAL RATES VARIATION

## CONTENTS

EXECUTIVE SUMMARY .....	3
1. INTRODUCTION .....	5
2. METHODOLOGY .....	8
3. RESULTS .....	10
CONCLUSION .....	27
APPENDIX 1: TECHNICAL NOTES .....	29
APPENDIX 2: NARROMINE AND NEIGHBOURING LGAS .....	32
WESTERN RESEARCH INSTITUTE .....	33

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15002 Narromine Shire Council SRV/Report

## EXECUTIVE SUMMARY

Narromine Shire Council seeks to build a sustainable future for ratepayers. Recognising the issue of financial sustainability and the need to ensure adequate funding for ongoing maintenance and replacement of infrastructure assets, including urban and rural roads, the Council is considering securing its rates revenue by increasing rates across all categories through a special rates variation (SRV).

Under the SRV, Council proposes to increase aggregated residential, farmland and business rates over a two year period commencing 2015/16 as follows:

Rates	2015/16	2016/17	Average
Residential (% change)	5.69%	6.50%	6.10%
Farmland (% change)	6.52%	6.50%	6.51%
Business (% change)	5.31%	6.50%	5.90%
Mining (% change)	5.91%	6.50%	6.20%

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 Narromine Shire 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 Narromine Shire LGA's ranking relative to its peers in terms of personal income and socio-economic indicators?

This report examines the impact of the proposed rates increase on general rates only for residential, farmland and non-farmland business. A comparison of mining rates across LGAs is not feasible and therefore not included in this report.

### Summary

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

For households, compared to other costs and prices, understanding the impact and the ranking of the Council against its peers, the reasonableness tests are partially satisfied. The following results were found:

- The increase is below assumed changes for education, childcare and gas. However, the rate increase exceeds all other forecasted changes in all other categories. The proposed rate increase will achieve some form of catch up with household costs for education, childcare and gas. 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 10 out of 19 cost categories.

# REPORT ON PROPOSED SPECIAL RATES VARIATION

- Residential rates as a proportion of household expenditure for some categories exceeds 1%, although this is considered to have a negligible impact as the percentage of total household expenditure will decline by 0.03 percentage points between 2014/15 to 2016/17 across the 'all households' category.
- Narromine Shire residential rates have been rising in accordance with its peer LGA rates and ranks favourably, having rates well below the respective peer group median. This indicates that Narromine Shire residents are likely to be able to continue to pay their rates under the SRV.
- However, regarding the affordability of the increase across socio-economic indicators, Narromine shire is ranked unfavourably against its peers and within NSW LGAs. SEIFA rankings suggest Narromine Shire is more disadvantaged relative to its peers. Narromine Shire 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.

While the farmland businesses category represents 28% of total rate assessments for Narromine Shire Council, it accounts for more than half (58%) of rate revenue for the Council.

The results for farmland businesses are variable; on price comparisons the reasonableness test is not satisfied however in understanding the impact and ranking of the council to its peers, the reasonableness tests are satisfied in part. The following results were found:

- The increase over the SRV period will be above all input and output prices and wage costs. That said, the increase is only marginally higher and will go some way to catching up with increases in fodder and feedstuffs, seed, seedlings and plants. 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 5 out of 14 cost categories.
- In terms of impact, the rates/value added ratio is above 1%, however, the proposed increase is considered to have a minimal impact on farm business capacity to pay because the change in this ratio is less than 1% and modelling suggests that the rates/value added ratio will decline.
- Narromine rates have been rising in line with Group 10 and neighbouring LGAs. When comparing Narromine farmland businesses to other farmland rates in peer LGAs it is considered to have relatively high rates, however its position is expected to remain unchanged throughout the SRV period.

Consistent with the results for farmland the results for non-farm business are considered to be variable; on price comparisons the reasonableness test is not satisfied, however in understanding the impact and ranking of the council to its peers the reasonableness test is satisfied in part. The following results were found:

- The reasonableness test for input, output prices and wages is not satisfied as the proposed SRV will be above all price and cost changes likely to be experienced by non-farm businesses. 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 2 out of 24 cost categories.
- The reasonableness test is satisfied when examining the impact the SRV has on non-farm businesses. The proposed rate increase is considered serviceable and will not have a significant impact on the financial bottom line of businesses.

- Narromine rates have been rising in line with Group 10 and neighbouring LGAs. When comparing Narromine non-farm businesses to other non-farm business rates in peer LGAs it is considered to have relatively high rates, however its position is expected to remain unchanged throughout the SRV period.

# REPORT ON PROPOSED SPECIAL RATES VARIATION

## 1. INTRODUCTION

Narromine Shire Council seeks to secure its rate revenue and increase the ordinary rates by means of a Special Rate Variation. The SRV is important for long term financial sustainability and to sustain council services to the community. The SRV funding will provide a sustainable increase in rates revenue across all rating categories and will be used to address the following:

- the revenue shortfall resulting from the Federal Governments recent decision to freeze payments to councils for Federal Assistance Grants (FAG).
- ongoing operating deficits in accordance with recommendations of the NSW Treasury Corporation.
- to offset interest payments on road infrastructure works under the Local Infrastructure Renewal Scheme (LIRS) program.<sup>1</sup>

Under the SRV, Council proposes to increase residential, farmland, business and mining rates over a two year period commencing 1 July 2015.

Rates	2015/16	2016/17	Average
Residential (% change)	5.69%	6.50%	6.10%
Farmland (% change)	6.52%	6.50%	6.51%
Business (% change)	5.31%	6.50%	5.90%
Mining (% change)	5.91%	6.50%	6.20%

By the end of the SRV implementation period, the cumulative increase across residential rates in Narromine Shire will be 12.56%, 13.44% across farmland rates and 12.15% across business rates.

It should be noted that the proposed average annual rate increase for the year 2015/16 is 5.9% which includes a determined rate peg of 2.4%.<sup>2</sup> For the year 2016/17 Narromine Council estimates an increase of 6.5% which includes a forecasted peg rate of 3%.<sup>3</sup>

Narromine Shire Council's total rates revenue will increase by 12.80% over the period of the SRV implementation, with 5.47% of this figure attributable to the rate peg. Thus, Council's proposal would see the rate yield increased by 7.33% 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.

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

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<sup>1</sup> <http://www.narromine.nsw.gov.au/special-rates-variation> Accessed 8.1.15.

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

<sup>3</sup> Narromine Council has assumed an estimated rate peg increase of 3% for forward estimates and long term financial planning for the 2016/17.

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 Narromine Shire 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 Narromine Shire residents and farm and non-farm businesses.
- The impact of the proposed rate increases on Narromine Shire residents' household expenditure, and viability (financial bottom line) of Narromine Shire farm and non-farm businesses.
- A comparison of the socioeconomic indicators in Narromine Shire and peer local government areas (LGAs), following the implementation of the rate increases.

Narromine Shire Council is also planning a special rate variation for the mining category for the years 2015/16 and 2016/17 however mining rates were not considered in this report because a comparison of mining rates across LGAs is not feasible.<sup>4</sup>

This report examines the impact of the proposed rates increase on general rates only (residential, farmland and business).

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<sup>4</sup> Department of Local Government, NSW Government, Comparative Information on NSW Local Government Councils, 1994/95-2010/11: For the LGA's in the Group 10 peers; only 10 LGAs have data that is available for comparison. However this data is variable (different mining categories, mining lifecycles and size variations) and a direct comparison cannot be made. 2012/13, October 2014.

# REPORT ON PROPOSED SPECIAL RATES VARIATION

## 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 Narromine Shire LGA are considered. Again it is assumed that similar increases will occur over the 2 year SRV implementation phase.<sup>5</sup>

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.<sup>6</sup>

### 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 Narromine Shire are not available, but proxy estimates can be constructed from the Australia-wide household expenditure survey and Narromine Shire’s average household income. Proposed residential rates can then be compared to the average expenditure of Narromine Shire 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 Narromine Shire 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 Narromine Shire are not available but GOS is part of the value-added of Narromine Shire industry and the two concepts are related. Therefore, the ratio of rates to industry value added is a good

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<sup>5</sup> The timeframes over which price index changes are measured may shift slightly depending on the data available at the time of reporting.

<sup>6</sup> 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.



proxy for the impact of rates on industry viability and is used in the analysis of Narromine Shire industries over the 2015/16 – 2016/17 period.<sup>7</sup>

The impact of the rate increase on the viability of Narromine Shire 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

Narromine Shire Council is compared to three peers: New South Wales as a whole, 'Group 10 LGAs' to which Narromine Shire belongs and a combined 'Group 10 & neighbouring LGAs'. Group 10 LGAs include Berringen, Bland, Blayney, Cobar, Cootamundra, Dungog, Forbes, Glen Innes Severn, Gloucester, Gwydir, Junee, Kyogle, Lachlan, Liverpool Plains, Murray, Narrandera, Narromine, Oberon, Snowy River, Temora, Tenterfield, Upper Lachlan, Uralla, Walgett, Warrumbungle Shire, Wellington and Wentworth. Neighbouring LGAs include Dubbo, Gilgandra, Lachlan, Parkes and Warren.<sup>8</sup>

Specifically, WRI has examined whether rates in Narromine Shire have been in line with its peers, and how Narromine Shire 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 Narromine Shire in terms of rates.

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

- Following the implementation of the SRV, the rates ranking of Narromine Shire 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 Narromine Shire over the 2 year period.

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

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<sup>7</sup> It should be noted that rates are tax deductible so for the comparison the company tax rate should be deducted from the rate increase.

<sup>8</sup> See Appendix 2 for Map of Narromine Shire and Neighbouring LGAs.

## 3. RESULTS

### 3.1 Price comparisons

#### a. Households

When comparing proposed rate increases in Narromine Shire, 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 Australia<sup>9</sup> 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 12.56% 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, childcare 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 Narromine Shire Council. The planned SRV will go some way to “catching up” with experienced and forecast changes for 10 out of 19 cost categories.

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<sup>9</sup> <http://www.rba.gov.au/media-releases/2014/mr-14-19.html>

# NARROMINE SHIRE COUNCIL

**Table 1: Actual and projected costs for Narromine Shire 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	-11.71
1. Services	6.13	6.13	-8.06
Healthcare	9.39	9.39	-1.54
Education	21.44	21.44	22.56
Insurance and financial services	5.15	5.15	-10.02
Travel and accommodation	6.29	6.29	-7.75
Recreation and culture	2.52	2.52	-15.29
Communications	-0.20	-0.20	-20.72
Child care	17.28	17.28	14.24
2. Goods	2.85	2.85	-14.63
Food and beverages	2.46	2.46	-15.40
Alcohol and tobacco	10.72	10.72	1.12
Clothing and footwear	-6.19	-6.19	-32.71
Household equipment	-1.51	-1.51	-23.35
3. Utilities	2.38	2.38	-15.57
Electricity	-2.88	-2.88	-26.09
Electricity (AEMO forecast)*			
* Past change period is from 2012/13 to 2014/15.	-14.02	2.54	-31.81
Gas	22.74	22.74	25.14
Water and sewerage	5.64	5.64	-9.04
4. Property rates and charges	9.07	9.07	-2.18
5. Narromine Shire rates	20.33		
Special rate variation (including Rate Peg)		12.56	

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 forecast to increase moderately (due to wholesale and green costs

# REPORT ON PROPOSED SPECIAL RATES VARIATION

largely attributable to the large-scale renewable energy target (LRET), small-scale renewable energy scheme (SRES), and other state based schemes<sup>10</sup>).

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

*For Narromine Shire 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, childcare and gas prices, but will exceed experienced and forecast price changes in all other cost categories.*

***Overall, the reasonableness criterion is only partially satisfied (3 of the 19 categories).***

## b. Farm businesses

Rates in New South Wales are largely linked to land value and in a predominant rural council like Narromine Shire, councillors viewed that an unfair burden could be placed on rural ratepayers. Currently farmland makes up approximately 78.18% of the total average Narromine Shire land value<sup>11</sup>, with 26% of rate assessments falling under the farmland category which constitutes 58% of the total Council rate revenue.

In comparing proposed farmland rate increases in Narromine Shire, WRI assumed that input cost changes that Narromine Shire 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.<sup>12</sup>

Table 2 (overleaf) shows the 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 (13.44% cumulative increase over 2015/16 – 2016/17 period) will be above all input price changes likely to be experienced by farm businesses in the Narromine Shire. That said, the increases for fodder and feedstuffs along with Seed, seedlings and plants are only marginally lower than the rate increase under the SRV.

When examining the impact on price changes over the past 5 years the picture is more favourable for Narromine Shire Council. The planned SRV will go some way to “catching up” with experienced and forecast changes for 5 out of 14 cost categories.

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<sup>10</sup> National Electricity Forecasting Report (NEFR) 2014 NSW

<sup>11</sup> Narromine Shire Council Statement of Revenue Policy 2014/15; General Valuation Base date 1/7/2013, 2013 Valuations by Category.

<sup>12</sup> 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.

**Table 2: Farm business input costs<sup>13</sup> (cumulative % change)**

Farm Inputs	Past change (2011/12– 2013/14 <sup>14</sup> )	Assumed change (2015/16 – 2016/17)	Input prices (past change + assumed change - past rate change)
<b>Materials and services</b>			
Fodder and feedstuffs	10.75	10.75	15.59
Seed, seedlings and plants	12.93	12.93	19.95
Store and breeding stock	-11.07	-11.07	-28.05
Chemicals	0.86	0.86	-4.20
Electricity	5.02	5.02	4.13
Fertiliser	-7.45	-7.45	-20.81
Fuel and lubricants	-3.10	-3.10	-12.11
Labour	4.93	4.93	3.96
Marketing	3.25	3.25	0.59
<b>Overheads</b>			
Insurance	4.93	4.93	3.96
Interest paid	-25.81	-25.81	-57.52
Rates and taxes	4.93	4.93	3.96
Other Overheads	5.71	5.71	5.50
<b>Capital items</b>	5.33	5.33	4.75
<b>Past farmland rate change (2012-2014)</b>			
	5.91		
<b>Narromine Shire</b>			
Special Rate Variation		13.44	

**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 Narromine Shire farmland:*

- The rates increase under the SRV will be above assumed changes in all input and output prices and wage costs. Although this increase is only slightly higher than fodder and feedstuffs, and seed, seedlings and plant.
- Under the SRV, the proposed farm rate increases will “catch up” with changes in fodder and feedstuffs and seed, seedlings and plant.

**Overall, the reasonableness criterion is not satisfied**

<sup>13</sup> ABARES Agricultural Commodity Statistics 74a and b - Indexes of prices paid by farmers in Australia.

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

# REPORT ON PROPOSED SPECIAL RATES VARIATION

## 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 periods. In the mining industry, metal ore and coal experienced input price declines of 10.17% and 41.10% respectively, however wage costs rose by 5.77%. 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 (12.15%) will be above all price and cost changes likely to be experienced by non-farm businesses in Narromine Shire.

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

Industry	Input prices	Output prices	Wages
Metal ore mining	-10.17		5.77
Coal mining	-41.10		5.77
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		
Narromine Shire rates variation (2015/16 – 2016/17)			
Special rate variation (non-farm businesses)	12.15		

WRI has also examined the possibility of the proposed business rates catching up with price and costs changes (Table 4, overleaf).

When examining the impact on price changes over the past 5 years the picture is slightly improved for Narromine Shire Council. The planned SRV will go some way to “catching up” with experienced and forecast changes for 2 out of 24 cost categories.

**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)
Metal ore mining	-26.24		5.64
Coal mining	-88.10		5.64
Electricity	6.46		7.62
Electricity (AEMO forecast)	2.83		7.62
Manufacturing	-3.88		5.83
House construction	3.62		5.67
Road construction & maintenance		5.80	
Non-residential construction		0.28	
Accommodation & food services		-5.90	3.96
Rail freight		-2.78	
Road freight		2.99	
Public administration & safety			5.42
Education & training			7.24
Health care & social assistance			5.91
Imported materials	2.22		
Domestic materials	-8.33		
Intermediate inputs	0.64		
<i>Past business rate change (2012/13-2014/15)</i>	5.90		
<b>Narromine Shire</b>			
Special rate variation (business)	12.15		

**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 business rate changes. 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 Narromine Shire.

*For Narromine Shire 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.**

# REPORT ON PROPOSED SPECIAL RATES VARIATION

## 3.2 Impact

### a. Household expenditure

Table 5 presents residential rates as a proportion of the overall expenditure of Narromine Shire households currently and under the proposed SRV.

**Table 5: Narromine Shire 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)	1.66	1.16	0.88	0.72	0.57	0.89	1.40
After 2 years (2016/17)	1.60	1.12	0.85	0.69	0.55	0.85	1.35
Change (2014/15-2016/17)	-0.07	-0.04	-0.03	-0.03	-0.02	-0.03	-0.05

#### b). Sources of income

	Wages and salaries	Own unincorporated business income	Other income	All households
Initial (2014/15)	0.74	0.73	0.80	0.89
After 2 years (2016/17)	0.72	0.70	0.77	0.85
Change (2014/15-2016/17)	-0.03	-0.03	-0.03	-0.03

#### 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)	2.05	1.65	1.61	1.44	2.01
After 2 years (2016/17)	1.97	1.58	1.54	1.38	1.93
Change (2014/15-2016/17)	-0.08	-0.06	-0.07	-0.06	-0.08

#### 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 Narromine Shire 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.<sup>15</sup> Council also provides an annual rebate to assist the payment of ordinary rates and an annual rebate to assist the payment of sewer charges to eligible pensioners in accordance with Section 575 of the Local

<sup>15</sup> Applications under the Narromine Shire draft hardship policy, while it is still being finalised, seeks to: provide assistance to ratepayers who are experiencing genuine difficulties with the payment of their rates; and to provide a process for the appropriate assessment of all financial hardship applications. December 2014



Government Act. As a result, rates as 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 1.60% of the total expenditure by 2016/17.
- For those households receiving the age pension, the costs will stand at 1.97% 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 1.38% to 1.97% in 2016/17 and on average will be 1.68%.
- For all households, the cost of residential rates will be 0.85% 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 some household categories, the proposed increase of residential rates in Narromine Shire is likely to have a negligible impact, because under the proposed SRV, rates as a percentage of total household expenditure will decline by 0.03 percentage points between 2014/15 and 2016/17 in the 'All households' category. Therefore, the proposed SRV will not unduly compromise residents overall expenditure; the reasonableness criterion is satisfied.*

The ranking of Narromine Shire against its peers in terms of rates/household expenditure ratio is modelled, assuming that Narromine Shire increases its rates under the proposed SRV, while rates in Group 10 and neighbouring LGAs increase under two alternative scenarios:

**Scenario 1.** Rates in Group 10 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 10 and neighbouring LGAs increase 4.2% and 4.8% respectively per annum 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<sup>16</sup> and applied this to the 2015/16-2016/17 period.

As shown in Table 6 (overleaf), assuming peer LGAs grow at Scenario 1 growth rate, the rates/household expenditure ranking of Narromine Shire LGA against its peers will improve if the SRV is implemented, with Narromine Shire moving from 12<sup>th</sup> highest to 13<sup>th</sup> highest rates/household expenditure ratio (out of 30 LGAs). If peer LGAs grow at Scenario 2 growth rates, the ranking of Narromine Shire LGA will decline moving Narromine Shire from 12<sup>th</sup> highest to 10<sup>th</sup> highest.<sup>17</sup>

<sup>16</sup> 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

<sup>17</sup> Warrumbungle Shire was excluded as not enough data available to calculate a past trend.

# REPORT ON PROPOSED SPECIAL RATES VARIATION

WRI notes that under the proposed SRV, between 2015/16 and 2016/17 the change in rates/household expenditure ratio in Narromine Shire LGA will not exceed one percentage point. In absolute terms the rates/household expenditure ratio will be below 1%.

*Despite the rate increase for households being considered as serviceable (as the change is less than 1%), according to the rankings the reasonableness criterion is only partially satisfied.*

**Table 6: Rates as a percentage of total household expenditure in Narromine Shire and peer LGAs**

LGA	Current (2014-15)	After 3 years	
		Scenario 1	Scenario 2
Berrigan Shire Council	1.07	1.07	1.00
Bland Shire Council	0.64	0.64	0.59
Blayney Shire Council	0.63	0.62	0.58
Cobar Shire Council	0.47	0.47	0.44
Cootamundra Shire Council	0.82	0.82	0.76
Dungog Shire Council	0.99	0.99	0.92
Forbes Shire Council	1.07	1.06	0.99
Glen Innes Severn Council	1.02	1.02	0.95
Gloucester Shire Council	0.98	0.98	0.91
Gwydir Shire Council	0.94	0.94	0.88
Junee Shire Council	0.74	0.74	0.69
Kyogle Council	1.24	1.24	1.15
Lachlan Shire Council	0.59	0.59	0.55
Liverpool Plains Shire Council	0.86	0.86	0.80
Murray Shire Council	0.89	0.89	0.82
Narrandera Shire Council	0.82	0.82	0.76
<b>Narromine Shire Council</b>	<b>0.89</b>	<b>0.85</b>	<b>0.85</b>
Oberon Council	0.59	0.59	0.55
Snowy River Shire Council	0.84	0.84	0.78
Temora Shire Council	0.73	0.72	0.67
Tenterfield Shire Council	0.64	0.64	0.59
Upper Lachlan Shire Council	0.66	0.66	0.61
Uralla Shire Council	0.85	0.85	0.79
Walgett Shire Council	0.44	0.82	0.77
Wellington Council	0.97	0.96	0.90
Wentworth Shire Council	0.90	0.89	0.83
Dubbo City Council	1.26	1.25	1.18
Gilgandra Shire Council	0.73	0.73	0.69
Parkes Shire Council	0.75	0.75	0.71
Warren Shire Council	0.65	0.64	0.61
Ranking of Narromine Shire Council	12th highest 19th lowest	13th highest 18th lowest	10th highest 21st lowest

## 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 Narromine Shire and the forecast of the number of farms.

WRI examined the factors that affect agricultural production in rural NSW and Narromine Shire 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. weak Australian dollar putting pressure on input prices) that may affect agricultural producers in Narromine Shire during 2014/15 - 2016/17.

WRI has also examined the number of farms over the last 10 years and assumed that the number of businesses in 2014/15 - 2016/17 will follow a long term deterministic trend.

Table 7 shows that during the SRV implementation period, the number of farms in Narromine Shire will decline slightly, while agricultural value added will experience moderate growth. The implementation of the proposed SRV will result in:

- The farmland rate/value added ratio standing at 3.59% in 2016/17; and
- The farmland rate/value added ratio decreasing by 0.08 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	3215	869	53,319	3.67
2015-16	3425	867	60,645	3.43
2016-17	3647	866	61,576	3.59
Change (2014/15-2016/17)				-0.08

**Notes:**

1. The results presented in the table have been generated assuming the random fluctuation of aggregate farm value added in Narromine Shire LGA. The magnitude of fluctuation and the aggregate farm value added levels were specified based on REMPLAN data provided by Council for August 2014.
2. Rates have been deflated by the 30% company tax rate before calculating the rates/value added ratio.
3. The number of farms in 2014/15 – 2016/17 is assumed to follow a long term trend, with an annual decrease of 0.02%.

Regarding the viability of non-farm businesses, with a small number of businesses and high value added, the average revenues of non-farm businesses were high and therefore the business rates/value added ratios quite low (Table 8 overleaf). WRI assumes that this structural pattern will be preserved during the course of the SRV implementation.

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

- The business rates/value added ratio being 0.17% by 2016/17; and
- The business rates/value added ratio remaining constant between 2014/15 and 2016/17.

# REPORT ON PROPOSED SPECIAL RATES VARIATION

**Table 8: Business rates and non-farm business viability**

Year	Business rates (\$)	No. of businesses	Value added (\$'000)	Rates/value added (%)
2014-15	1664	291	202,923	0.17
2015-16	1753	293	211,817	0.17
2016-17	1866	293	221,100	0.17
Change (2014/15 - 2016/17)				0.00

**Notes:**

1. The results presented in the table have been generated assuming the growth of non-farm value added in Narromine Shire is 4.4% per annum over the next 2 years.
2. The number of businesses for future years has been estimated and provided by Narromine Shire Council. The growth in the number of non-farm businesses is 0.7% for 2015/16 and no growth in 2016/17. This assumption was based on past growth in NSW gross state product.

*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.*

*Despite the fact that the rates/value added ratio for farm businesses is above 1%, the proposed rates increase is likely to have a negligible impact on capacity to pay because modelling suggest that the rates to value added ratio will decline.*

*Overall the **reasonableness criterion is satisfied** in both business and farmland rate cases.*

## 3.3 Peer Comparison: Narromine Shire Council and its peers

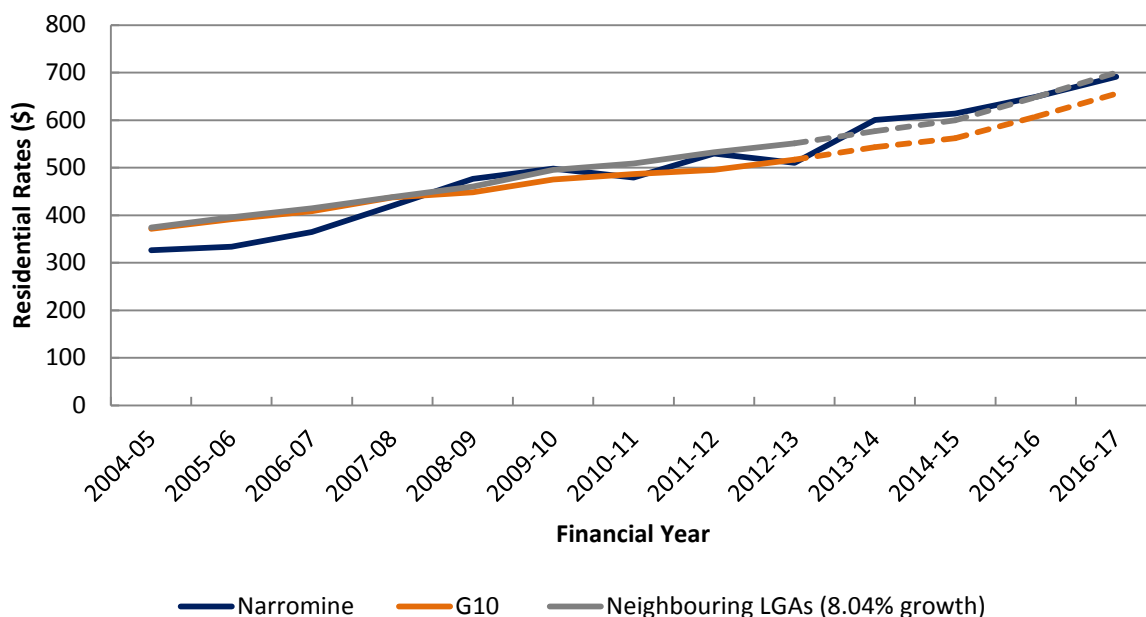
WRI has examined past and projected council rates in Narromine Shire, Group 10 peer LGAs and neighbouring LGAs (Dubbo, Gilgandra, Lachlan, Parkes & Warren) in the context of the proposed SRV.

In addition, WRI considered the likelihood of rate changes in peer LGAs over the 2015/16-2016/17 period. As stated in the 2009-12 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 needed.<sup>18</sup>

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 10 LGAs has been estimated at 10.20%, while the weighted average for Narromine Shire neighbouring LGAs has been estimated at 11.61%. 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**



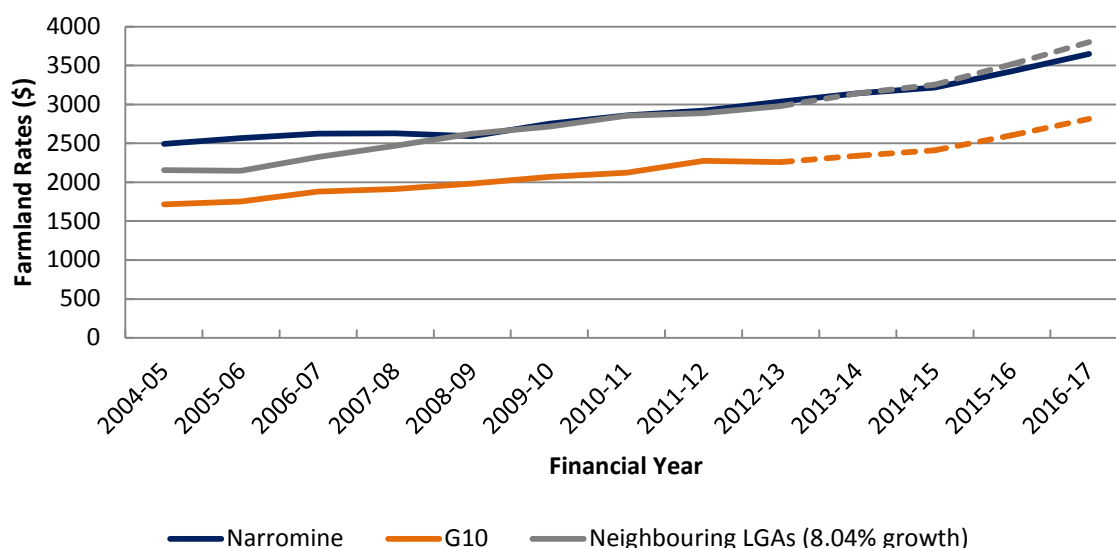
**Note.** Past trend data has been calculated using average rates from the Department of Local Government for the period of 2004/05 to 2012/13, this is shown as a solid line for Narromine, Group 10 and Neighbouring LGAs. WRI forecasted the average rates for 2013/14 - 2016/17 period for Group 10 and neighbouring LGAs, this is shown as a dotted line. Narromine Shire Council provided actual rates data for the period 2013/14 - 2016/17 and this is shown as a solid line. This is the same for figures 2 and 3.

<sup>18</sup> New South Wales Treasury Corporation. Financial Sustainability of the New South Wales Local Government Sector: Findings, Recommendations and Analysis, April 2013, p. 10.

# REPORT ON PROPOSED SPECIAL RATES VARIATION

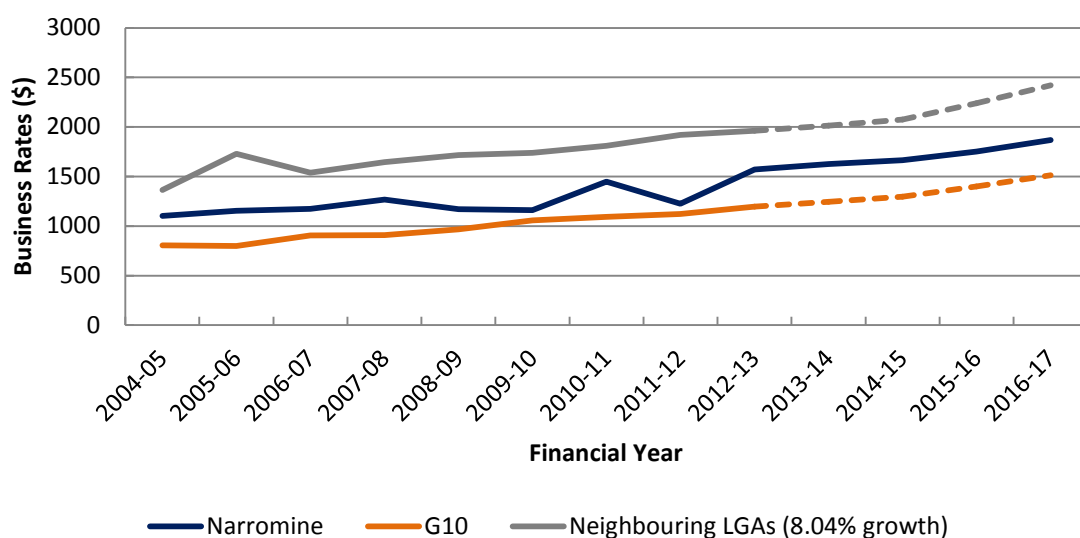
Residential rates in Narromine Shire LGA have been rising steadily since 2004/05; this is in line with increases in peer LGAs rates. Under the 8.04% growth scenario in peer LGAs and SRV implementation, Narromine Shire residential rates will be above Group 10 LGA levels by 5.13% and below neighbouring LGA levels by 1.29% in 2016/17 indicating that there is no significant difference between Narromine rates and its peer LGAs.

**Figure 2: Growth in annual farmland rates**



Narromine Shire farmland rates have been rising for Narromine since 2008/09. Under the 8.04% growth scenario in peer LGAs and SRV implementation, Narromine's rates will be above Group 10 LGA levels by 22.91% and slightly below neighbouring LGA's by 4.15% respectively in 2016/17.

**Figure 3: Growth in annual business rates**



**Note.** Data for Narromine in 2006/07 was provided by Narromine Shire Council due to there being an anomaly with data for the same period from the Department of Local government.

WRI notes that over the past 10 years business rates in Narromine Shire LGA have been below neighbouring LGA levels but above Group 10 LGA levels. Assuming business rates in peer LGAs grow at 8.04% per annum and the SRV is implemented; business rates in Narromine Shire will still remain well below neighbouring LGAs and above Group 10 LGAs. By 2016/17 Narromine Shire business rates will be 29.66% below neighbouring LGAs and 18.97% above Group 10 LGA levels.

*Despite being above Group 10 LGAs, the proposed SRV does not change their overall position and therefore has minimal impact for residents, farmland or non-farmland businesses.*

**Note.** Comparisons to Scenario 2 did not reveal any significant differences in Narromine Shire's comparative position to those presented for Scenario 1 above.

## b. Comparison of outstanding rates

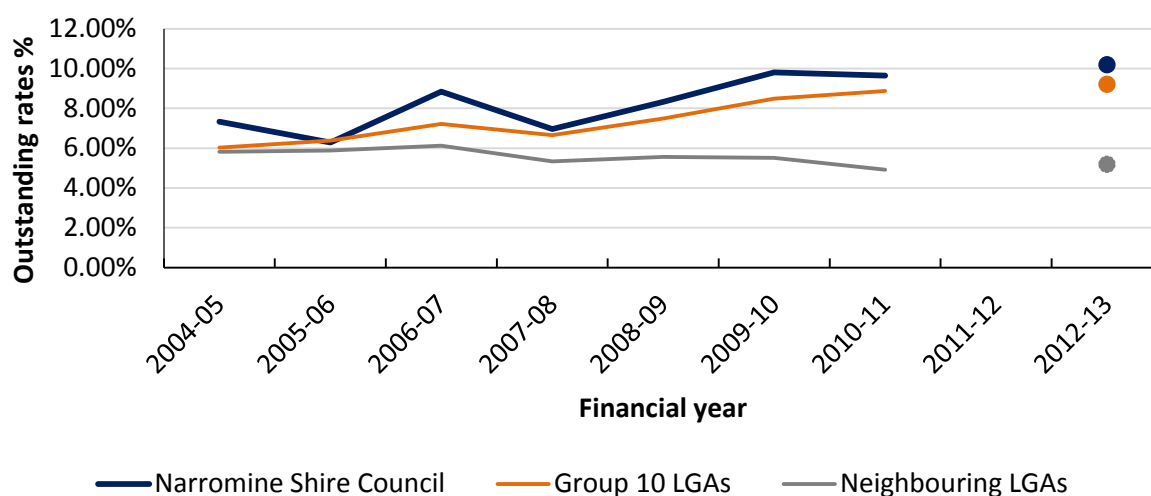
As shown below, the ratio of outstanding rates to the total rates collected in Narromine Shire has been consistently above Group 10 and neighbouring LGA's averages during 2004/05– 2012/13 period.

The ratio has been relatively flat from 2009/10 to 2010/11 in Narromine Shire. While there is no data available for 2011/12, the data for 2012/13 indicates a slight increase for Narromine, reaching 10.19% from 9.65% in the 2010/11 financial year. The slight increase can also be shown for Group 10 LGAs (9.21% from 8.88%) and Neighbouring LGAs (5.19% from 4.92%) for the same time period,

The assessment of the level of outstanding rates / total rates ratio suggests the following:

- The ratio may increase once the SRV is implemented. The magnitude of the increase cannot be known in advance. This implies that Council should monitor the trend in the ratio, as the trend line from 2010/11 to 2012/13 shows outstanding rates ratio increasing.
- Narromine's ratio of outstanding rates more recently being higher than that of Group 10 and Neighbouring LGAs could be influenced by their approach to debt collection.

**Figure 4: outstanding rates**



**Note.** No data available in 2011/12

# REPORT ON PROPOSED SPECIAL RATES VARIATION

When ranked against its peers on outstanding rates Narromine Shire Council's position is considered to be unfavourable. Compared to a group comprising of 'Group 10 and neighbouring' LGAs, Narromine shire ranks 9<sup>th</sup> Highest out of 31 LGAs. Compared to the rest of NSW, Narromine Shire ranks 30<sup>th</sup> highest out of 152 LGA's with their level being above the median 6.09% for the state.

## c. Comparison of council rate rankings

As shown in Table 9, Narromine Shire Council was ranked favourably relative to NSW, Group 10 and 'Group 10 and neighbouring' LGAs in terms of residential rates, having its residential rates below the respective peer groups' medians. Among the 152 NSW LGAs, Narromine Shire Council had the 39<sup>th</sup> lowest residential rates.

**Table 9: Council rates (2012-13)**

LGA	Sample	Residential	Farmland	Business
NSW	n=152	39th Lowest	43rd Highest	58th Lowest
G-10	n=27	12th lowest	5th Highest	5th Highest
G-10 & neighbouring LGAs	n=31	14th lowest	7th Highest	7th Highest

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

Narromine Shire Council was however, ranked poorly in terms of farmland rates and business rates, with their level being well above the median of Group 10 LGAs and 'Group 10 and neighbouring' LGAs.

## d. Comparison of socio-economic rankings

WRI used the socio-economic index for areas (SEIFA)<sup>19</sup> along with personal income information to assess the impact 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, Narromine Shire was ranked unfavourably in terms of socio-economic indicators against its peers, as well as NSW LGAs.

As shown in Table 10 (overleaf), Narromine Shire is ranked below Group 10, 'Group 10 and neighbouring' and NSW LGA medians in all components of SEIFA. Overall, the SEIFA rankings suggest that the socio-economic situation in Narromine Shire is more disadvantaged relative to its peers.

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<sup>19</sup> 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 <sup>20</sup>	29th Lowest	25th Lowest	29th Lowest	55th Lowest
G-10	n=27	9th Lowest	9th Lowest	8th Lowest	13th Lowest
G-10 & neighbouring LGAs	n=31	10th Lowest	10th Lowest	9th Lowest	14th Lowest

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

As shown in Table 11, the average personal income of Narromine Shire for wage and salary earners is less than the NSW median average income (Narromine average income \$40,044, NSW median is \$43,674)<sup>21</sup>, Narromine has a ranking of 48<sup>th</sup> lowest average income of 152 LGAs. However when compared to Group 10 and 'Group 10 and neighbouring' LGAs, Narromine Shires average personal income is slightly higher than the median.

Overall, Narromine Shire business owners, investors and superannuation earners are likely to be able to accommodate rate increases better than wage and salary earners. Average income rankings for these categories for NSW and Group 10 and 'Group 10 and neighbouring' LGAs are reasonably high and above the median.

In terms of total average personal income rankings, Narromine Shire residents are likely to be able to accommodate rate increases compared to many of its peers, particularly in Group 10 and neighbouring LGAs.

**Table 11: Average personal income (2010-11)**

LGA	Sample	Wage and salary earners	Own unincorporated businesses	Investment income earners	Superannuation & annuity earners	Total
NSW	n=153	48th Lowest	40th Highest	61st Highest	44th Highest	58th Lowest
G-10	n=27	15th Lowest	6th Highest	11th Highest	8th Highest	17th Lowest
G-10 & neighbouring LGAs	n=31	17th Lowest	7th Highest	12th Highest	8th Highest	18th Lowest

<sup>20</sup> SEIFA includes Unincorporated NSW as an LGA

<sup>21</sup> Australian Bureau of Statistics, Estimates of Personal Income for Small Areas, Time Series, 2005-06 to 2010-11

# REPORT ON PROPOSED SPECIAL RATES VARIATION

## e. Forecasted rate rankings for councils

WRI has modelled the ranking of Narromine Shire among its respective peer groups in terms of all three rating categories, assuming that rates in 'Group 10 and neighbouring' LGA peer groups grow at 8.04% (scenario 1).

Narromine Shire is considered to have high rates when compared to its peers with the forecasted rates being well above the median for 'Group 10 and neighbouring' LGA peer groups. For the year 2013/14 Narromine residential rates were projected<sup>22</sup> to be \$600 while the median was \$543. This is consistent for both farmland and business categories in the 2013/14 time period.

For the 2014/15 through to 2016/17 time period, Narromine Shire's position in rates rankings compared with peer LGAs is relatively high. However, Narromine's position improves, particularly for residents, as the rankings drop from 9<sup>th</sup> highest to 14<sup>th</sup> highest out of the 30 LGA peers. Farmland and business rates will remain constant through the SRV period.

**Table 12: Dynamics of Narromine Shire Council rate rankings**

Year	Sample	Residential	Farmland	Business
2013/14	n=30	9 <sup>th</sup> Highest	7 <sup>th</sup> Highest	7 <sup>th</sup> Highest
2014/15	n=30	11 <sup>th</sup> Highest	7 <sup>th</sup> Highest	7 <sup>th</sup> Highest
2015/16	n=30	12 <sup>th</sup> Highest	7 <sup>th</sup> Highest	7 <sup>th</sup> Highest
2016/17	n=30	14 <sup>th</sup> Highest	7 <sup>th</sup> Highest	7 <sup>th</sup> Highest

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

### Overall:

- *Narromine's rates have been steadily increasing in line with its peer LGAs. Growth rates across residential farmland and non-farmland businesses are above Group 10 but below neighbouring LGA's. The proposed SRV does not change their overall position and therefore has minimal impact for residents, farmland or non-farmland businesses*
- *When ranked against its peers on outstanding rates, Narromine Shire Council's position is considered to be unfavourable. Narromine Shire was ranked unfavourably in terms of socio-economic indicators against its peers, as well as NSW LGAs*
- *Narromine Shire is considered to have high rates when compared to its peers with the forecasted rates being well above the median for 'Group 10 and neighbouring' LGA peer groups in the 2013/14 time period. However, Narromine's position improves particularly for residents under the SRV.*

*Given the minimal impact that the proposed SRV will have on residents, farmland and non-farmland business categories, the criteria for reasonableness are partially satisfied.*

<sup>22</sup> Projections for the 2013/14 and 2014/15 based on past trend data from 2012/13. Source: Department of Local Government. Projections for 2015/16 and 2016/17 are based on the IPART growth rate of 8.04%

## CONCLUSION

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

For households, compared to other costs and prices, understanding the impact and the ranking of the Council against its peers, the reasonableness tests are partially satisfied. The following results were found:

- The increase is below assumed changes for education, childcare and gas. However, the rate increase exceeds all other forecasted changes in all other categories. The proposed rate increase will achieve some form of catch up with household costs for education, childcare and gas. 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 10 out of 19 cost categories.
- Residential rates as a proportion of household expenditure for some categories exceeds 1%, although this is considered to have a negligible impact as the percentage of total household expenditure will decline by 0.03 percentage points between 2014/15 to 2016/17 across the ‘all households’ category.
- Narromine Shire residential rates have been rising in accordance with its peer LGA rates and ranks favourably, having rates well below the respective peer group median. This indicates that Narromine Shire residents are likely to be able to continue to pay their rates under the SRV.
- However, regarding the affordability of the increase across socio-economic indicators, Narromine shire is ranked unfavourably against its peers and within NSW LGAs. SEIFA rankings suggest Narromine Shire is more disadvantaged relative to its peers. Narromine Shire 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.

While the farmland businesses category represents 28% of total rate assessments for Narromine Shire Council, it accounts for more than half (58%) of rate revenue for the Council.

The results for farmland businesses are variable; on price comparisons the reasonableness test is not satisfied however in understanding the impact and ranking of the council to its peers, the reasonableness tests are satisfied in part. The following results were found:

- The increase over the SRV period will be above all input and output prices and wage costs. That said, the increase is only marginally higher and will go some way to catching up with increases in fodder and feedstuffs, seed, seedlings and plants. 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 5 out of 14 cost categories.
- In terms of impact, the rates/value added ratio is above 1%, however, the proposed increase is considered to have a minimal impact on farm business capacity to pay because the change in this ratio is less than 1% and modelling suggests that the rates/value added ratio will decline.

# REPORT ON PROPOSED SPECIAL RATES VARIATION

- Narromine rates have been rising in line with Group 10 and neighbouring LGAs. When comparing Narromine farmland businesses to other farmland rates in peer LGAs it is considered to have relatively high rates, however its position is expected to remain unchanged throughout the SRV period.

Consistent with the results for farmland the results for non-farm business are considered to be variable; on price comparisons the reasonableness test is not satisfied, however in understanding the impact and ranking of the council to its peers the reasonableness test is satisfied in part. The following results were found:

- The reasonableness test for input, output prices and wages is not satisfied as the proposed SRV will be above all price and cost changes likely to be experienced by non-farm businesses. 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 2 out of 24 cost categories.
- The reasonableness test is satisfied when examining the impact the SRV has on non-farm businesses. The proposed rate increase is considered serviceable and will not have a significant impact on the financial bottom line of businesses.
- Narromine rates have been rising in line with Group 10 and neighbouring LGAs. When comparing Narromine non-farm businesses to other non-farm business rates in peer LGAs it is considered to have relatively high rates, however its position is expected to remain unchanged throughout the SRV period.

## APPENDIX 1: TECHNICAL NOTES

### 1. Costs of residents

The costs incurred by Narromine Shire 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.<sup>23</sup>

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 2014/15<sup>24</sup> financial years.

### 2. Costs of businesses

The costs incurred by non-farm businesses in Narromine Shire over the 2011/12 – 2013/14 period (table 2) are based on the cumulative percentage changes of farm business input costs.<sup>25</sup>

WRI first examined the Narromine Shire 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 Narromine 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 - 2014.<sup>26</sup> 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 comparison.<sup>27</sup> 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.<sup>28</sup>

### 3. Household expenditure

The procedure for extracting the Narromine 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.<sup>29</sup> The numbers are inflated by the compounded growth in disposable

<sup>23</sup> 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.

<sup>24</sup> Projected change for 2014/15.

<sup>25</sup> ABARES Agricultural Commodity Statistics 74a and b - Indexes of prices paid by farmers in Australia, December 2014.

<sup>26</sup> 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.

<sup>27</sup> 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.

<sup>28</sup> 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.

<sup>29</sup> 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).

# REPORT ON PROPOSED SPECIAL RATES VARIATION

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.<sup>30</sup> The 2009-10 numbers are also inflated by the CPI growth for each individual expenditure item during 2012 - 2014.<sup>31</sup> 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 Narromine Shire households is obtained. The assumption is made that Narromine Shire's household expenditure is larger (or smaller) than NSW household expenditure in the same proportion as Narromine Shire's personal income is larger (or smaller) than NSW personal income, i.e. the savings patterns in Narromine Shire and NSW as a whole are similar. The average household size in Narromine Shire and NSW in general is similar.

Thirdly, the average weekly expenditure (total, as well as individual items) for Narromine Shire is calculated in the years 2015/16 and 2016/17 (corresponding to the Narromine Shire 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 Narromine Shire 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 Narromine Shire residents to bear the new rates.

## 4. Farm and non-farm businesses viability

For the Narromine Shire agricultural sector, the relationship between proposed farmland rates and future farm value added is estimated as follows. Agricultural value added for Narromine LGA was provided from REMPLAN data accessed by Narromine Shire Council for August 2014, the most recent figure available being for 2013/14, equal to \$57.47 million. The number of farms was obtained from Narromine Shire Council for the financial years 2014/15. The number of farms in 2015/16 – 2016/17 is assumed to follow a long term trend, with an annual decrease of 0.02%. The future value of Narromine Shire agricultural value added has been generated assuming the random fluctuation of aggregate value added in Narromine LGA, inflated by a CPI growth factor of 2.31% per annum. WRI considers this reasonable, due to constraints on agricultural production in Narromine LGA.

Non-farm value added has been calculated from REMPLAN data for 2013/14, equal to \$194.4 million. Narromine Shire Council provided the number of businesses for 2013/14 to 2016/17. 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 Narromine Shire and the Australian economy face.

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<sup>30</sup> Reserve Bank of Australia. Statistical Tables: Gross Domestic Product, Income Components – G12. Available at <http://www.rba.gov.au/statistics/tables/index.html>.

<sup>31</sup> 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.

## 5. Narromine Shire Council and its peers

In terms of average personal income, socio-economic standing and the level of rates, Narromine LGA is compared to 'Group 10' peers, as well as neighbouring LGAs (Dubbo, Gilgandra, Lachlan, Parkes and Warren). The average personal income data is sourced from the ABS.<sup>32</sup> 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.<sup>33</sup> Historical council rates are obtained from the NSW Office of Local Government.<sup>34</sup>

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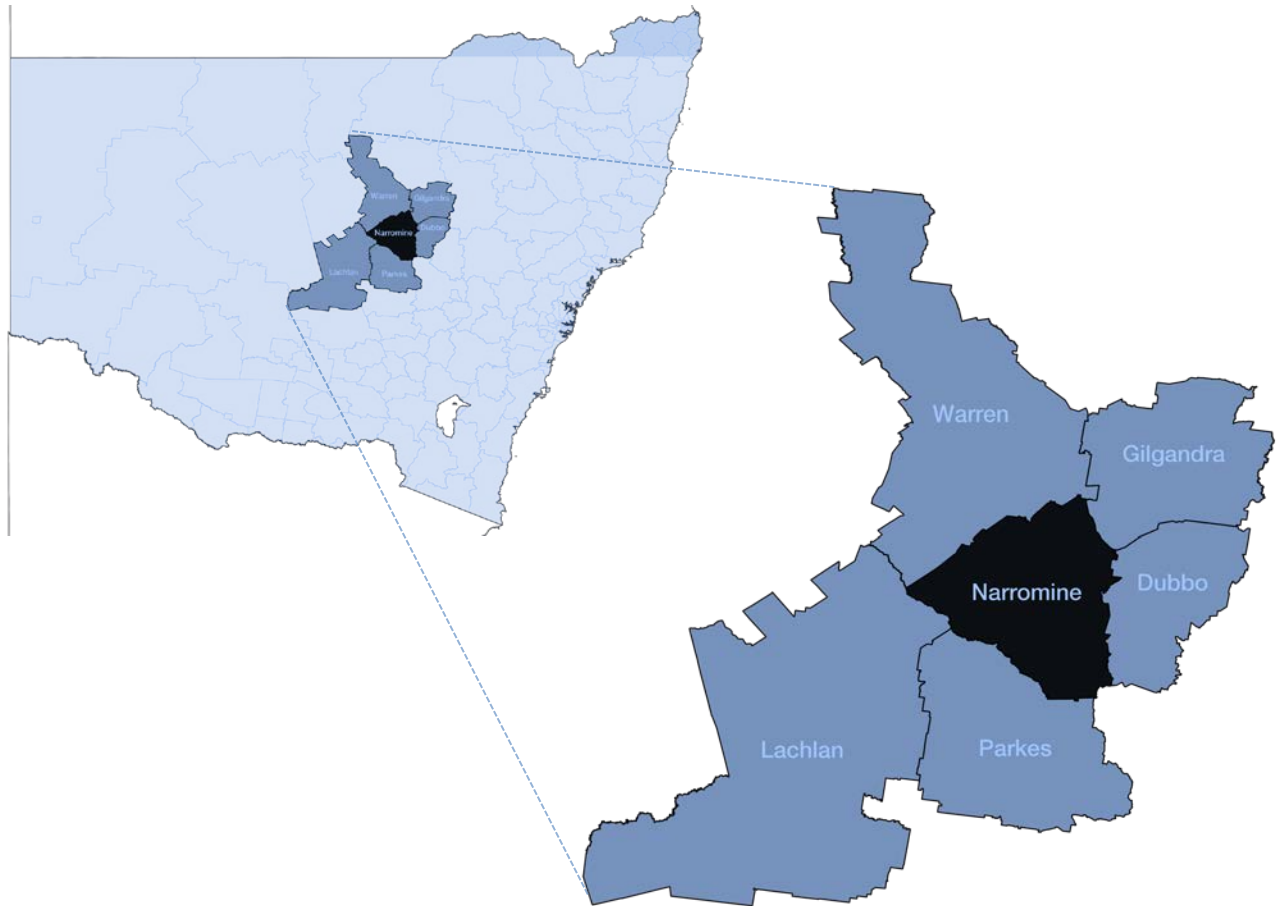
<sup>32</sup> Australian Bureau of Statistics (2011) Estimates of Personal Income for Small Areas, Time Series, 2009-10. ABS Cat. No. 6524.0.55.002 (NSW, Table 1).

<sup>33</sup> 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).

<sup>34</sup> 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.

## APPENDIX 2: NARROMINE AND NEIGHBOURING LGAs

Figure 5: Local Government Areas surrounding Narromine Shire.





## 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.

