REPORT ON PROPOSED SPECIAL RATES VARIATION

For Liverpool City Council

CONTENTS

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 Liverpool Council

20th December 2013

13027 Liverpool Rates/Report

EXECUTIVE SUMMARY

Liverpool City Council seeks to establish the City of Liverpool as a vibrant regional city of opportunity, prosperity and diversity. Recognising that financial sustainability is a key challenge facing Liverpool LGA and that the expiration of the existing special rate variation (SRV) will reduce Council's budget, the Council is considering securing its rates revenue by increasing the council rates through another SRV.

This report examines two alternative plans that have been proposed:

- To maintain current services and infrastructure delivery to the community, by extending the current 9% SRV and increasing rates by 3% in 2014/15 in line with the Independent Pricing and Regulatory Tribunal (IPART) local government cost index ('maintained services plan'); or
- To increase services and infrastructure delivery to the community, by extending the current 9% SRV, increasing rates by 3% in 2014/15 and 2015/16 in line with IPART local government cost index, as well as implementing a further increase of 2.5% in 2014/15 and 2015/16 ('increased services plan)

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

The summary results of the assessment are:

Maintained services plan

Under the maintained services plan the proposed rates increase:

- will be below anticipated electricity and gas price increases for households, and will also be below price increases in many other cost categories; and
- will be above anticipated price changes in many input cost, all output price and several wage cost categories for farm and non-farm businesses.

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 farm and non-farm businesses in several price/cost categories.

Despite relatively high residential rates/household expenditure ratios for many 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 non-farm businesses, the proposed rates increases will leave rates as a proportion of non-farm value added below 1%, indicating an **insignificant impact on business viability**.

For farm businesses, the proposed rates increases will leave rates as a proportion of farm value added below 1%, indicating an **insignificant impact on farm business viability.**

For farm businesses, the proposed increases will see rates as a proportion of value added increase from 0.41% to 0.43% (less than one percentage point). For non-farm businesses, rates as a proportion of value added will remain unchanged.

Under the maintained services plan:

- residential rates in Liverpool LGA will be above residential rates in Group 7 LGAs and neighbouring LGAs (Penrith, Fairfield, Camden, Campbelltown, Sutherland, Bankstown) by a relatively small margin;
- farmland rates will be above farmland rates in Group 7 LGAs and below farmland rates in neighbouring LGAs; and
- business rates will be above rates in Group 7 and neighbouring LGAs.

Increased services plan

Under the increased services plan the proposed rates increase:

- will be below anticipated electricity and gas price increases for households, and will also be below price increases in some other cost categories; and
- will be above anticipated price changes in all input cost and wage cost categories for farm and non-farm 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 farm and non-farm businesses, it will go some way to catch up with changes in electricity input prices, but will exceed experienced and forecast changes in all other cost categories.

Despite relatively high residential rates/household expenditure ratios for many 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 non-farm businesses, the proposed rates increases will leave rates as a proportion of non-farm value added below 1%, indicating an **insignificant impact on business viability**.

For farm businesses, the proposed rates increases will leave rates as a proportion of farm value added below 1%, indicating an **insignificant impact on farm business viability.**

For farm businesses, the proposed increases will see rates as a proportion of value added increase from 0.37% to 0.43% (less than one percentage point). For non-farm businesses, rates as a proportion of value added will increase from 0.16% to 0.17% (less than one percentage point).

Under the increased services plan:

- residential rates in Liverpool LGA will be above residential rates in Group 7 LGAs and neighbouring LGAs by a relatively small margin;
- farmland rates will be above farmland rates in Group 7 LGAs and below farmland rates in neighbouring LGAs; and
- business rates will be above rates in Group 7 and neighbouring LGAs.

Summary

Liverpool LGA is ranked favourably in terms of land values and residential rates. However, it is ranked poorly in terms of socio-economic position, average personal income and the level of council rates in the farmland and business categories.

In terms of costs for Liverpool households, the proposed rates increase under both maintained and increased services plans will be below assumed changes in electricity and gas prices, and also below the assumed price changes for several goods and services categories.

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

In terms of input costs and wages for farm and non-farm businesses, the proposed rates increase under the maintained services plan will be above changes in many input categories and wages, and will be above changes in most input categories and wages under the increased services plan.

Under the maintained services plan, 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 the increased services plan, this will be the case of price increases for households, but not for businesses.

The rates increase proposed under both plans will have insignificant impacts on Liverpool community, farm and non-farm businesses in terms of ability to pay rates and financial bottom line.

At the end of both plans implementation, Liverpool residential rates will be above Group 7 and neighbouring LGA levels. Liverpool farmland rates will be above Group 7 LGA levels, but below neighbouring LGA levels. Liverpool business rates will be above both Group 7 and neighbouring LGA levels.

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

- The rate increases proposed under both maintained and increased services plans pass reasonableness tests in terms of its impact on households and the financial bottom line of farm and non-farm businesses.
- The reasonableness tests are passed when comparing Liverpool residential (and to lesser extent farmland) rates with respective peer LGAs' rates.
- The reasonableness test is not passed in terms of comparing Liverpool business rates with peers' rates.
- In terms of comparison of proposed rates increases with other cost and price changes, the reasonableness test was passed in the case of the maintained services plan and household costs and was not passed in the case of the increased services plan and business costs.

1. INTRODUCTION

Liverpool City Council, through its 2013-17 Delivery Program and 2013-14 Operational plan, seeks to establish the City of Liverpool as a vibrant regional city of opportunity, prosperity and diversity.[1]

Council recognises, however, that financial sustainability is a key challenge facing Liverpool LGA due to a combination of several factors, such as increased demand for services beyond those traditionally provided, ageing infrastructure and constraints on revenue growth.[2]

The existing special rate variation (SRV) that was approved in July 2009 for a period of 5 years and that allowed Council to fund its capital works program is due to conclude in June 2014. This is likely to reduce Council's operational budget by $6.3 million, meaning that a new special rate variation will be needed.[3]

Liverpool City Council engaged in consultation with the Liverpool community regarding the level of public services provided by Council and possible extension of services delivery. The community has requested an increased and additional range of services, particularly in the area of infrastructure, safety and a cleaner, newer looking city.[4]

Therefore, recognising the future financial challenge, as well as community sentiment and support for services provided, Liverpool City Council is considering securing its rates revenue by applying for a permanent continuation of the current SRV, or by applying for a permanent continuation of the current SRV and further increasing the rates.

In this regard two options have been proposed:

- To maintain current services and infrastructure delivery to the community, by extending the current 9% SRV and increasing rates by 3% in 2014/15 in line with the Independent Pricing and Regulatory Tribunal (IPART) local government cost index[5] (hereinafter 'maintained services plan'), or
- To increase services and infrastructure delivery to the community, by extending the current 9% SRV, increasing rates by 3% in 2014/15 and 2015/16 in line with IPART local government cost index, as well as implementing further increase of 2.5% in both 2014/15 and 2015/16 (hereinafter 'increased services plan')

The rates paid by Liverpool residents, farm and non-farm businesses would therefore increase by 3.0% against the 2013/14 level by the end of the maintained services plan implementation. Also, by the end of the increased services plan implementation, the rates paid by Liverpool residents would increase by

1 Liverpool City Council. Delivery Program, 2013-17 & Operational Plan, 2013-14, p. 42.
2 Liverpool City Council. 10 Year Long Term Financial Plan Summary, 1 July 2011, p. 2.
3 Liverpool City Council. Delivery Program, 2013-17 & Operational Plan, 2013-14, pp. 148, 165; Liverpool City Council. Special Rate Variation. Available at http://www.liverpool.nsw.gov.au/growing-liverpool-2023-special-rate-variation-srv
4 Liverpool City Council. Special Rate Variation. Available at http://www.liverpool.nsw.gov.au/growing-liverpool-2023-special-rate-variation-srv
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. Liverpool City Council, however, assumed 3% peg in its rates increase calculations and WRI will use 3% peg in the analysis of the proposed rates changes. See IPART. Rate Peg for NSW Councils for 2014/15, 2 December 2013.

11.4% against the 2013/14 level, while the rates paid by farm and non-farm businesses would rise by 11.3% against the 2013/14 level.[6]

Liverpool City Council also considered an option of not applying for the current SRV continuation or a possibility of unsuccessful application. In this case the rates revenue base will be reduced, leading to the reduction of capital works and services provided by the Council. The rates paid by Liverpool residents, farm and non-farm businesses would decrease by an average of 5.5% against the 2013/14 level in this case.

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

6 The respective percentage changes are based on the data provided by Liverpool City Council and are in addition to 9% SRV that is currently in place in the City of Liverpool.

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 1 or 2 years (depending on whether comparisons are made to maintained or increased services plans). It is assumed for the purposes of this exercise that similar increases will occur over the next 1 or 2 years during the rates increase implementation.

To determine the reasonableness of the rate increase for farm and non-farm business, input price increases over the last 1 or 2 years for each of the major industries in Liverpool LGA are considered. Again it is assumed that similar increases will occur over the next 1 or 2 years.

The rate increase is considered reasonable, if it will be in line with other price and costs increases over the next 1 or 2 years, or if the proposed rates increase will be catching up with other price and costs increases over the 1 or 2 year period.[7]

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 Liverpool LGA are not available, but can be reconstructed from Australia-wide household expenditure survey and Liverpool's average household income. The proposed residential rates are then compared to the average expenditure of the Liverpool 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 Liverpool 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 Liverpool are not available but GOS is part of the value-added of Liverpool 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 Liverpool industries over the periods 2013/14 – 2014/15 and 2013/14 – 2015/16. (It should be noted that rates are tax deductable so for the comparison the company tax rate should be deducted from the rate increase.)

7 Catching up takes place if the rate increase does not exceed the actual price/cost increase of related items over the last 1 or 2 years plus the assumed increase of related items over the next 1 or 2 years minus the actual rate increases over the last 1 or 2 years.

The impact of the rate increase on the viability of Liverpool farm and non-farm 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.

Peer Comparison

Liverpool City Council is compared to three peers: New South Wales as a whole, 'Group 7 LGAs' to which Liverpool City belongs, as well as to a combined 'Group 7 & neighbouring LGAs'. Group 7 LGAs include Blue Mountains, Campbelltown, Gosford, The Hills Shire, Hornsby, Liverpool, Penrith and Wyong. Neighbouring LGAs include Penrith, Fairfield, Camden, Campbelltown, Sutherland and Bankstown. Specifically, WRI has examined whether the level of rates in Liverpool LGA has been in line with its peers, and at how Liverpool 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 Liverpool LGA in terms of rates.

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

- Following the implementation of the rates increases, the rates ranking of Liverpool 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 Liverpool LGA over the 1 or 2 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 Liverpool LGA, WRI assumed that for all cost items, the past growth trend is likely to continue in the near term with compounded price increases in 2014/15 and 2015/16 being commensurate with CPI gains in 2011-13. 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 year the inflation was uneven across industries and sectors. The compounded percentage change in the aggregate CPI was 2.1%. Utilities prices rose by an average of 5.0%, the cost of several services rose as well (child care costs by 9.3%, education costs by 5.8%, health care costs by 4.3%) while the CPI for household equipment, clothing and footwear and food and beverages declined (by 2.3%, 1.9% and 1.2% respectively). The cost of goods rose by an average of 0.8% over the past year.

The data in Table 1.1 (Column 2) suggests that under the maintained services plan (3.0% increase for residential rates in 2014/15),[8] the proposed rate increase will be:

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

As shown in Table 1.1 (Column 3), under the maintained services plan, the proposed rate increase is going some way to “catch up” with the changes in gas prices and child care costs, and will also achieve considerable “catch up” with changes in electricity and alcohol and tobacco prices, as well as healthcare, education, insurance and financial services and travel and accommodation costs.

8 The proposed rate increase of 3.0% under the maintained services plan is in addition to 9% SRV that Liverpool residents currently pay.

Table 1.1: Actual and projected costs for Liverpool City Council households based on the Sydney CPI (compounded % change) – Maintained services plan

Period	Past change (Sept 2012 - Sept 2013)	Assumed change (2013/14 - 2014/15)	Past change + Assumed change - past rate change
All groups CPI	2.05	2.05	0.61
1. Services	3.70	3.70	3.91
Healthcare	4.27	4.27	5.04
Education	5.75	5.75	8.01
Insurance and financial services	4.37	4.37	5.25
Travel and accommodation	3.79	3.79	4.09
Recreation and culture	1.21	1.21	-1.08
Communications	1.79	1.79	0.08
Child care	9.32	9.32	15.15
2. Goods	0.79	0.79	-1.92
Food and beverages	-1.18	-1.18	-5.86
Alcohol and tobacco	3.51	3.51	3.52
Clothing and footwear	-1.87	-1.87	-7.23
Household equipment	-2.32	-2.32	-8.13
3. Utilities	5.02	5.02	6.55
Electricity	4.75	4.75	6.00
Electricity (AEMO forecast)		1.60	2.85
Gas	9.58	9.58	15.67
Water and sewerage	2.77	2.77	2.05
4. Liverpool rates	3.50		
Maintained services plan (against 2013/14 baseline)		3.0	

The data in Table 1.2 (Column 2) suggests that under the increased services plan (11.4% increase for residential rates over 2014/15 – 2015/16 period),[9] the proposed rate increase will be:

- below assumed price changes for electricity and gas, as well as price changes for utilities as a broad cost category;
- below assumed price changes for several services (child care and health care); and
- above assumed price changes for all other cost items.

9 The proposed rate increase of 11.4% under the increased services plan is in addition to 9% SRV that Liverpool residents currently pay.

As shown in Table 1.2 (Column 3), under the increased services plan, the proposed rate increase is going some way to “catch up” with the changes in gas and electricity prices, and will also achieve considerable “catch up” with changes in child care costs.

Table 1.2: Actual and projected costs for Liverpool City Council households based on the Sydney CPI (compounded % change) – Increased services plan

Period	Past change (Sept 2011 - Sept 2013)	Assumed change (2013/14 - 2015/16)	Past change + Assumed change - past rate change
All groups CPI	4.40	4.40	-5.98
1. Services	7.79	7.79	0.80
Healthcare	11.69	11.69	8.59
Education	11.28	11.28	7.78
Insurance and financial services	8.92	8.92	3.07
Travel and accommodation	4.00	4.00	-6.78
Recreation and culture	-0.10	-0.10	-14.98
Communications	3.23	3.23	-8.33
Child care	16.20	16.20	17.62
2. Goods	1.89	1.89	-11.01
Food and beverages	-1.96	-1.96	-18.69
Alcohol and tobacco	7.82	7.82	0.85
Clothing and footwear	-0.50	-0.50	-15.78
Household equipment	-5.92	-5.92	-26.62
3. Utilities	19.20	19.20	23.62
Electricity	23.50	23.50	32.22
Electricity (AEMO forecast)		3.23	11.95
Gas	25.80	25.80	36.82
Water and sewerage	3.80	3.80	-7.18
4. Liverpool rates	14.78		
Increased services plan (against 2013/14 baseline)		11.4	

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 1.6% per annum over 2014/15 – 2015/16 period.[10] In its later papers,

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

AEMO forecasted smaller growth in 2014/15 (up to 1.0%) and higher growth in 2015/16 (2.9%).[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 Liverpool City Council may exceed anticipated changes in electricity prices.

b. Farm and Non-Farm businesses

In comparing proposed rates increases in Liverpool LGA and input costs, wages and output prices, WRI assumed that cost and price changes that Liverpool farm and non-farm businesses will experience over the next 1 or 2 years are identical in terms of magnitude to the cost and price changes in the past 1 or 2 years.[12]

As shown in Table 2.1, over the 2012-13 period input prices increased substantially in electricity production (11.7%) and less so in agriculture (4.3%) and manufacturing (1.3%). Output prices increased in accommodation and food services (2.3%) and road freight (1.2%). Wages increased in all industries in question, with electricity experiencing the highest growth (4.5%).

With the exception of electricity and agriculture input prices, as well as costs of imported materials, the proposed farmland and business rates increases under the maintained services plan (3.0% increase during 2014/15)[13] will be above the changes in both the input and output prices that Liverpool farm and non-farm businesses are likely to experience. The proposed farmland and business rates increases will be below the wage increases in electricity, house construction, public administration and safety and health care and social assistance.

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.

13 The proposed rate increase of 3.0% under the maintained services plan is in addition to 9% SRV that Liverpool farm and non-farm businesses currently pay.

Table 2.1: Actual and projected costs for farm and non-farm businesses – Maintained services plan

Industry	Input prices	Output prices	Wages
Electricity	11.66		4.51
Electricity (AEMO forecast)	2.90		4.51
Manufacturing	1.32		2.87
House construction	0.69		3.18
Accommodation & food services		2.34	2.55
Rail freight		-0.68	
Road freight		1.16	
Agriculture	4.27		
Public administration & safety			3.54
Education & training			2.64
Health care & social assistance			3.23
Imported materials	4.46		
Domestic materials	1.72		
Intermediate inputs	2.38		
Liverpool rates variation			
Maintained services plan (farmland rates) – Against 2013/14 baseline	3.0		
Maintained services plan (business rates) – Against 2013/14 baseline	3.0		

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

With the exception of electricity input prices, the proposed farmland and business rates increases under the increased services plan (11.3% increase over 2014/15 – 2015/16 period) will be above the changes in input and output prices, as well as wages (Table 2.2).[14]

14 The proposed rate increase of 11.3% under the increased services plan is in addition to 9% SRV that Liverpool farm and non-farm businesses currently pay.

Table 2.2: Actual and projected costs for farm and non-farm businesses – Increased services plan

Industry	Input prices	Output prices	Wages
Electricity	30.85		8.64
Electricity (AEMO forecast)	5.68		8.64
Manufacturing	-1.48		6.79
House construction	1.81		7.55
Accommodation & food services		5.00	5.94
Rail freight		5.16	
Road freight		6.09	
Agriculture	-0.19		
Public administration & safety			6.94
Education & training			6.20
Health care & social assistance			6.37
Imported materials	6.89		
Domestic materials	-1.28		
Intermediate inputs	3.92		
Liverpool rates variation			
Increased services plan (farmland rates) – Against 2013/14 baseline	11.3		
Increased services plan (business rates) – Against 2013/14 baseline	11.3		

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

WRI has also examined the possibility of the proposed farmland and business rates catching up with price and costs changes (Tables 2.3 and 2.4).

Under the maintained services plan, 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 agriculture input prices, the costs of imported materials, as well as wages growth in electricity, public administration and safety and health care and social assistance. The proposed rate increase will exceed experienced and forecast changes in all other cost categories.

Table 2.3: The catching up of proposed rate increases with input price changes – Maintained services plan

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	19.92		5.62
Electricity (AEMO forecast)	19.42		5.62
Manufacturing	-0.77		2.33
House construction	-2.01		2.96
Accommodation & food services		1.27	1.71
Rail freight		-4.76	
Road freight		-1.08	
Agriculture	5.13		
Public administration & safety			3.68
Education & training			1.89
Health care & social assistance			3.05
Imported materials	5.51		
Domestic materials	0.04		
Intermediate inputs	1.36		
Past farmland rate change (2012-2013)	3.42		
Past business rate change (2012-2013)	3.40		
Maintained services plan (farmland rates) – Against 2013/14 baseline	3.0		
Maintained services plan (business rates) – Against 2013/14 baseline	3.0		

Note. The “catching up” is measured as past changes in input prices over the past 1 year plus assumed changes in input prices over the next 1 year minus past farmland or business rates changes.

Under the increased services plan, the proposed rate increase is going some way to catch up with experienced and forecast electricity input price changes, but will exceed experienced and forecast changes in all other cost categories.

Table 2.4: The catching up of proposed rate increases with input price changes – Increased services plan

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	46.54		2.12
Electricity (AEMO forecast)	21.37		2.12
Manufacturing	-18.11		-1.58
House construction	-11.55		-0.06
Accommodation & food services		-5.16	-3.28
Rail freight		-4.84	
Road freight		-2.99	
Agriculture	-2.03		
Public administration & safety			-1.29
Education & training			-2.76
Health care & social assistance			-2.42
Imported materials	-1.38		
Domestic materials	-17.71		
Intermediate inputs	-7.31		
Past farmland rate change (2011-2013)	1.64		
Past business rate change (2011-2013)	15.16		
Increased services plan (farmland rates) – Against 2013/14 baseline	11.3		
Increased services plan (business rates) – Against 2013/14 baseline	11.3		

Note. The “catching up” is measured as past changes in input prices over the past 2 years plus assumed changes in input prices over the next 2 years minus past farmland or business rates changes.

For Liverpool households:

- The proposed rates increases under the maintained services plan are below assumed changes in electricity and gas prices, price changes for several goods and services, as well as price changes for utilities and services as broad cost categories.
- Under the maintained services plan, the proposed rates increases are going some way to “catch up” with price changes for gas production and child care costs changes, and will also achieve considerable “catch up” with changes in several other utilities, goods and services categories.

- Under the increased services plan, the proposed rates increases are below assumed changes in electricity and gas prices, child care and health care costs and price changes for utilities as a broad cost category.
- Under the increased services plan the proposed rates increases are going some way to catch up with prices changes for electricity and gas production and will also achieve considerable “catch up” with changes in child care costs.

Overall, the reasonableness criterion is satisfied in the case of maintained services plan and is partially satisfied in the case of increased services plan.

For Liverpool farm and non-farm businesses:

- The rates increase under the maintained services plan is above the changes in many input costs, all output prices and several wages categories.
- Under the maintained services plan, the proposed rate increases are going some way to catch up with changes in input prices for electricity, and will achieve considerable “catch up” with changes in several input price and wages categories.
- The rates increases under the increased services plan are above the changes in all input costs except for electricity input prices, and all output prices and wages.
- Under the increased services plan, the proposed rates increases are going some way to catch up with changes in input prices for electricity, but will exceed experienced and forecast changes in all other cost categories.

Overall, the reasonableness criterion is partially satisfied in the case of the maintained services plan and is not satisfied in the case of the increased services plan.

3.2 Impact

a. Household expenditure

Tables 3.1 and 3.2 present the proportion of residential rates under the maintained and increased services plans in the overall expenditure of Liverpool households.

Table 3.1 Liverpool City Council rates as a proportion of total expenditure (% in 2014/15) – Maintained services plan

a). Level of income

	Lowest	Second	Third	Fourth	Highest	All households	Second and third deciles
Initial (2013-14)	2.58	1.79	1.35	1.10	0.88	1.36	2.17
After 1 year (2014-15)	2.43	1.69	1.28	1.04	0.83	1.29	2.04
Change (2013/14-2014/15)	-0.15	-0.10	-0.07	-0.06	-0.05	-0.07	-0.13

b). Sources of income

	Wages and salaries	Own unincorporated business income	Other income	All households
Initial (2013-14)	1.14	1.12	1.22	1.36
After 1 year (2014-15)	1.08	1.05	1.15	1.29
Change (2013/14-2014/15)	-0.06	-0.06	-0.07	-0.07

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)	3.17	2.55	2.50	2.24	3.11
After 1 year (2014-15)	2.98	2.40	2.35	2.10	2.93
Change (2013/14-2014/15)	-0.19	-0.15	-0.15	-0.14	-0.18

Note. Changes are calculated as rates/household expenditure ratio in 2014/15 minus rates/household expenditure ratio in 2013/14.

WRI notes that Liverpool 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. Council also provides up to $250 in annual rebate to eligible pensioners in accordance with the Local Government Act, as well as a voluntary rebate of $100 for eligible persons, who were considered as pensioners on Council records before July 1, 2005.[15]

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.

15 Liverpool City Council. Statement of Revenue Policy, 2013-2014: Fees and Charges, p. 12

Table 3.2 Liverpool City Council rates as a proportion of total expenditure (% in 2015/16) – Increased services plan

a). Level of income

	Lowest	Second	Third	Fourth	Highest	All households	Second and third deciles
Initial (2013-14)	2.58	1.79	1.35	1.10	0.88	1.36	2.17
After 2 years (2015-16)	2.40	1.67	1.26	1.02	0.82	1.27	2.02
Change (2013/14-2015/16)	-0.18	-0.12	-0.09	-0.08	-0.06	-0.09	-0.15

b). Sources of income

	Wages and salaries	Own unincorporated business income	Other income	All households
Initial (2013-14)	1.14	1.12	1.22	1.36
After 2 years (2015-16)	1.07	1.04	1.14	1.27
Change (2013/14-2015/16)	-0.07	-0.08	-0.08	-0.09

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)	3.17	2.55	2.50	2.24	3.11
After 2 years (2015-16)	2.95	2.37	2.31	2.07	2.89
Change (2013/14-2015/16)	-0.22	-0.18	-0.19	-0.17	-0.22

Note. Changes are calculated as rates/household expenditure ratio in 2015/16 minus rates/household expenditure ratio in 2013/14.

It is shown that:

- Under the maintained and increased services plans, the total cost of residential rates incurred by the households in the lowest quintiles will not exceed 2.43% and 2.40% of the total expenditure respectively by 2014/15 and 2015/16.
- For those households receiving the age pension, the costs will stand at 2.98% and 2.95% of total expenditure.
- For all categories of government support recipients, under the maintained services plan the rates/household expenditure ratio will range from 2.10% to 2.98% in 2014/15 and on average will be 2.55%. Under the increased services plan, the rates/household expenditure ratio for all categories of government support will range from 2.07% to 2.95% in 2015/16 and on average will be 2.52%.
- For all households, the cost of residential rates will be 1.29% and 1.27% of total expenditure under the maintained and increased services plans respectively in financial years 2014/15 and 2015/16.

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

- Under the maintained services plan, rates as a percentage of total household expenditure will decline by 0.07 percentage points between 2013/14 and 2014/15 in the 'All households' category, by 0.15 percentage points in the low-income category and by 0.19 percentage points in the pensioner category.
- Under the increased services plan, rates as a percentage of total household expenditure will decline by 0.09 percentage points between 2013/14 and 2015/16 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 plans the reasonableness criterion will be satisfied.

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

- Liverpool LGA increases its rates under either maintained or increased services plans.
- Rates in Group 7 LGAs increase by 6.46% per annum over 2014/15 – 2015/16 period (the average rates increase permitted by IPART in 2011-13 for several Group 7 LGAs – Blue Mountains, Hornsby, Penrith and Wyong)
- Rates in neighbouring LGAs increase by 4.85% per annum over 2014/15 – 2015/16 period (the average rates increase permitted by IPART in 2011-13 for Penrith and Camden)

As shown in Table 3.3, the rates/household expenditure ranking of Liverpool LGA against its peers will remain unchanged under the maintained services plan, with Liverpool LGA having the 3rd highest rates/household expenditure among 12 peers. However, if the increased services plan is implemented, the ranking of Liverpool LGA against its peers will worsen, with Liverpool moving from 3rd highest to 2nd highest rates/household expenditure ratio.

WRI notes that under the maintained services plan between 2013/14 and 2014/15 and under the increased services plan between 2013/14 and 2015/16, the change in rates/household expenditure ratio in Liverpool LGA will not exceed one percentage point. However, in absolute terms the rates/household expenditure ratio will be above 1%.

Overall, it appears that, despite relatively high rates/household expenditure ratios, in the years 2014/15 and 2015/16 (i.e. by the end of maintained and increased services plans' implementation) households across all classification categories will be able to pay the rates without unduly compromising their overall expenditure.

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

LGA	Current (2013-14)	After 1 year (*)	After 2 years (**)
Blue Mountains City Council	1.48	1.45	1.41
Campbelltown City Council	1.15	1.11	1.06
Gosford City Council	1.25	1.22	1.19
The Hills Shire Council	0.99	0.96	0.94
The Council of the Shire of Hornsby	0.98	0.96	0.93
Liverpool City Council	1.36	1.29	1.27
Penrith City Council	1.29	1.24	1.19
Wyong Shire Council	1.19	1.16	1.13
Fairfield City Council	0.93	0.90	0.86
Camden Council	1.37	1.31	1.26
Sutherland Shire Council	1.20	1.15	1.10
Bankstown City Council	1.29	1.24	1.19
Ranking of Liverpool City Council			
- Maintained services plan	3rd highest	3rd highest	
- Increased services plan	3rd highest		2nd highest

(*) Assuming Group 7 LGAs increase their rates at 6.46% per annum, while neighbouring LGAs increase rates at 4.85% per annum. Liverpool LGA increases rates by 3% in 2014/15 (Maintained services plan).

(**) Assuming Group 7 LGAs increase their rates at 6.46% per annum, while neighbouring LGAs increase rates at 4.85% per annum. Liverpool LGA increases rates by 11.3% over 2014/15 – 2015/16 period (Increased services plan).

Rates increases of 6.46% and 4.85% per annum are increases permitted by IPART over the 2011-13 period for Group 7 LGAs and neighbouring LGAs respectively.

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 Liverpool and the forecast of the number of farms.

WRI has reviewed literature relating to agricultural development in Liverpool LGA and found that despite its significant contribution to Sydney's urban agriculture (specifically in terms of vegetable growing and livestock slaughtering),[16] the farming sector in Liverpool LGA faces several challenges, such as:

- Pressures from residential development (in Austral/Leppington areas, Horningsea Park and Kemps Creek);[17]
- The state government plans for South West Growth Centre;[18]
- Loss of vegetation, poor water quality, soil erosion and high soil salinity in Hawkesbury Nepean and George River Catchments;[19]
- Economic factors (e.g. sluggish economic growth, strong Australian dollar, rising agricultural input costs).

Hence, for the purpose of this analysis, WRI considered that a growth scenario where agricultural production fluctuates around a mean is the most plausible.

WRI has also examined the number of farms over the last 12 years and assumed that the number of farms between 2014/15 and 2015/16 will follow a long term deterministic trend.

Table 4.1 shows that under both maintained and increased services plans, the farmland rate/value added ratio will stand at 0.43% in 2014/15 and 2015/16 respectively. The implementation of the maintained and increased services plans will result in the rates/farm value added ratio increasing by 0.02 and 0.06 percentage points respectively.

Table 4.1 Farmland rates and farm business viability

a). Maintained services plan

Year	Farmland rates ($)	No. of farms	Aggregate farm value added ($'000)	Rates/value added (%)
2013-14	3,056	143	75,097	0.41
2014-15	3,148	141	72,279	0.43
Change (2013/14-2014/15)				0.02

16 Industry and Investment NSW. Analysis of Population Census and Agricultural Census Data in Sydney Statistical Division, June 2010.
17 Brown Consulting. Sydney's Growth Centres: The Growth of Western Sydney. An Update from the NSW Planning Team, 2013.
18 James S. Farming on the Fringe: Peri-Urban Market Gardens Within Sydney's Historical and Contemporary Cityscape, pp. 6-7.
19 Liverpool City Council. Catchments. Available at http://www.liverpool.nsw.gov.au/environment/water-and-waterways/catchments

b). Increased services plan

Year	Farmland rates ($)	No. of farms	Aggregate farm value added ($'000)	Rates/value added (%)
2013-14	3,056	143	82,764	0.37
2014-15	3,224	141	73,500	0.43
2015-16	3,401	138	76,450	0.43
Change (2013/14-2015/16)				0.06

Note. The results presented in the table have been generated assuming the random fluctuation of aggregate farm value added in Liverpool LGA. The magnitude of fluctuation and the aggregate farm value added levels were specified based on secondary data sources.

Note. Rates / value added ratio has been deflated by 30% company tax rate.

Regarding the viability of non-farm businesses, since the number of businesses has been increasing at a slower rate than the value added for Liverpool LGA, the average revenues of non-farm businesses were high and business rates/value added ratios relatively low (Table 4.2). WRI assumes that this structural pattern will be preserved during the course of the maintained and increased services plans' implementation.

It is expected (Table 4.2) that under both maintained and increased services plans the business rates / value added ratio will be as low as 0.16% and 0.17% by 2014/15 and 2015/16 respectively. Also, following implementation of the maintained services plan, the rates / business value added ratio will remain unchanged, while under the increased services plan the ratio will increase by 0.01 percentage points.

Table 4.2 Business rates and non-farm business viability

a). Maintained services plan

Year	Business rates ($)	No. of businesses	Value added ($'000)	Rates/value added (%)
2013-14	6,477	3,191	8,798,492	0.16
2014-15	6,671	3,239	9,223,360	0.16
Change (2013/14-2014/15)				0.00

b). Increased services plan

Year	Business rates ($)	No. of businesses	Value added ($'000)	Rates/value added (%)
2013-14	6,477	3,191	8,798,491	0.16
2014-15	6,833	3,239	9,223,360	0.17
2015-16	7,209	3,286	9,668,744	0.17
Change (2013/14-2015/16)				0.01

Note. The results presented in the table have been generated assuming the growth of non-farm value added in Liverpool LGA by 2.07% per annum over the next 1 or 2 years and the growth in the number of non-farm businesses at 1.48% per annum. This assumption was based on past growth in NSW gross state product.

The rates increases proposed under both the maintained and increased services plans are considered serviceable for farm and non-farm businesses and will not have a significant impact on their financial bottom line.

3.3 Liverpool City Council and its peers

WRI has examined past and projected council rates in Liverpool, Group 7 peer LGAs and neighbouring LGAs (Penrith, Fairfield, Camden, Campbelltown, Sutherland, and Bankstown) in the context of the proposed SRV.

In addition, WRI considered the likelihood of rates' change in peer LGAs over 2014/15-2015/16 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.[20]

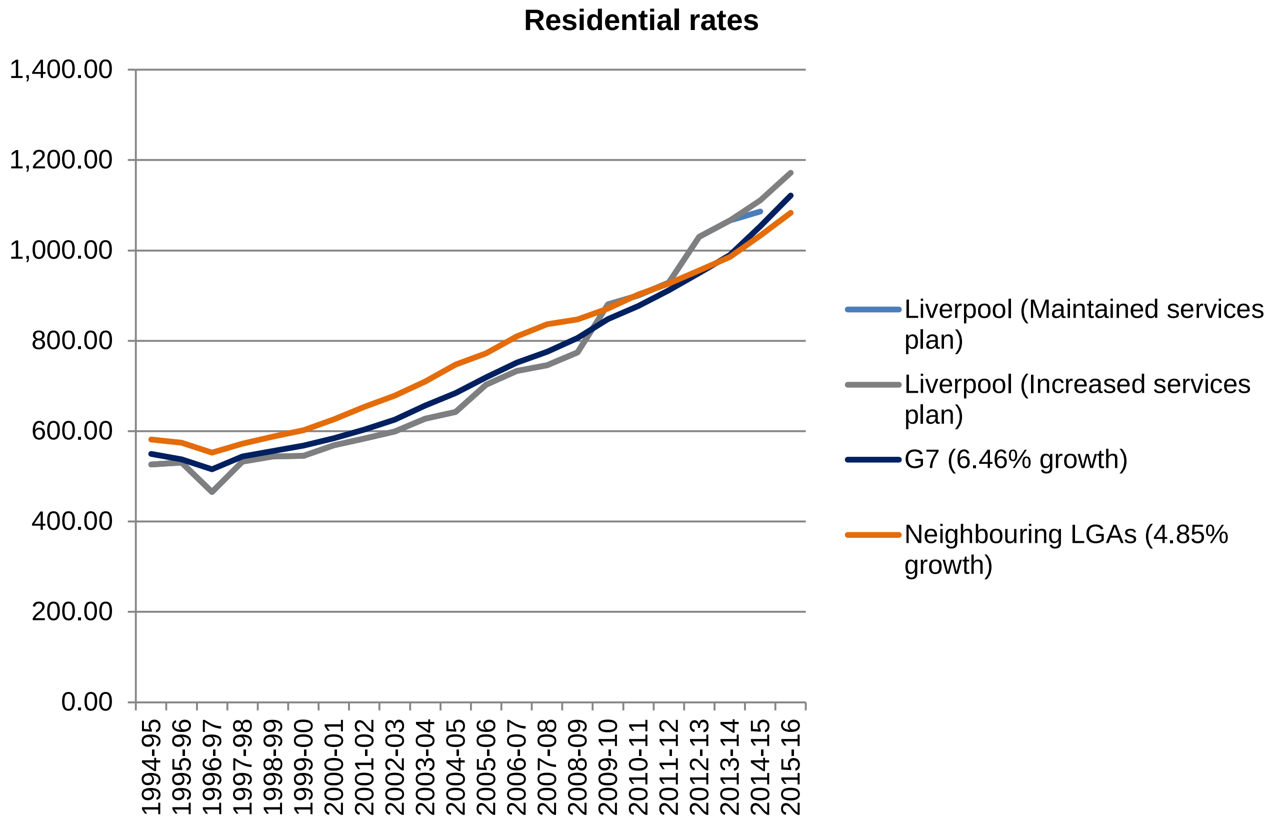
As to the magnitude of the likely rates' increase, WRI noted that:

- 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 7 LGAs stood at 6.46% and for neighbouring LGAs stood at 4.85%.

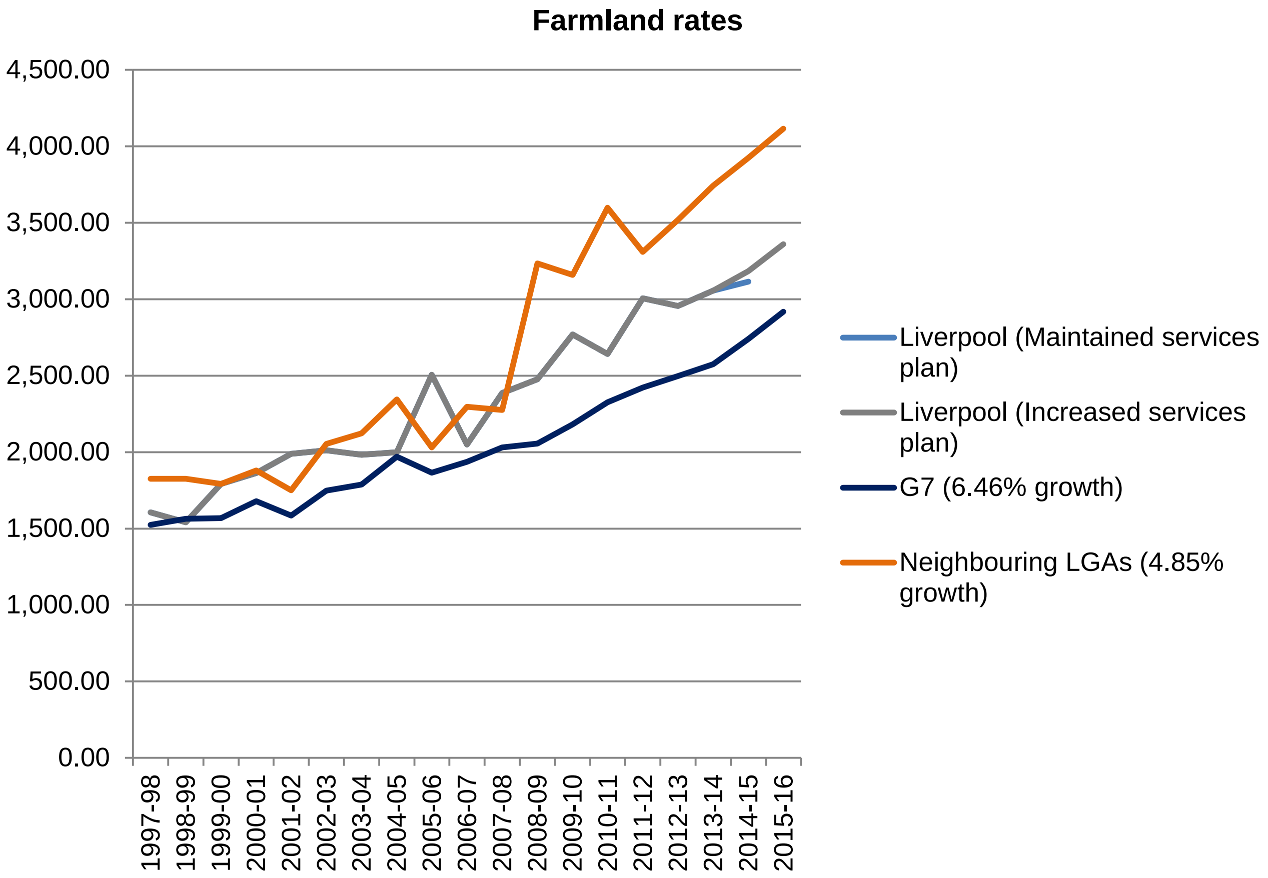
For the purpose of this analysis, WRI assumed that rates in peer Group 7 LGAs will grow at 6.46% per annum and rates in neighbouring LGAs will grow at 4.85% per annum between 2014/15 and 2015/16.

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

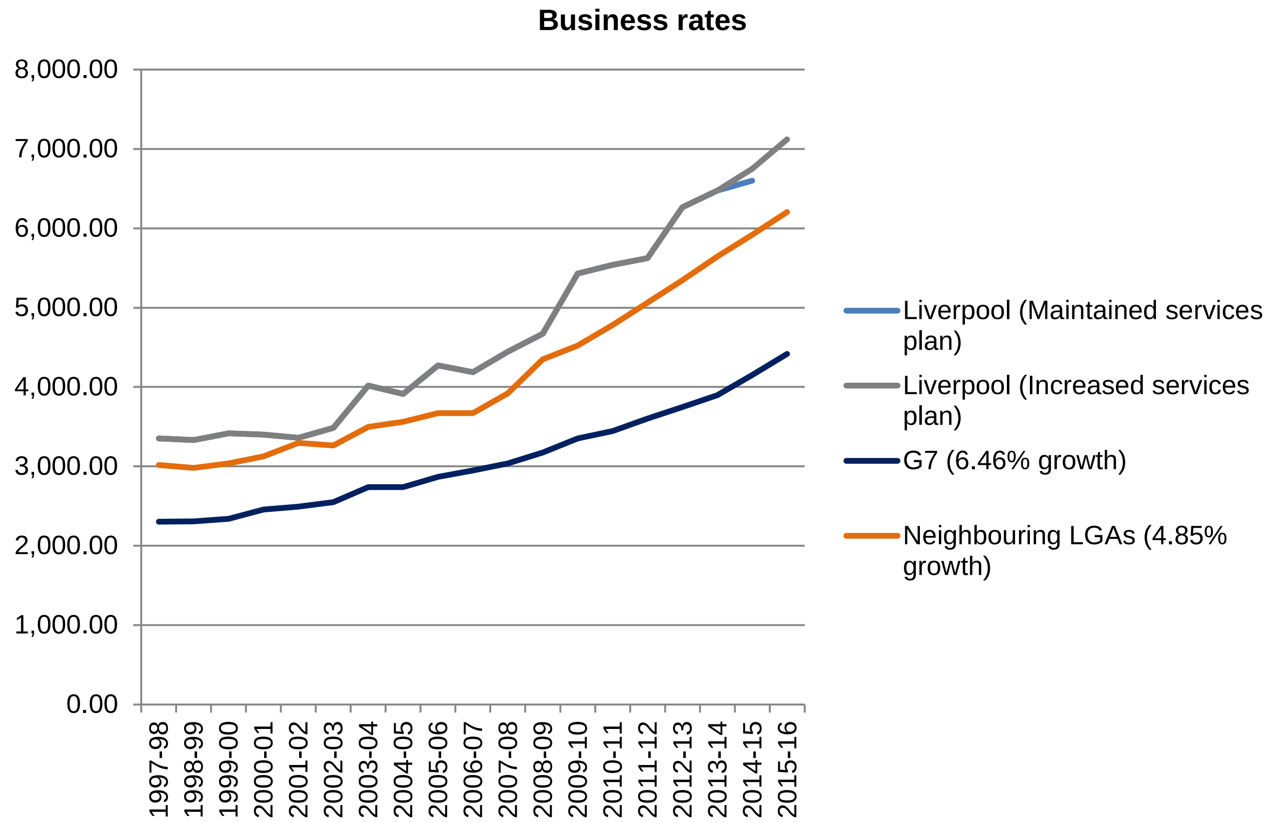
Growth scenario for peer LGAs – Growth at 6.46% and 4.85% per annum



Residential rates in Liverpool LGA were below (or in line with) rates in peer LGAs over the last 15 years and have been rising steadily. Under the 6.46% and 4.85% growth rates scenario in peer LGAs and maintained services plan, Liverpool residential rates will exceed Group 7 LGA levels by 4.21% and neighbouring LGA levels by 6.27% in 2014/15. Under the 6.46% and 4.85% growth rates scenario in peer LGAs and increased services plan, Liverpool residential rates will be above Group 7 LGA levels by 5.82% and neighbouring LGA levels by 9.57% in 2015/16.

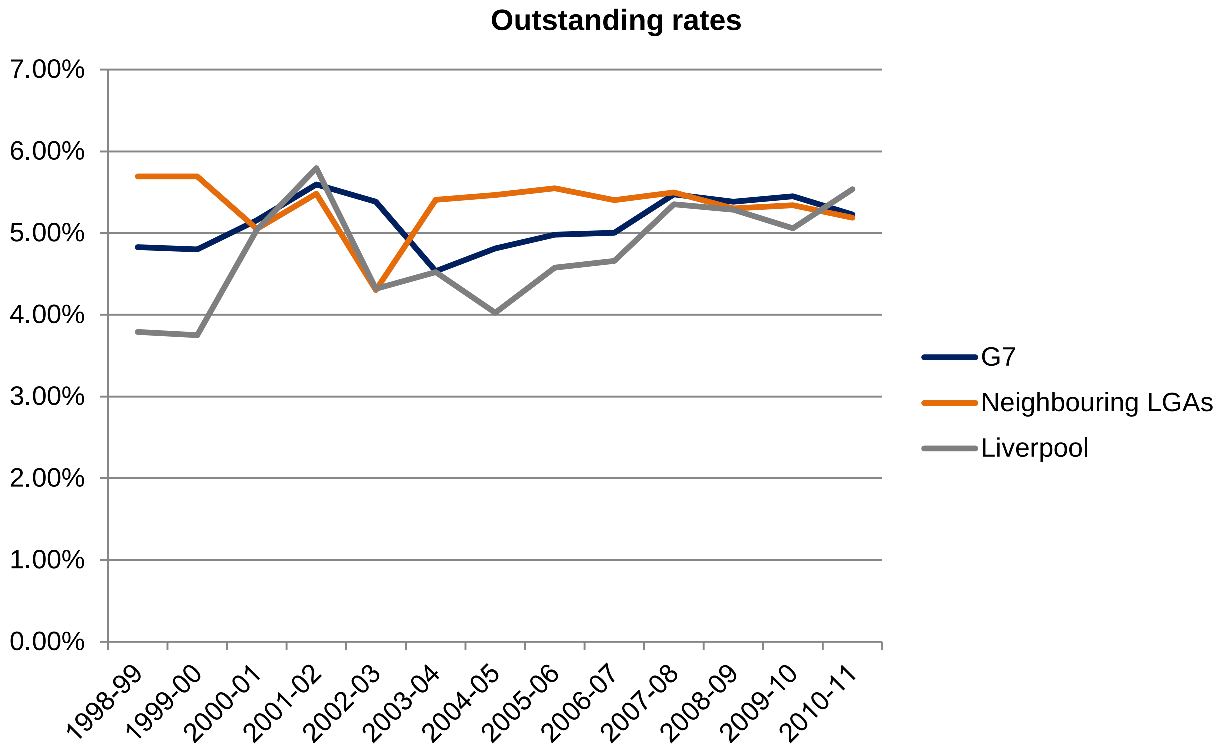


Under the 6.46% and 4.85% growth rates scenario in peer LGAs and maintained services plan, Liverpool farmland rates will be above Group 7 LGA and below neighbouring LGA levels in 2014/15 (by 14.88% and by 19.79% respectively). Under the increased services plan, Liverpool farmland rates will be above Group 7 levels by 16.58% in 2015/16. Also, under this plan Liverpool farmland rates will be below neighbouring LGA levels by 17.36% in 2015/16. WRI notes that until 2008/09 farmland rates in Liverpool LGA were in line with neighbouring LGA levels and were consistently above Group 7 LGA levels over the past 15 years.



WRI notes that over the past 15 years business rates in Liverpool LGA were above Group 7 and neighbouring LGA levels. Assuming business rates in peer LGAs grow at 6.46% and 4.85% per annum and the maintained services plan is implemented, business rates in Liverpool LGA will exceed rates in Group 7 and neighbouring LGAs by 60.78% and by 12.73% in 2014/15. Under the increased services plan, business rates in Liverpool LGA will be above Group 7 and neighbouring LGA levels by 63.20% and 16.19% in 2015/16.

As shown below, the ratio of outstanding rates to the total rates collected in Liverpool has been in line with Group 7 LGA and neighbouring LGA averages between 1998 and 2002 and was below its peers' averages between 2003 and 2010. While the ratio has been increasing in Liverpool in recent years, reaching 5.5% in the financial year 2010-11, at present the level of outstanding rates in Liverpool is not significantly higher than in its peers (5.2% in Group 7 and neighbouring LGAs in 2010-11). This indicates the ability of the Liverpool community to pay current rates. WRI notes that the ratio is likely to increase once the rate increases are implemented; the magnitude of the increase cannot be known in advance.



As shown in Table 5.1, Liverpool 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 at the median of Group 7 LGAs and 'Group 7 & neighbouring LGAs'.

Liverpool City Council was also ranked favourably relative to Group 7 LGAs and 'Group 7 & neighbouring LGAs' (but not NSW) in terms of residential rates, having its residential rates at the peer groups' median. Among 152 NSW LGAs, however, Liverpool City Council had the 29th highest residential rates.

Liverpool City Council was ranked poorly in terms of farmland rates, with their level being the second highest among Group 7 LGAs and 'Group 7 & neighbouring LGAs'.

It was also ranked poorly in terms of business rates, with their level being well above the median of NSW and above Group 7 LGAs and 'Group 7 & neighbouring LGAs'.

Table 5.1 Council rates (2010-12)

LGA	Sample	Residential	Farmland	Business	Outstanding
NSW	n=152	29th highest	13th highest	12th highest	63rd lowest
G-7	n=8	4th lowest	2nd highest	2nd highest	4th lowest
G-7 & neighbouring LGAs	n=12	6th lowest	2nd highest	3rd highest	6th highest

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, Liverpool was ranked poorly in terms of socio-economic indicators and average personal income against Group 7 and neighbouring LGAs, and less so against NSW LGAs.

As shown in Table 5.2, Liverpool is ranked below Group 7 LGAs and 'Group 7 & neighbouring LGAs' median in three components of SEIFA (index of relative socio-economic advantage and disadvantage, index of relative socio-economic disadvantage, and index of economic resources). Regarding the index of education and occupation, Liverpool is ranked at the median of Group 7 LGAs and below the median of 'Group 7 & neighbouring LGAs'.

Liverpool is ranked above NSW LGAs median in terms of relative socio-economic advantage and disadvantage, economic resources and education and occupation opportunities, but below NSW LGAs median in terms of relative socio-economic disadvantage. Overall, SEIFA rankings suggest that the socio-economic situation in Liverpool relative to its peers is relatively unfavourable.

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	66th highest	51st lowest	43rd highest	74th highest
G-7	n=8	3rd lowest	2nd lowest	3rd lowest	4th lowest
G-7 & neighbouring LGAs	n=12	5th lowest	4th lowest	5th lowest	5th lowest

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 Liverpool wage and salary earners and own unincorporated businesses was above the state median, while the income of its investment income earners and superannuation and annuity earners was below the median.

Liverpool is ranked below the median of Group 7 and 'Group 7 & neighbouring LGAs' in terms of all income types. Liverpool's total income is above the NSW median, but is below Group 7 and 'Group 7 & neighbouring LGAs' median.

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	54th highest	74th highest	4th lowest	48th lowest	63rd highest
G-7	n=8	3rd lowest	2nd lowest	2nd lowest	lowest	3rd lowest
G-7 & neighbouring LGAs	n=12	5th lowest	3rd lowest	2nd lowest	2nd lowest	5th lowest

Except for large industrial sites, Liverpool LGA is ranked well in terms of the level of land values (Table 5.4). Liverpool had 7th lowest land values in the representative property category among 55 areas, and 6th lowest land values in retail shops category (25 areas), 8th lowest land values in small industrial sites category (20 areas) and 6th to 7th lowest land values in rural home sites category (15 areas). In addition, Liverpool LGA experienced moderate growth in land values relative to its peers between 2007-12 in all categories except large industrial sites.

Table 5.4 Land values (2012)

	Sydney area - representative property	Retail shops	Small industrial sites	Large industrial sites	Rural home sites
Sample	n=55	n=25	n=20	n=15	n=15
2012 values	7th lowest	6th lowest	8th lowest	6th highest	6th lowest* (7th lowest**)
% change in land values (2007-12)	13th lowest	9th lowest	10th lowest	7th highest	lowest** (4th lowest*)

Note. (*) Ranking of Denham Court suburb in Liverpool LGA; (**) Ranking of Rossmore suburb in Liverpool LGA

WRI has modelled the ranking of Liverpool among its respective peer groups in terms of all three rating categories, assuming that rates in 'Group 7 & neighbouring LGAs' peer group grow at 6.07% (the average rate increase permitted by IPART in 2011-13 for five Liverpool LGA peers), while Liverpool LGA implements maintained or increased services plans.

As shown in Table 5.5, Liverpool farmland and business rates ranking will remain unchanged as a result of either of plans' implementation. Residential rates ranking will change slightly as a result of maintained services plan, and will remain unchanged under the increased services plan.

Table 5.5 Dynamics of Liverpool City Council rankings of rates

a). Maintained services plan

Year	Sample	Residential	Farmland	Business
2013/14	n=12	9th lowest	7th lowest	10th lowest
2014/15	n=12	8th lowest	7th lowest	10th lowest

b). Increased services plan

Year	Sample	Residential	Farmland	Business
2013/14	n=12	9th lowest	7th lowest	10th lowest
2014/15	n=12	9th lowest	7th lowest	10th lowest
2015/16	n=12	9th lowest	7th lowest	10th lowest

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

Overall, the proposed rates increase under both maintained and increased services plans will place:

- Liverpool residential rates above the average residential rates in Group 7 and neighbouring LGAs by a relatively small margin;
- Liverpool farmland rates above the average farmland rates in Group 7 LGAs and below the average farmland rates in neighbouring LGAs;
- Liverpool business rates above the average business rates in Group 7 and neighbouring LGAs; and

- Under both plans, Liverpool will be ranked favourably against Group 7 and neighbouring LGAs in terms of land values and residential rates, but poorly in terms of socio-economic indicators, average personal income, as well as farmland and business rates.

CONCLUSION

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

Liverpool LGA is ranked favourably in terms of land values and residential rates. However, it is ranked poorly in terms of socio-economic position, average personal income and the level of council rates in the farmland and business categories.

In terms of costs for Liverpool households, the proposed rates increase under both maintained and increased services plans will be below assumed changes in electricity and gas prices, and also below the assumed price changes for several goods and services categories.

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

In terms of input costs and wages for farm and non-farm businesses, the proposed rates increase under the maintained services plan will be above changes in many input categories and wages, and will be above changes in most input categories and wages under the increased services plan.

Under the maintained services plan, 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 the increased services plan, this will be the case of price increases for households, but not for businesses.

The rates increase proposed under both plans will have insignificant impacts on Liverpool community, farm and non-farm businesses in terms of ability to pay rates and financial bottom line.

At the end of both plans implementation, Liverpool residential rates will be above Group 7 and neighbouring LGA levels. Liverpool farmland rates will be above Group 7 LGA levels, but below neighbouring LGA levels. Liverpool business rates will be above both Group 7 and neighbouring LGA levels.

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

- The rate increases proposed under both maintained and increased services plans pass reasonableness tests in terms of its impact on households and the financial bottom line of farm and non-farm businesses.
- The reasonableness tests are passed when comparing Liverpool residential (and to lesser extent farmland) rates with respective peer LGAs' rates.
- The reasonableness test is not passed in terms of comparing Liverpool business rates with peers' rates.
- In terms of comparison of proposed rates increases with other cost and price changes, the reasonableness test was passed in the case of the maintained services plan and household costs and was not passed in the case of the increased services plan and business costs.

APPENDIX 1: TECHNICAL NOTES

1. Costs of residents

The costs incurred by Liverpool residents over 2012-2013 (Table 1.1) and 2011-2013 (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 2012 – September 2013 and September 2011 – September 2013 periods in Sydney.[21]

2. Costs of farm and non-farm businesses

WRI first examined the Liverpool industrial profile and identified the major industries. It then compared proposed farmland and business rates' increases with compounded percentage changes in either input or output prices for the respective industries in Liverpool 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 and 2014/15 – 2015/16) will not deviate from the growth in 2012-13 and 2011-13.[22] 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.[23]

3. Household expenditure

The procedure for extracting the Liverpool 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.[24] 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.[25] 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 Liverpool household is obtained. The assumption is made that Liverpool's household expenditure is smaller than NSW household expenditure in the same proportion as Liverpool's personal income is smaller than NSW personal income, i.e. the savings patterns in Liverpool and NSW as a whole are similar. The average household size in Liverpool and NSW in general is similar.

---

21 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.

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

23 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.

24 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).

25 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 Liverpool is calculated in each of the years between 2014/15 and 2015/16 (corresponding to the Liverpool City Council plans 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 Liverpool City Council.

As a final step, the new levels of residential rates in 2014/15 and 2015/16 are compared to the new levels of household expenditure, and an assessment is made as to the ability of the Liverpool residents to bear the new rates.

4. Farm and non-farm businesses viability

For the Liverpool agricultural sector, the relationship between proposed farmland rates and future farm value added is estimated as follows. The value of agricultural value added in Liverpool LGA is extracted from secondary sources.[26] The most recent figure for Liverpool farm value added is available for 2010/11, equal to $78.21 mln. The number of farms is obtained from the NSW Division of Local Government publications (159 farms in 2010/11).[27] The average value added per farm is then calculated for 2010/11 ($492,000). The number of farms in 2014/15 – 2015/16 is assumed to follow a long term trend, with an annual decrease of 1.90%.[28] The future value of Liverpool agricultural value added (inflated by CPI growth factor of 2.7-2.8% per annum) is assumed to fluctuate around the 4-year mean. WRI considers it is reasonable, due to constraints on agricultural production in Liverpool LGA.

The procedure is essentially the same for the non-farm businesses. The number of non-farm businesses in 2014/15 – 2015/16 is assumed to follow a long term trend, with 1.48% increase in the number of businesses per annum. The non-farm value added is assumed to be growing moderately in light of socio-economic challenges that Liverpool economy faces.

5. Liverpool City Council and its peers

In terms of average personal income, socio-economic standing and the level of rates, Liverpool LGA is compared to ‘Group-7’ peers, as well as neighbouring LGAs (Penrith, Fairfield, Camden, Campbelltown, Sutherland and Bankstown). The average personal income data is sourced from the ABS.[29] 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.[30] The historical council rates are obtained from the NSW Division of Local Government.[31]

---

26 Liverpool City Council. Liverpool Economic Profiling and Investment Attraction Report, 29/4/2013. Prepared by AEC Group Limited.

27 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.

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

29 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).

30 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).

31 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.

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.

WESTERN
RESEARCH INSTITUTE LTD

The Flannery Centre, 341 Havannah Street Bathurst NSW 2795
mail: PO Box 9374 Bathurst NSW 2795 phone: 02 6333 4000
ABN 76 090 089 991
email: team@wri.org.au
www.wri.org.au