Criterion 2 Community Engagement Annexures

Attachment 2.h

- **Western Research Institute Report at 8.34%**

REPORT ON PROPOSED SPECIAL RATES VARIATION

For Maitland City Council

CONTENTS

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13025 Maitland Rates/Report

EXECUTIVE SUMMARY

Maitland City Council seeks to support a vibrant community in Maitland LGA in which opportunities are abundant. Recognizing the need to ensure financial sustainability and to enable the maintenance and enhancement of key services to an expanded population over the next decade and beyond, Maitland City Council is considering applying for a special rate variation (SRV). In the absence of the SRV implementation, Maitland City Council will experience difficulties in funding its operations in the future, projecting a $92 million deficit at the end of ten years.

Under the SRV, Council proposes to increase residential, farmland and business rates for seven years (2014/15-2020/21) as follows:

Rates	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Average
Residential (% change)	9.07	8.99	8.93	8.87	8.82	8.77	8.73	8.88
Farmland (% change)	6.14	6.24	6.39	6.50	6.61	6.71	6.80	6.48
Business (% change)	6.75	6.85	6.95	7.04	7.13	7.21	7.28	7.03

The proposed annual rate increases include the 3.4% rate peg, set by IPART.

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

The summary results of the assessment are:

Special rate variation

Under the SRV the proposed rates increase:

- will be below anticipated electricity price increases for households, and will be above price increases in all other cost categories; and
- will be above anticipated price changes in most of the input cost and 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 some price/cost categories.

Despite 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 put rates as a proportion of farm value added well above 1%, indicating a **significant impact on farm business viability.**[1]

For farm businesses, the proposed increases will see rates as a proportion of value added increase from 4.45% to 6.61% (more than one percentage point). For non-farm businesses, rates as a proportion of value added will increase from 0.27% to 0.37% (less than one percentage point).

Under the SRV:

- residential rates in Maitland LGA will be in line with residential rates in Group 5 LGAs and above the residential rates in neighbouring LGAs (Cessnock, Port Stephens, Dungog, Newcastle and Lake Macquarie);
- farmland rates will be above farmland rates in peer LGAs; and
- business rates will be in line with business rates in Group 5 LGAs, but above rates in neighbouring LGAs.

WRI notes that Maitland LGA is dissimilar to neighbouring LGAs, experiencing substantial land releases and the highest population growth among its respective peers in recent years. A rates per capita (rather than average rates) assessment has been undertaken as a potentially more appropriate indicator to compare rates in Maitland LGA and its peers. Findings suggest that in 2001 and 2011 the rates per capita in Maitland LGA were the second lowest among six neighbouring LGAs, while in 2021 Maitland rates per capita are expected to be second lowest or lowest (provided neighbouring LGAs grow in line with the average rates increase permitted by IPART over the last 3 years, and Maitland population grows at 2% or 3% per annum). Also, by 2021 Maitland rates per capita will be below neighbouring LGAs average rate per capita.

Summary

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

In terms of costs for Maitland households, the proposed rates increase under the SRV will be below assumed changes in electricity prices, but above the assumed price changes for all other utilities, goods and services.

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

Under the SRV, the proposed rate increases will be going some way to catch up with price increases for households and input cost increases for businesses in some price/cost categories.

The rates increase proposed under the SRV will have insignificant impacts on Maitland community and non-farm businesses in terms of ability to pay rates and financial bottom line. However, the impacts of the proposed rates increases on Maitland farm businesses will be substantial.

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1 WRI notes that there are 531 farmland high and 143 farmland low ratepayers in Maitland LGA, representing 2.3% of all ratepayers. This suggests that while proposed rates increase has significant impact, the latter is confined to a small segment of the community.

At the end of the SRV implementation period, Maitland residential rates will be in line with Group 5 LGA and above neighbouring LGA levels. Maitland farmland rates will be above peer LGA levels. Maitland business rates will be above neighbouring LGA levels and in line with Group 5 levels under the SRV.

In terms of the rates per capita assessment, Maitland is ranked favourably against its peer LGAs, with its rates per capita being lowest or second lowest in 2021 and being below its peers' average.

Overall, the rate increase proposed under the SRV passes reasonableness tests in terms of its impact on households and the financial bottom line of non-farm businesses, and to a lesser extent when comparing Maitland residential and business rates with respective peer LGAs' rates. However, impacts on farm business financial bottom line and comparison to peers appears substantial.

Given the findings, it is suggested that Council give consideration to further mitigating the impacts of the proposed variation on farmland ratepayers, noting that these ratepayers constitute 2.2% of rate payers. Additionally, Council should consider the reasonableness of the increases and the consequences of adjusting the period of the variation and/or the percentage increase sought. Council's proposal has been developed in line with community service expectations, meaning any reduction in rates revenue will result in reduced service levels from Council.

1. INTRODUCTION

Maitland City Council, through its Maitland + 10 Community Strategic Plan (CSP), seeks to support a vibrant community in which opportunities are abundant. Council recognises, however, the need to ensure financial sustainability and to enable the maintenance and enhancement of key services over the next decade and beyond. Maitland City Council advises that costs have been increasing at a far greater rate than revenue. A key factor driving these increases is the exceptional rate of growth experienced in Maitland LGA. Maitland LGA is one of the fastest growing areas in NSW with population having grown from 57,642 to 71,886 over 10 years.[2] Whilst Maitland City Council has delivered balanced budgets in the past, costs are expected to increase at a far greater rate than revenues and this is expected to challenge Council's budgets in the future.

Therefore, recognising the future financial challenge, as well as community sentiment and support for services provided, Maitland City Council is considering increasing council rates by means of a special rate variation (SRV) to be implemented over a seven year period, from 2014/15 to 2020/21. The aim is to raise rates revenue as a proportion of total revenue from 42.2% currently to a more sustainable level. Under the SRV, the rates in three ranking categories (residential, farmland and business) will increase non-uniformly as follows:

Rates	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Average
Residential (% change)	9.07	8.99	8.93	8.87	8.82	8.77	8.73	8.88
Farmland (% change)	6.14	6.24	6.39	6.50	6.61	6.71	6.80	6.48
Business (% change)	6.75	6.85	6.95	7.04	7.13	7.21	7.28	7.03

By the end of the SRV implementation period, the compounded increase across residential rates in Maitland LGA will be 81.41%, 55.23% across farmland rates and 60.90% across business rates.[3]

Under the SRV, the proposed rates increases include the 3.4% rate peg set by the Independent Pricing and Regulatory Tribunal (IPART) for 2013/14, defining the maximum allowable increase in local government general income for NSW councils.[4]

Maitland City Council advises that council's total revenue will increase by approximately 83% over the period of the SRV implementation, with 30% of this figure attributable to the rate peg. Thus, Council's proposal would see the rate yield increased by 50% 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 the IPART, and therefore a separate application by Council has to be made to IPART, providing justification for a rates increase above the pegging threshold.

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2 Australian Bureau of Statistics (2013). Regional Population Growth, Australia. Cat. No. 3218.0. WRI also notes that between June 2011 and June 2012, Maitland LGA (together with Murrrumbidgee LGA) recorded the fastest population growth among inland LGAs (+2.7%).
3 WRI notes that in 2011/12 Maitland City Council applied for special rate variation and received approval from IPART to increase its rates by 9.8% in 2011/12 and by 10.0% in 2012/13. IPART. Summary of Variations Requested by Councils and Decisions by IPART, June 2011.
4 The rate peg for 2014/15 will be announced by IPART in early December 2013. IPART may also adjust the rate peg for subsequent years.

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

2. METHODOLOGY

The report analyses the proposed special rate variation 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 7 years. It is assumed for the purposes of this exercise that similar increases will occur over the next 7 years during SRV implementation.

To determine the reasonableness of the rate increase for farm and non-farm business, input price increases over the last 7 years for each of the major industries in Maitland LGA are considered. Again it is assumed that similar increases will occur over the next 7 years.

The rate increase is considered reasonable, if it will be in line with other price and costs increases over the next 7 years, or if the proposed rates increase will be catching up with other price and costs increases over the 7 year period.[5]

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 Maitland LGA are not available, but can be reconstructed from Australia-wide household expenditure survey and Maitland's average household income. The proposed residential rates are then compared to the average expenditure of the Maitland 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 Maitland 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 Maitland are not available but GOS is part of the value-added of Maitland 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 Maitland industries over the periods 2014/15 – 2020/21. (It should be noted that rates are tax deductable so for the comparison the company tax rate should be deducted from the rate increase.)

The impact of the rate increase on the viability of Maitland 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.

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

Peer Comparison

Maitland City Council is compared to three peers: New South Wales as a whole, 'Group 5 LGAs' to which Maitland City belongs, as well as to a combined 'Group 5 & neighbouring LGAs'. Neighbouring LGAs include Cessnock, Port Stephens, Dungog, Newcastle and Lake Macquarie. Group 5 LGAs include Coffs Harbour, Lake Macquarie, Maitland, Newcastle, Port Macquarie-Hastings, Shoalhaven, Tweed and Wollongong. Specifically, WRI has examined whether the level of rates in Maitland LGA has been in line with its peers, and at how Maitland 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 Maitland LGA in terms of rates.

Given Maitland's exceptional recent population growth, Council has also requested WRI undertake a rates per capita assessment as a potentially more appropriate indicator to compare rates in Maitland LGA and its peers. Neighbouring LGAs were selected as a peer group. Rates per capita were calculated based on rates revenue (revenue from residential, farmland and business rates) and population data in respective LGAs in 2011 and 2021.

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

- Following the implementation of the SRV, the rates ranking of Maitland 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 Maitland LGA over the 7 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 Maitland LGA, WRI assumed that for all cost items, the past growth trend is likely to continue in the near term with compounded price increases between 2014/15 and 2020/21 being commensurate with CPI gains in 2006-13. 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 seven years the inflation was uneven across industries and sectors. The compounded percentage change in the aggregate CPI was 19.6%. Utilities prices rose by an average of 98.7%, the cost of several services rose as well (education costs by 38.0%, health care costs by 39.6%) while the CPI for household equipment and child care declined (by 7.5% and 16.6% respectively). The cost of goods rose by an average of 14.0% over the seven year period.

The data in Table 1.1 (Column 2) suggests that under the proposed SRV (81.4% compounded increase for residential rates over 2014/15 – 2020/21 period), the proposed rate increase will be:

- below assumed price changes for electricity; and
- above assumed price changes for all other cost items, including goods, services as well as some of the utilities (gas, water and sewerage). It is worth noting that under the SRV the proposed rate increase will be below price changes for utilities as a broad cost category (due to assumed high growth in electricity prices).

As shown in Table 1.1 (Column 3), under the SRV, the proposed rate increase is going some way to "catch up" with the changes in electricity prices, and will also achieve considerable "catch up" with changes in gas and water and sewerage prices.

Table 1.1: Actual and projected costs for Maitland City Council households based on the Sydney CPI (compounded % change)[6]

Period	Past change (Sept 2006 - Sept 2013)	Assumed change (2013/14 - 2020/21)	Past change + Assumed change - past rate change
All groups CPI	19.61	19.61	-7.61
1. Services	27.09	27.09	7.35
Healthcare	39.64	39.64	32.46
Education	38.04	38.04	29.25
Insurance and financial services	22.46	22.46	-1.90
Travel and accommodation	13.54	13.54	-19.76
Recreation and culture	1.52	1.52	-43.80
Communications	5.46	5.46	-35.91
Child care	-16.59	-16.59	-80.02
2. Goods	14.00	14.00	-18.83
Food and beverages	13.33	13.33	-20.16
Alcohol and tobacco	38.28	38.28	29.73
Clothing and footwear	4.28	4.28	-38.26
Household equipment	-7.53	-7.53	-61.89
3. Utilities	98.67	98.67	150.50
Electricity	120.93	120.93	195.03
Electricity (AEMO forecast)		37.00	111.10
Gas	67.73	67.73	88.64
Water and sewerage	63.98	63.98	81.13
4. Maitland rates	46.83		
Special rate variation		81.41	

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 36-37% by 2020/21.[7] In its later papers, AEMO forecasted even smaller growth.[8] 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

6 WRI notes that the ABS does not construct regional consumer price indices, as price movements in regional areas are not significantly different from those in metropolitan areas. As a result, Sydney CPI is used as a proxy for Maitland/Hunter CPI. Australian Bureau of Statistics. Outcome of the 16th Series Australian Consumer Price Index Review. ABS Cat. No. 6469.0, 2010.
7 Australian Energy Market Operator. Economic Outlook Information Paper: National Electricity Forecasting, 2012, p. iv.
8 Australian Energy Market Operator. Economic Outlook Information Paper: An Input to the National Electricity Forecasting Report, 2013, p. 5-16.

prices etc. This information implies that it is likely that the rates increase proposed by Maitland City Council may exceed anticipated changes in electricity prices.

b. Farm and Non-Farm businesses

In comparing proposed rates increases in Maitland LGA and input costs, wages and output prices, WRI assumed that cost and price changes that Maitland farm and non-farm businesses will experience over the next 7 years are identical in terms of magnitude to the cost and price changes in the past 7 years.[9]

As shown in Table 2.1, over the 2006-13 period input prices increased substantially in electricity production (98.4%) and coal mining (53.5%), and less so in manufacturing (21.5%), agriculture (25.8%), house construction (16.3%) and road and bridge construction (26.1%). Output prices increased in accommodation and food services (24.0%), rail and road freight (38.5% and 24.9%) and road and bridge and non-residential construction (28.6% and 11.9% respectively). Wages increased in all industries in question, with coal mining experiencing the highest growth (38.0%).

With the exception of electricity input prices, the proposed farmland and business rates increases under the SRV (55.2% and 60.9% compounded increase) will be above the changes in both the input and output prices and wage costs that Maitland farm and non-farm businesses are likely to experience. In particular, the proposed business rates increases will be above input and output price changes in road and bridge and non-residential construction. The proposed business rates will be roughly in line with the assumed changes in coal mining input prices.

9 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.

Table 2.1: Actual and projected costs for farm and non-farm businesses[10], including some Council operations

Industry	Input prices	Output prices	Wages
Coal mining	53.47		37.99
Electricity	98.43		32.96
Electricity (AEMO forecast)	37.00		32.96
Manufacturing	21.48		27.13
House construction	16.27		30.65
Road & bridge construction	26.08	28.64	
Non-residential construction		11.94	
Accommodation & food services		23.99	21.25
Rail freight		38.45	
Road freight		24.82	
Agriculture	25.77		
Public administration & safety			25.52
Education & training			30.61
Health care & social assistance			26.87
Imported materials	29.29		
Domestic materials	9.72		
Intermediate inputs	19.84		
Maitland rates variation			
-Rate variation (farmland)	55.23		
-Rate variation (business)	60.90		

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

Under the SRV, 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 coal mining input prices. The proposed rate increase will exceed experienced and forecast changes in road and bridge and non-residential construction.

10 WRI considers that some of the operations by Maitland City Council (e.g. road and bridge construction) are similar to operations of non-farm businesses. Therefore, this table and Table 2.2 are applicable to Maitland City Council as well.

Table 2.2: The catching up of proposed rate increases with input price changes

Industry	Input prices (past change + assumed change - past rate change)	Output prices (past change + assumed change - past rate change)	Wages (past change + assumed change - past rate change)
Coal mining	76.03		45.06
Electricity	165.94		35.00
Electricity (AEMO forecast)	104.51		35.00
Manufacturing	12.04		23.34
House construction	1.61		30.38
Road & bridge construction	21.25	26.36	
Non-residential construction		-7.03	
Accommodation & food services		17.07	11.58
Rail freight		45.98	
Road freight		18.72	
Agriculture	28.82		
Public administration & safety			20.13
Education & training			30.29
Health care & social assistance			22.83
Imported materials	27.66		
Domestic materials	-11.49		
Intermediate inputs	8.76		
Past farmland rate change (2006-13)	22.71		
Past business rate change (2006-13)	30.92		
Maitland rates variation (farmland)	55.23		
Maitland rates variation (business)	60.90		

Note. The “catching up” is measured as past changes in input prices over the past 7 years plus assumed changes in input prices over the next 7 years minus past farmland or business rates changes.

For Maitland households:

- The proposed rates increases under the SRV are below assumed changes in electricity prices, but above the assumed price changes for all other utilities, goods and services.
- Under the SRV the proposed rates increases are going some way to catch up with prices and costs changes for electricity production and will also achieve considerable “catch up” with price changes in gas and water and sewerage prices.

Overall, the reasonableness criterion is not satisfied.

For Maitland farm and non-farm businesses:

- The rates increase under the SRV is above the changes in most input costs, all output prices and all wages.
- Under the SRV, 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 coal mining input prices.

Overall, the reasonableness criterion is not satisfied.

3.2 Impact

a. Household expenditure

Table 3.1 presents the proportion of residential rates under the proposed SRV in the overall expenditure of Maitland households.

Table 3.1 Maitland City Council rates as a proportion of total expenditure (% in 2020/21)

a). Level of income

	Lowest quintile	Second quintile	Third quintile	Fourth quintile	Highest quintile	All households	Second and third deciles
Initial (2013/14)	2.15	1.50	1.13	0.92	0.74	1.14	1.81
After 7 years (2020/21)	2.04	1.44	1.09	0.88	0.71	1.10	1.73
Change (2013/14-2020/21)	-0.11	-0.06	-0.04	-0.04	-0.02	-0.04	-0.08

b). Sources of income

	Wages and salaries	Own unincorporated business income	Other income	All households
Initial (2013/14)	0.96	0.94	1.02	1.14
After 7 years (2020/21)	0.92	0.89	0.98	1.10
Change (2013/14-2020/21)	-0.03	-0.04	-0.04	-0.04

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)	2.64	2.13	2.09	1.87	2.60
After 7 years (2020/21)	2.52	2.03	1.95	1.75	2.46
Change (2013/14-2020/21)	-0.13	-0.10	-0.14	-0.12	-0.14

Note. Changes are calculated as rates/household expenditure ratio in 2020/21 minus rates/household expenditure ratio in 2013/14.

WRI notes that Maitland City Council has a debt recovery and hardship policy in place that assists ratepayers experiencing financial difficulties in meeting their rate commitments to make regular payments. Also, Maitland City Council provides, upon application, up to $250 in annual rebate to ratepayers who hold a pensioner concession card and who meet eligibility criteria contained in the Local 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 3.1 above indicate.

It is shown that:

- Under the proposed SRV the total cost of residential rates incurred by the households in the lowest quintiles will not exceed 2.04% of the total expenditure respectively by 2020/21.
- For those households receiving the age pension, the costs will stand at 2.52% 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 1.75% to 2.52% in 2020/21 and on average will be 2.14%.
- For all households, the cost of residential rates will be 1.10% of total expenditure under the proposed SRV in financial year 2020/21.

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

- Under the proposed SRV, rates as a percentage of total household expenditure will decline by 0.04 percentage points between 2013/14 and 2020/21 in the ‘All households’ category, by 0.11 percentage points in the low-income category and by 0.13 percentage points in the pensioner category.
- Therefore, under the proposed SRV the reasonableness criterion will be satisfied.

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

Scenario 1. Rates in Group 5 LGAs increase by 8.54% per annum over 2014/15 – 2020/21 period (the average rates increase permitted by IPART in 2011-13 for several Group 5 LGAs – Coffs Harbour, Shoalhaven, Lake Macquarie, Newcastle and Port Macquarie-Hastings). Rates in neighbouring LGAs increase by 8.46% per annum over 2014/15 – 2020/21 period (the average rates increase permitted by IPART in 2011-13 for several neighbouring LGAs – Cessnock, Lake Macquarie and Newcastle).

Scenario 2. Rates in Group 5 and neighbouring LGAs increase in line with 7 year past trend (5.00% and 4.61% per annum respectively) over 2014/15 – 2020/21 period.

As shown in Table 3.2, the rates/household expenditure ranking of Maitland LGA against its peers will worsen if the SRV is implemented, with Maitland LGA moving from 9th highest to 3rd highest rate/household expenditure ratio (out of 11 LGAs), assuming peer LGAs grow at Scenario 2 growth rate. If peer LGAs grow at Scenario 1 growth rates, the ranking of Maitland LGA will not change.

WRI notes that under the proposed SRV, between 2013/14 and 2020/21 the change in rates/household expenditure ratio in Maitland LGA will not exceed one percentage point. However, in absolute terms the rates/household expenditure ratio will be above 1%. Therefore, the reasonableness criterion is partially satisfied.

Table 3.2. Rates as a proportion of total household expenditure in Maitland and peer LGAs

LGA	Current (2013-14)	Scenario 1 - After 7 years	Scenario 2 - After 7 years
		(*)	(**)
Coffs Harbour City Council	1.37	1.29	1.05
Lake Macquarie City Council	1.23	1.15	0.90
Maitland City Council	1.14	1.10	1.10
Newcastle City Council	1.11	1.04	0.79
Port Macquarie-Hastings Council	1.53	1.44	1.16
Shoalhaven City Council	1.29	1.22	0.99
Tweed Shire Council	1.95	1.84	1.84
Wollongong City Council	1.37	1.30	1.01
Cessnock City Council	1.30	1.22	1.01
Port Stephens Council	1.17	1.10	0.72
Dungog Shire Council	1.06	0.99	0.93
Ranking of Maitland City Council	9th highest	9th highest	3rd highest

(*) Assuming Coffs Harbour, Port Macquarie-Hastings, Shoalhaven, Tweed and Wollongong increase their rates by 8.55% p.a. and Lake Macquarie, Newcastle, Cessnock, Port Stephens and Dungog increase their rates by 8.46% p.a. (i.e. by average rate increase permitted by IPART for respective peer groups over 2011-2013)

(**) Assuming other LGAs increase their rates in line with 7-year trend. Maitland increases rates by 8.88% p.a. on average.

Rates increases of 8.55% and 8.46% per annum are increases permitted by IPART over 2011-13 period for Group 5 LGAs and neighbouring LGAs respectively.

WRI has also noted exceptional population growth in Maitland LGA in the recent years and considered rates per capita as an alternative metrics to examine the reasonableness of rates increase in the context of population growth (Table 3.3).

The modelling was performed based on the following:

- Three time points were examined, corresponding to the available data and projections pertaining to population in NSW LGAs – 2001, 2011 and 2021. The period covering 2011-2021 includes SRV implementation period (2014/15 – 2020/21). Also, the two periods (2001-2011 and 2011-2021) have equal span, making comparison possible.
- Maitland LGA was compared to neighbouring LGAs (Cessnock, Dungog, Port Stephens, Newcastle and Lake Macquarie).
- Rates per capita were calculated as the sum of residential, farmland and business rates revenue received by respective councils divided by the respective council population. Revenues due to mining rates and other additional charges were excluded from analysis.
- The data on expected population growth in Maitland LGA (2% per annum and 3% per annum) and expected rates revenue was provided by Maitland City Council. The data on past rates revenue and

past population in Maitland and other LGAs was obtained from NSW Planning and Infrastructure, Australian Bureau of Statistics and NSW Division of Local Government documents.[11]

- During 2011-2021 period, rates revenue in peer LGAs is allowed to increase at 8.46% per annum (the average rates increases permitted by IPART in 2011-13 for the peer LGAs).

Table 3.3. Rates per capita of population ($) in Maitland and peer LGAs

LGA	2001	2011	2021
Maitland City Council (2% p.a. population growth)	276	407	839
Maitland City Council (3% p.a. population growth)	276	407	761
Cessnock City Council	307	480	945
Port Stephens Council	293	455	856
Dungog Shire Council	284	504	1043
Newcastle City Council	373	545	1097
Lake Macquarie City Council	247	389	834
Ranking of Maitland City Council			
- 2% p.a. population growth	2nd lowest	2nd lowest	2nd lowest
- 3% p.a. population growth	2nd lowest	2nd lowest	lowest

As shown in Table 3.3, in 2001 and 2011 Maitland LGA had the second lowest rates per capita, reflecting strong population growth in the area. If peer LGAs increase their rates revenue at a rate that corresponds to rates increases permitted by IPART in 2011-13, Maitland will continue to have second lowest rates per capita or (if its population increases at 3% per annum) will have the lowest rates per capita in 2021.

Overall, it appears that, despite high rates/household expenditure ratios, in the year 2020/21 (i.e. by the end of SRV implementation period), households across all classification categories will be able to pay the rates without unduly compromising their overall expenditure.

11 NSW Planning and Infrastructure. New South Wales in the Future: Preliminary 2013Population Projections. Special Release of NSW State and Local Government Area Population Projections, August 2013, p. 36; Australian Bureau of Statistics. Regional Population Growth, Australia (Cat. No. 3218.0); Division of Local Government, Department of Premier and Cabinet. Comparative Information on NSW Local Government Councils (various editions).

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 Maitland and the forecast of the number of farms.

WRI has reviewed literature relating to agricultural development in Maitland. The farming sector in this area is dominated by meat chicken production (52.3% of the wholesale value of agricultural commodities), beef cattle (14.8%), cultivated turf (11.7%) and whole milk production (9.8%).[12]

Despite its significant contribution to the NSW economy in certain commodities, the farming sector in Maitland faces several challenges, such as:

- urban encroachment,
- conflicting land uses (particularly from resource extraction industries),
- associated land fragmentation (that reduces the ability to maintain sufficient scale of agricultural operations),
- water supply pressures etc.[13]

WRI has also taken into account such factors as drought and adverse economic conditions (e.g. strong Australian dollar) that may affect agricultural producers in Maitland and Lower Hunter.

Hence, for the purpose of this analysis, WRI considered that a growth scenario where agricultural production stagnates 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 2020/21 will follow a long term deterministic trend.

Table 4.1 shows that during the SRV implementation period, the number of farms in Maitland will grow slightly, while agricultural value added will stagnate. Under the proposed SRV, the farmland rate/value added ratio will stand at 6.61% in 2020/21.[14]

The implementation of the proposed SRV plan will result in the rates/farm value added ratio increasing by 2.16 percentage points.

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12 Hunter Councils. Mapping Important Agricultural Lands in the Lower Hunter Region of NSW, June 2013, p. 22.
13 Hunter Councils. Mapping Important Agricultural Lands in the Lower Hunter Region of NSW, June 2013, pp. 67-70.
14 The principal explanation of such seemingly high numbers is that the number of farms in Maitland has not been declining over the past 12 years, as can be expected from the reading of economic theory and agricultural history. As a result the production structure of Maitland is dominated by a large number of agricultural enterprises (669 in 2013/14) with a low level of average output and relatively high farmland rates/average output ratio. This should not necessarily be interpreted as an inability of farmers to pay rates, as it is likely that many farmers derive their income from other sources, with farming in some cases being akin to a 'hobby activity'.

Table 4.1 Farmland rates and farm business viability

Year	Farmland rates ($)	No. of farms	Aggregate farm value added ($'000)	Rates/value added (%)
2013-14	2,786	669	29,325	4.45
2014-15	2,957	671	33,007	4.20
2015-16	3,141	672	34,875	4.24
2016-17	3,342	673	35,562	4.43
2017-18	3,560	674	33,964	4.95
2018-19	3,795	675	34,668	5.17
2019-20	4,049	677	33,964	5.65
2020-21	4,324	678	31,064	6.61
Change (2013/14-2020/21)				2.16

Note. The results presented in the table have been generated assuming the random fluctuation of aggregate farm value added in Maitland LGA. The magnitude of fluctuation and the aggregate farm value added levels were specified based on a Maitland Input-Output table (constructed by WRI) and 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 Maitland 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 SRV implementation.

It is expected (Table 4.2) that under the proposed SRV the business rates/value added ratio will be as low as 0.37% by 2020/21. Also, following implementation of the proposed SRV, the rates/business value added ratio will increase by 0.10 percentage points.

Table 4.2 Business rates and non-farm business viability

Year	Business rates ($)	No. of businesses	Value added ($'000)	Rates/value added (%)
2013-14	5,261	1,798	2,417,970	0.27
2014-15	5,616	1,840	2,534,731	0.29
2015-16	6,001	1,884	2,657,129	0.30
2016-17	6,418	1,928	2,785,439	0.31
2017-18	6,870	1,973	2,919,944	0.33
2018-19	7,360	2,020	3,060,945	0.34
2019-20	7,890	2,067	3,208,754	0.36
2020-21	8,465	2,116	3,363,700	0.37
Change (2013/14-2020/21)				0.10

The results presented in the table have been generated assuming the growth of non-farm value added in Maitland LGA by 2.07% per annum over the next 7 years and the growth in the number of non-farm businesses at 2.36% per annum. 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. This however will not be the case for

Maitland farm businesses that are expected to experience a substantial increase in farmland rates as a proportion of farm value added.

3.3 Maitland City Council and its peers

WRI has examined past and projected council rates in Maitland, Group 5 peer LGAs and neighbouring LGAs (Cessnock, Port Stephens, Dungog, Newcastle and Lake Macquarie) in the context of the proposed SRV.

In addition, WRI considered the likelihood of rates' change in peer LGAs over 2014/15-2020/21 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.[15]

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 5 LGAs stood at 8.55% and for neighbouring LGAs stood at 8.46%.

For the purpose of this analysis, WRI assumed that rates in peer Group 5 LGAs will grow at 8.55% between 2014/15 and 2020/21, and rates in neighbouring LGAs will grow at 8.46% per annum between 2014/15 and 2020/21.

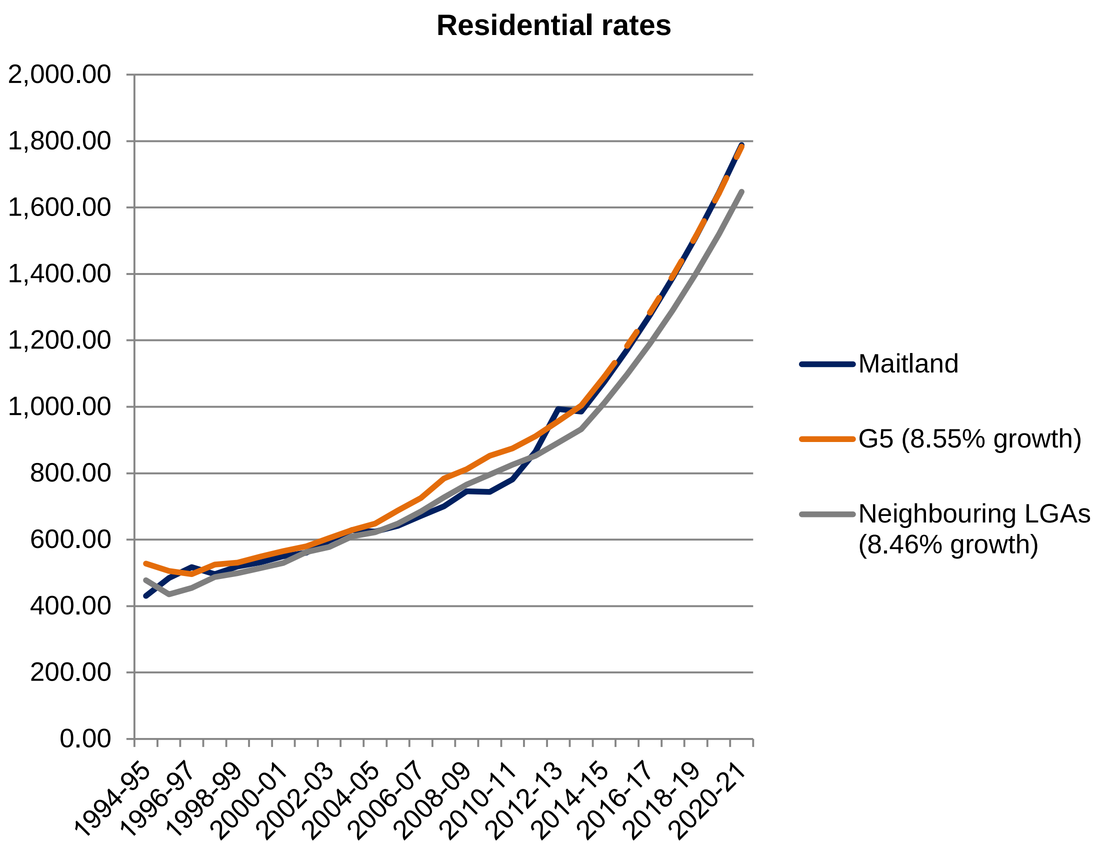
WRI has also modelled part and projected rates per capita in Maitland and neighbouring LGAs, considering this indicator as potentially more appropriate given differential population growth rates in respective LGAs. The modelling was based on the following assumptions:

- Rates revenues in neighbouring LGAs increase at 8.46% per annum (the average rates increases permitted by IPART in 2011-13 for the peer LGAs) over 2011-21 period.
- As advised by Maitland City Council, in Maitland LGA population is expected to increase by either 2% or 3% per annum by 2021, reflecting the possibility of land releases in the area and stronger residential construction.
- Rates revenues are composed of residential, farmland and business rates revenues.

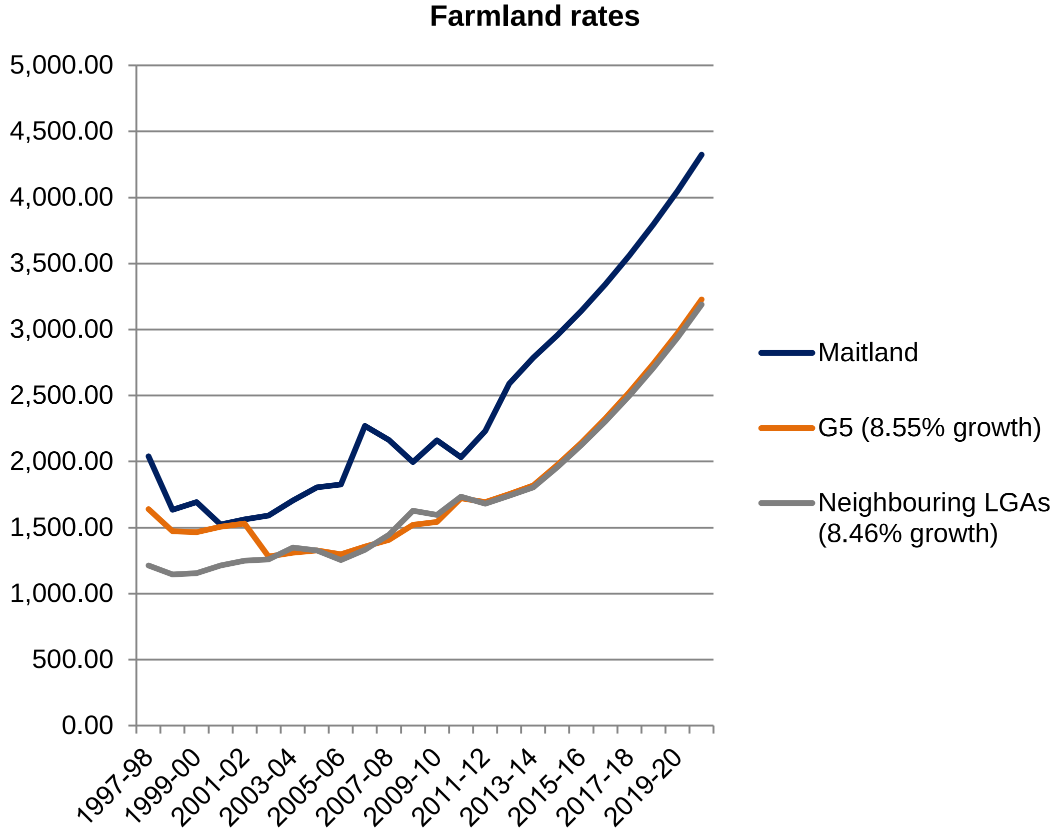
The population and revenues data was obtained from NSW Planning and Infrastructure, Australian Bureau of Statistics and NSW Division of Local Government documents.

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

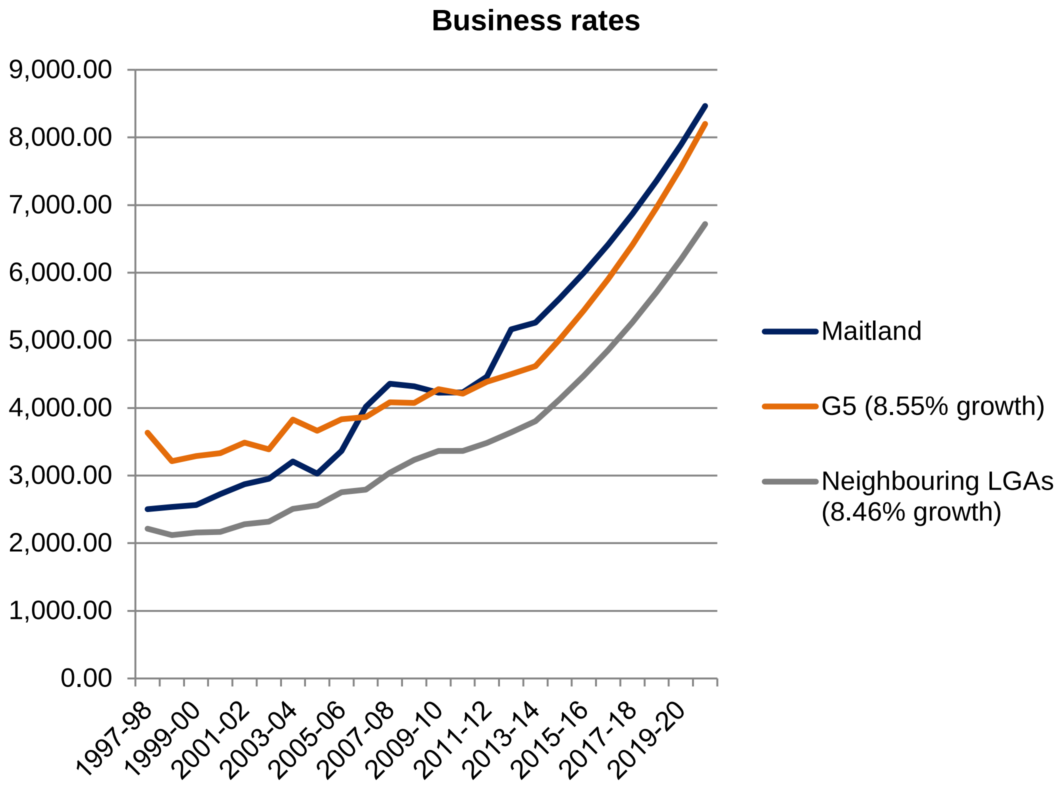
Growth scenario for peer LGAs – Growth at 8.55% and 8.46% per annum



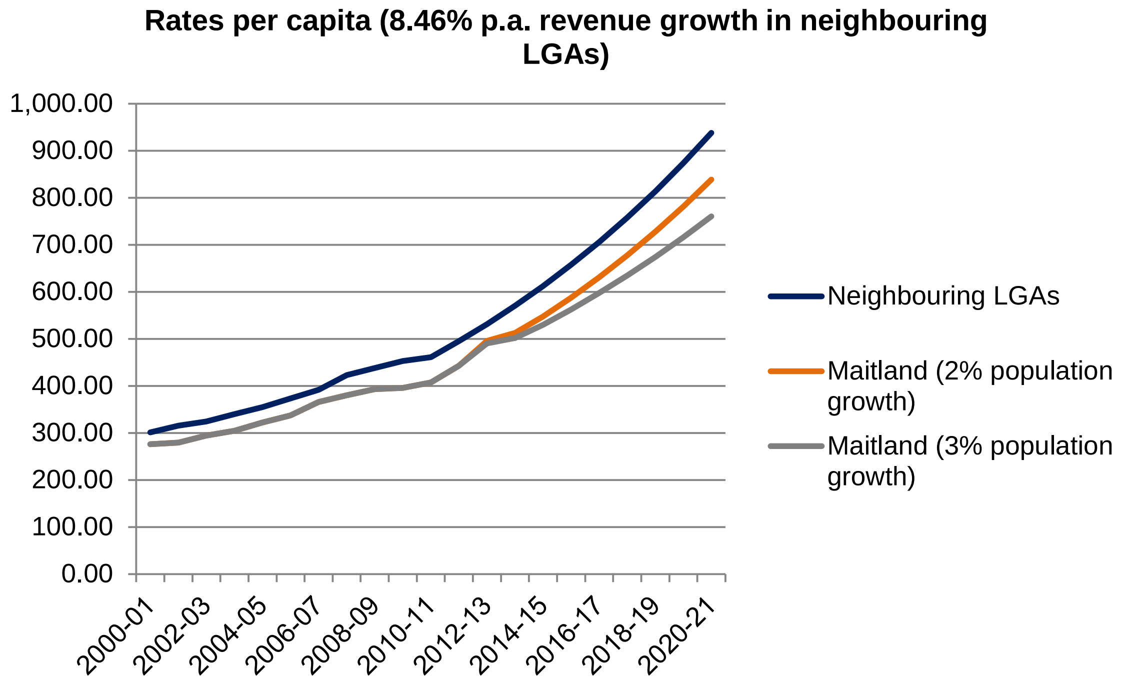
Residential rates in Maitland LGA were in line with rates in peer LGAs over the last 15 years and have been rising steadily. Under the 8.55% and 8.46% growth rates scenario in peer LGAs and SRV implementation, Maitland residential rates will be in line with Group 5 LGA levels in 2020/21, and will be above neighbouring LGA levels by 8.5%.



Under the 8.55% and 8.46% growth rates scenario in peer LGAs and the SRV implementation, Maitland farmland rates will be above Group 5 LGA and neighbouring LGA levels in 2020/21 (by 34.0% and 35.6% respectively).

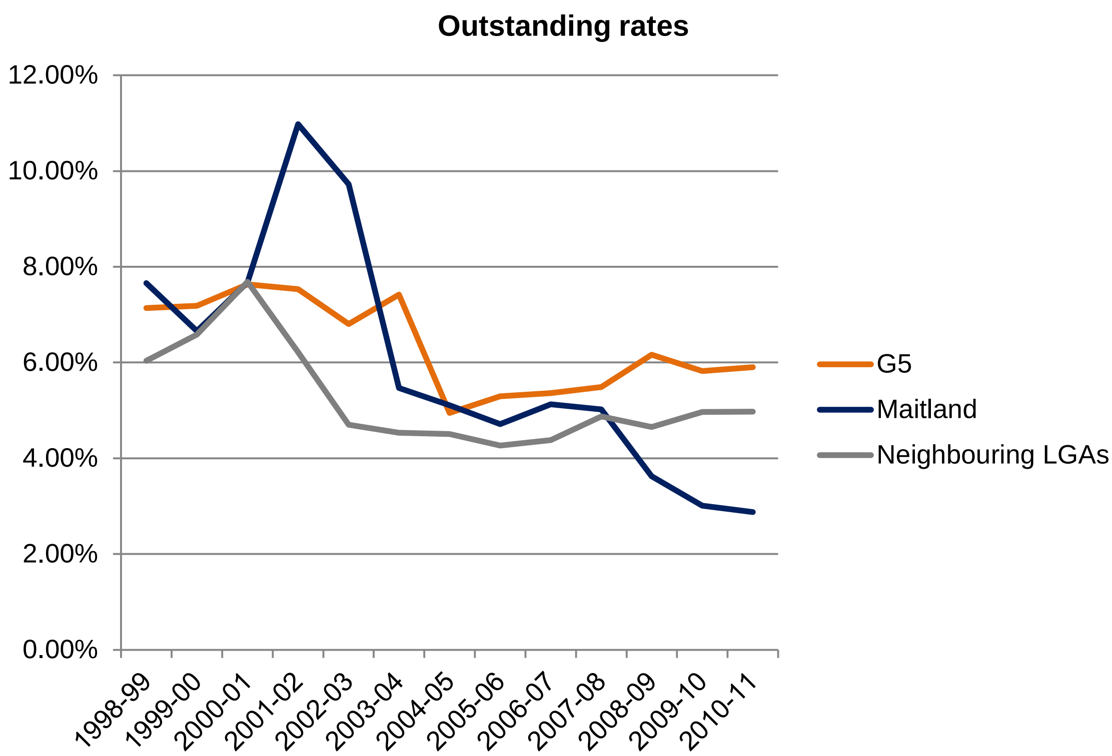


WRI notes that over the past 15 years business rates in Maitland LGA were above neighbouring LGA levels and below or in line with Group 5 LGA levels. Assuming business rates in peer LGAs grow at 8.55% and 8.46% per annum and the SRV is implemented, business rates in Maitland LGA will exceed rates in neighbouring LGAs by 27.3% in 2020/21, but will be in line with Group 5 LGAs levels in 2020/21. WRI notes that this comparatively high level has been considered by Council in its proposal, which has resulted in the proportion of rating paid being adjusted over the course of the SRV implementation to flatten impact on business and farmland ratepayers.



WRI notes that over the 2001-11 period, rates per capita in Maitland LGA were below that of the neighbouring LGAs. Under the scenario of 8.46% revenue growth rates in neighbouring LGAs, Maitland rates per capita will continue to be below neighbouring LGAs levels in 2021.

As shown below, the ratio of outstanding rates to the total rates collected in Maitland has been in line with Group 5 LGA and neighbouring LGA averages between 1998 and 2000 and between 2003 and 2008. Also, the ratio has been declining in Maitland from its peak in 2001-02 (11.0%), standing at 2.9% in the financial year 2010-11. This indicates the ability of the Maitland 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. Council has advised that it will be considering its debt and hardship policies to ensure that appropriate options are available to individual ratepayers who may experience hardship, utilising options available under legislation.



As shown in Table 5.1, Maitland City Council was ranked favourably relative to its peers in terms of outstanding rates, having the lowest level of outstanding rates among Group 5 and neighbouring LGAs and 18th lowest outstanding rates in the NSW.

It was ranked favourably relative to Group 5 and neighbouring LGAs (but not NSW) in terms of residential rates, having its residential rates below Group 5 and neighbouring LGAs median.

It was ranked poorly in terms of farmland rates, with their level being the highest among Group 5 and neighbouring LGAs.

It was also ranked poorly in terms of business rates, with their level being above the median of NSW, Group 5 and neighbouring LGAs.

Table 5.1 Council rates (2010-12)

LGA	Sample	Residential	Farmland	Business	Outstanding
NSW	n=152	40th highest	45th highest	28th highest	18th lowest
G-5	n=8	3rd lowest	highest	3rd highest	lowest
G-5 & neighbouring LGAs	n=11	5th lowest	highest	3rd highest	lowest

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

Regarding the affordability of the proposed rates' increase and associated socio-economic standing, Maitland was ranked well in terms of socio-economic indicators and average personal income.

As shown in Table 5.2, Maitland is ranked above its peers' 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). However, Maitland is ranked below its peers' median in terms of index of education and occupation. Overall, SEIFA rankings suggest that socio-economic situation in Maitland relative to its peers is rather favourable.

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	47th highest	48th highest	34th highest	65th lowest
G-5	n=8	2nd highest	3rd highest	highest	3rd lowest
G-5 & neighbouring LGAs	n=11	2nd highest	3rd highest	2nd highest	5th lowest

Note. The LGAs are ranked by the level of SEIFA indexes, with the most disadvantaged areas having rank 1.

As shown in Table 5.3, the average personal income of Maitland wage and salary earners and superannuation and annuity earners was above the state median, while the income of its unincorporated businesses and investment income earners was below the median.

Maitland is ranked above the median or at the median of G5 and G5 & neighbouring LGAs in terms of incomes of wage and salary earners and the income of unincorporated businesses, but not investment income earners and superannuation and annuity earners. Maitland's total income is above the NSW median, and is the second highest among Group 5 and neighbouring LGAs peers.

Table 5.3 Average personal income (2009-10)

LGA	Sample	Wage and salary earners	Own unincorporated businesses	Investment income earners	Superannuation & annuity earners	Total
NSW	n=152	31st highest	70th lowest	30th lowest	60th highest	32nd highest
G-5	n=8	highest	4th lowest	lowest	3rd lowest	2nd highest
G-5 & neighbouring LGAs	n=11	highest	5th highest	2nd lowest	4th lowest	2nd highest

Except for retail shop sites, Maitland LGA is ranked poorly in terms of the level of land values (Table 5.4). Maitland had 3rd highest land values in single dwelling site category among 36 areas, and 5th highest land values in rural home sites category (27 areas). In addition, Maitland LGA experienced substantial growth in land values relative to its peers in 2007-12, being ranked 6th, 11th and 5th highest (out of 32, 36 and 27 areas respectively) in terms of magnitude of land values change.

Table 5.4 Land values (2012)

	Retail shop sites	Single dwelling sites	Rural home sites, Sydney
Sample	n=32	n=36	n=27
2012 values	5th lowest	3rd highest	5th highest
% change (2007-12)	6th highest	11th highest	5th highest

WRI has modelled the ranking of Maitland among its respective peer groups in terms of all three rating categories, assuming that rates in 'Group 5 & neighbouring LGAs' peer group grow at 8.70% (the average rate increase permitted by IPART in 2011-13 for six Maitland LGA peers), while Maitland LGA implements SRV.

As shown in Table 5.5, Maitland farmland and business rates ranking will remain unchanged as a result of the SRV implementation, while its residential rates ranking will change slightly.

Table 5.5 Dynamics of Maitland City Council rankings of rates – lowest of the sample

Year	Sample	Residential	Farmland	Business
2013/14	n=11	6	11	9
2014/15	n=11	6	11	9
2015/16	n=11	6	11	9
2016/17	n=11	6	11	9
2017/18	n=11	7	11	9
2018/19	n=11	7	11	9
2019/20	n=11	7	11	9
2020/21	n=11	7	11	9

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

Overall, the proposed rates increase under the SRV will put:

- Maitland residential rates in line with the average of Group 5 LGAs' levels and above the average of neighbouring LGAs levels;
- Maitland farmland rates above the average of its peers; and
- Maitland business rates above the average rates in neighbouring LGAs and in line with the average rates in Group 5 LGAs.
- Under the proposed SRV, Maitland will continue to be ranked favourably in terms of average personal income and socio-economic indicators, but poorly in terms of land values and council rates.

CONCLUSION

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

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

The proposed rates increase under the SRV will be below assumed changes in electricity prices, but above the assumed price changes for all other utilities, goods and services.

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

Under the SRV, the proposed rate increases will be going some way to catch up with price increases for households and input cost increases for businesses in some price/cost categories.

The rates increase proposed under the SRV will have insignificant impacts on Maitland community and non-farm businesses in terms of ability to pay rates and financial bottom line. However, the impacts of the proposed rates increases on Maitland farm businesses will be substantial.

At the end of the SRV implementation period, Maitland residential rates will be in line with Group 5 LGA and above neighbouring LGA levels. Maitland farmland rates will be above peer LGAs' level. Maitland business rates will be above neighbouring LGAs' levels and in line with Group 5 levels under the SRV.

In terms of the rates per capita assessment, Maitland is ranked favourably against its peer LGAs, with its rates per capita being lowest or second lowest in 2021 and being below its peers' average.

Overall, the rate increase proposed under the SRV passes reasonableness tests in terms of its impact on households and the financial bottom line of non-farm businesses, and to a lesser extent when comparing Maitland residential and business rates with respective peer LGAs' rates. However, impacts on farm business financial bottom line and comparison to peers appears substantial.

Given the findings, it is suggested that Council give consideration to further mitigating the impacts of the proposed variation on farmland ratepayers, noting that these ratepayers constitute 2.2% of rate payers. Additionally, Council should consider the reasonableness of the increases and the consequences of adjusting the period of the variation and/or the percentage increase sought. That said, Council's proposal has been developed in line with community service expectations, meaning any reduction will result in reduced service levels from Council.

APPENDIX 1: TECHNICAL NOTES

1. Costs of residents

The costs incurred by Maitland residents over 2006-2013 (Table 1.1) period are based on compounded percentage changes of the consumer price index (CPI) for relevant sub-groups and expenditure classes over September 2006 – September 2013 period in Sydney.[16]

2. Costs of farm and non-farm businesses

WRI first examined the Maitland 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 Maitland 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 period (2014/15 – 2020/21) will not deviate from the growth in 2006-13.[17] 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.[18]

3. Household expenditure

The procedure for extracting the Maitland 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.[19] 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.[20] 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 Maitland household is obtained. The assumption is made that Maitland's household expenditure is smaller than NSW household expenditure in the same proportion as Maitland's personal income is smaller than NSW personal income, i.e. the savings patterns in Maitland and NSW as a whole are similar. The average household size in Maitland and NSW in general is similar.

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16 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.

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

18 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.

19 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).

20 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 Maitland is calculated in each of the years between 2014/15 and 2020/21 (corresponding to the Maitland 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 Maitland City Council.

As a final step, the new level of residential rates in 2020/21 is compared to the new level of household expenditure, and an assessment is made as to the ability of the Maitland residents to bear the new rates.

4. Farm and non-farm businesses viability

For the Maitland agricultural sector, the relationship between proposed farmland rates and future farm value added is estimated as follows. The value of agricultural value added in Maitland LGA is extracted from Maitland LGA 2013 Input-Output table, constructed by the WRI. This table is derived by regionalising ABS national input-output table. The most recent figure for Maitland farm value added is available for 2012/13, equal to $31.13 mln. The number of farms is obtained from the NSW Division of Local Government publications (668 farms in 2012/13).[21] The average value added per farm is then calculated for 2012/13 ($46,594). The number of farms in 2014/15 – 2020/21 is assumed to follow a long term trend, with an annual increase of 0.18%.[22] WRI has confirmed with Council that an increase in the number of farms (instead of decline in the numbers) reflects hobby and lifestyle farming in Maitland LGA and the fact that a large proportion of farm owners do not employ any staff and have other sources of income in addition to farming. The future value of Maitland 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 Maitland LGA.

The procedure is essentially the same for the non-farm businesses. The number of non-farm businesses in 2014-20 is assumed to follow a long term trend, with 2.36% 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 Maitland economy faces.

5. Maitland City Council and its peers

In terms of average personal income, socio-economic standing and the level of rates, Maitland LGA is compared to ‘Group-5’ peers, as well as neighbouring LGAs (Liverpool and Penrith). The average personal income data is sourced from the ABS.[23] 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

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21 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.

22 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.

23 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).

Disadvantage, Index of Economic Resources and Index of Education and Occupation.[24] The historical council rates are obtained from the NSW Division of Local Government.[25]

24 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).

25 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.

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