

# **Criterion 2 Community Engagement Annexures**

## **Attachment 2.h.i**

- **Western Research Institute Report at 7.25%**



# REPORT ON PROPOSED SPECIAL RATES VARIATION – ADDITIONAL WORK

For Maitland City Council

# REPORT ON PROPOSED SPECIAL RATES VARIATION

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13025 Maitland City Council Rates/Report

## SUMMARY

### Cost comparison for businesses

As shown in Table 2.1, with the exception of electricity input prices the proposed business rate increase under the SRV (51.65% compounded increase) will be above the changes in both the input and output prices and wages that Maitland 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.

The proposed farmland rate increase under the SRV (21.37% compounded increase) will be below the changes in agriculture input prices.

**Table 2.1: Actual and projected costs for farm and non-farm businesses, 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)	21.37		
-Rate variation (business)	51.65		

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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 business rate increase is going a little 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 business rate increase will exceed experienced and forecast changes in road and bridge and non-residential construction, as well as changes in all other input and output prices and wages.

Under the SRV, the proposed farmland rate increase will achieve catch up with input prices in agriculture.

**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	21.39		
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 (2006-2013)	30.15		
Past business rate change (2006-2013)	30.92		
Maitland rates variation (farmland)	21.37		
Maitland rates variation (business)	51.65		

For Maitland farm and non-farm businesses:

- The business rates increase under the SRV is above the changes in most input costs, all output prices and all wages.
- The farmland rates increase under the SRV is below the changes in input costs in agriculture.
- Under the SRV, the proposed business 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.
- The proposed farmland rate increase will achieve catch up with changes in input prices for agriculture.

Overall, the reasonableness criterion is not satisfied in the case of business rates, but is satisfied in the case of farmland rates.

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## Business viability

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 5.48% in 2020/21.<sup>1</sup>

The implementation of the proposed SRV plan will result in the rates/farm value added ratio increasing by 0.76 percentage points.

**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	2,955	669	29,325	4.72
2014-15	3,076	671	33,007	4.37
2015-16	3,166	672	34,875	4.27
2016-17	3,257	673	35,562	4.31
2017-18	3,344	674	33,964	4.65
2018-19	3,429	675	34,668	4.68
2019-20	4,509	677	33,964	4.89
2020-21	4,586	678	31,064	5.48
Change (2013/14-2020/21)				0.76

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.

It is expected (Table 4.2) that under the proposed SRV the business rates/value added ratio will be as low as 0.35% by 2020/21. Also, following implementation of the proposed SRV, the rates/business value added ratio will increase by 0.08 percentage points.

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<sup>14</sup> 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 4.2 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	5,606	1,840	2,534,731	0.28
2015-16	5,934	1,884	2,657,129	0.29
2016-17	6,287	1,928	2,785,439	0.30
2017-18	6,666	1,973	2,919,944	0.32
2018-19	7,073	2,020	3,060,945	0.33
2019-20	7,510	2,067	3,208,754	0.34
2020-21	8,978	2,116	3,363,700	0.35
Change (2013/14-2020/21)				0.08

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.

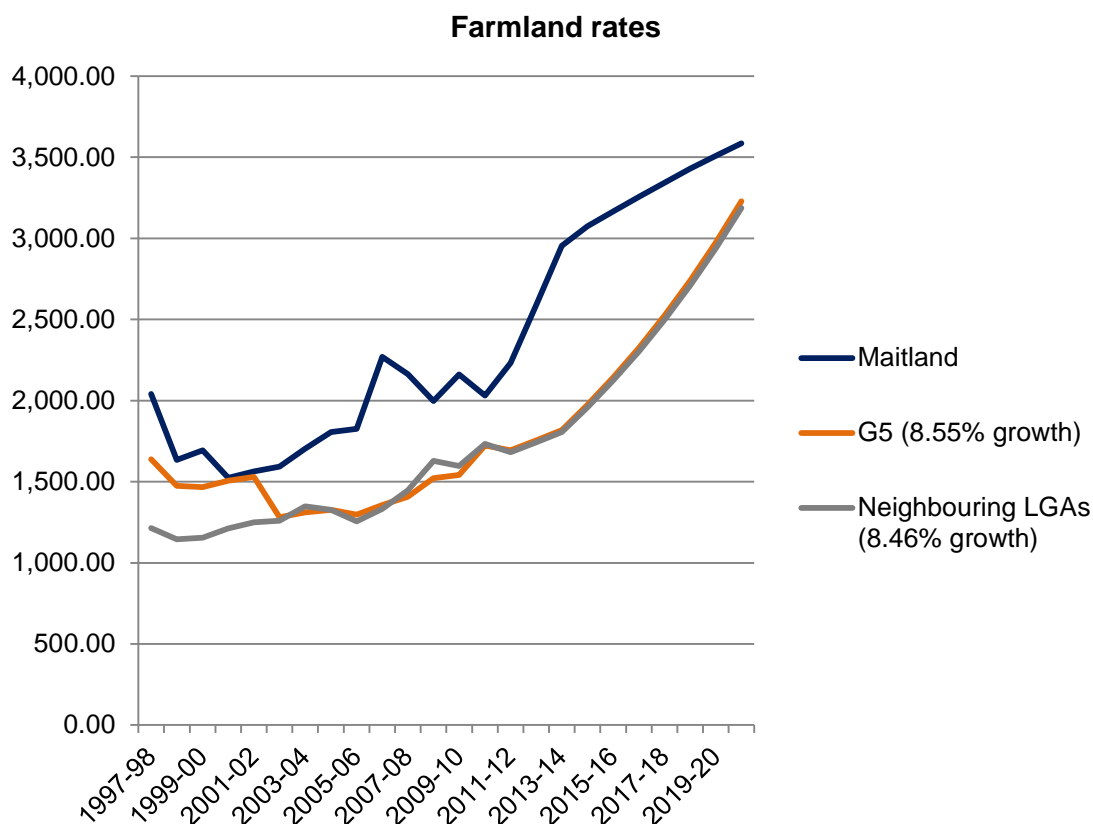
The proposed rates increases under the SRV are considered serviceable for non-farm businesses and will not have a significant impact on their financial bottom line. This however will not be the case for Maitland farm businesses that are expected to experience a high rates/farm value added ratio. However farmland rates as a percentage of farm value added are expected to increase by less than one percentage point following SRV implementation.

Overall the reasonableness criterion is satisfied in the case of business rates and is partially satisfied in the case of farmland rates.

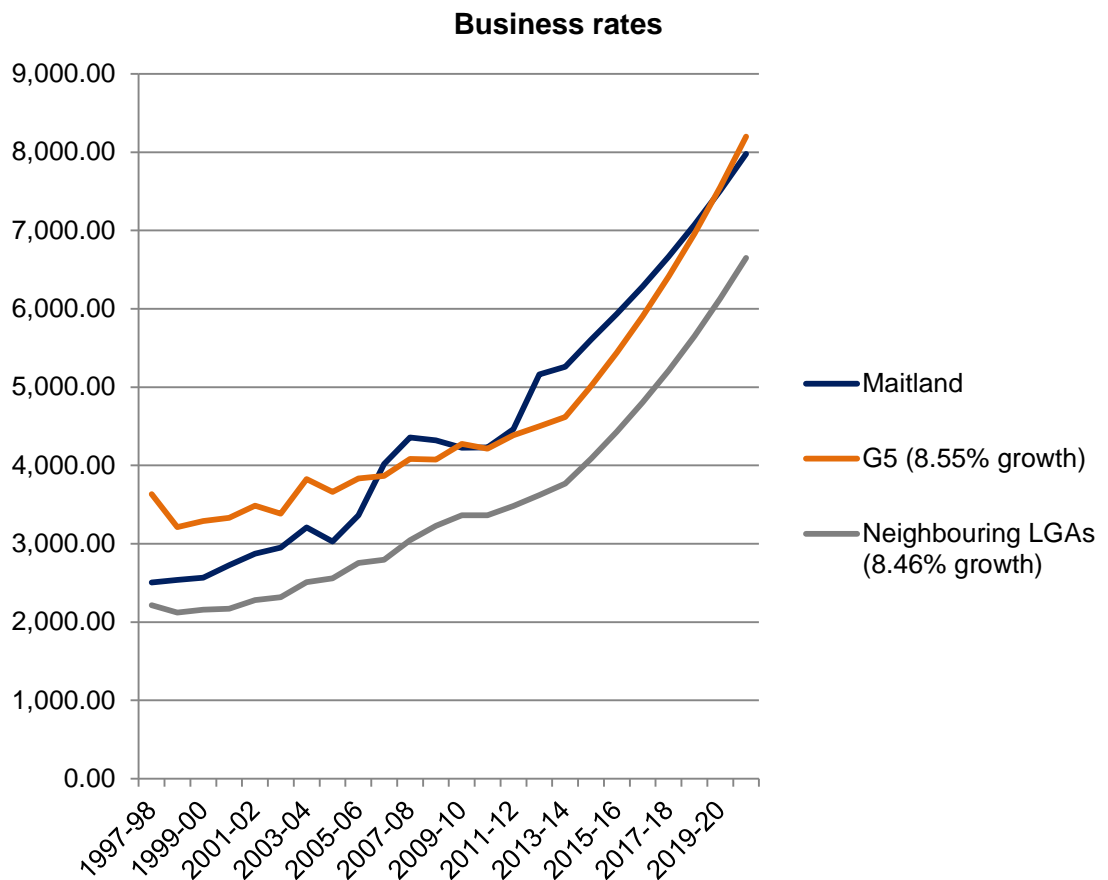


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## Maitland Council and its peers



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 11.1% and 12.5% 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 20.0% in 2020/21, but will be below Group 5 LGAs levels by 2.7% 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.

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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 below 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.



## 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.

