REPORT ON PROPOSED SPECIAL RATES VARIATION

For Blayney Shire Council

CONTENTS

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EXECUTIVE SUMMARY

Blayney Shire Council seeks to produce a fair balance between rates levied on the shire population and the level of services that can be provided. As part of its long term financial plan, Blayney Shire Council has considered applying for a special rates variation in order to ensure this balance. Two alternative plans have been proposed by Council:

- to increase residential, farmland, mining and business rates by 15% per annum for six years (2014/15-2019/20) under a maintained services plan; or
- by 3.3% per annum under a reduced services plan over the same period.

The rate increases under either plan exclude existing special rates variations.

The Western Research Institute (WRI) was engaged to assess the impact of the implementation of either of these plans. WRI asked the following questions:

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

The summary results of the assessment are:

Maintained services plan (15% increase)

Under this plan the proposed rates increase:

- exceeds the past and anticipated price increases for households; and
- exceeds price changes in all input cost and wage cost categories for farm and non-farm businesses, except in the case of the upper range of the electricity price forecast.

Despite this, the proposed increases are not expected to impose a significant burden on households and non-farm businesses 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**; and
- leave rates as a proportion of non-farm business value added below 1%, indicating an **insignificant impact on business viability**.

For farm businesses, the proposed increases will see rates as a proportion of value added increase from 1.11% to 2.76% (under a scenario where climate variability and market conditions restrict growth in farm output).

An alternative increase in farmland rates of 9.95% per annum has been modelled by WRI. This level of increase will be serviceable by Blayney Shire farm businesses.

Under the maintained services plan:

- residential rates in Blayney Shire will be above residential rates in Group 10 LGAs and neighbouring LGAs (Bathurst, Cabonne, Cowra and Orange);

- farmland rates will be above farmland rates in peer LGAs; and
- business rates will be below or at the same level as business rates in peer LGAs.

Reduced services plan (3.3% increase)

Under this plan the proposed rates increase:

- will be in line with utilities price increases, but will exceed goods and services price increases for households; and
- will be in line with a range of input and output price changes and wage cost changes for farm and non-farm businesses.

The proposed increases are not expected to impose a significant burden on households, farm and non-farm businesses 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;
- leave rates as a proportion of non-farm business value added below 1%; and
- see rates as a proportion of farm business value added increase from 1.11% to 1.45% (less than one percentage point).

Under the reduced services plan:

- residential rates will be below rates in Group 10 LGAs and neighbouring LGAs;
- farmland rates will be below Group 10 levels and above neighbouring LGA levels; and
- business rates will be below peers' business rates.

Summary

While the proposed rates increase under the maintained services plan exceeds that expected in Group 10 and neighbouring LGAs, the plan is unlikely to have a significant impact on the Blayney Shire community and non-farm businesses. For farm businesses an alternative rate increase to that proposed in the maintained services plan of 9.95% per annum has been modelled. This is likely to have an insignificant impact on the financial position of farm businesses.

The rates increase proposed under the reduced services plan will have insignificant impacts on Blayney Shire community and on farm and non-farm businesses.

Under both plans, Blayney Shire will be ranked favourably against Group 10 and neighbouring LGAs in terms of socio-economic indicators and personal income.

1. INTRODUCTION

Blayney Shire Council seeks to produce a fair balance between rates levied on the shire population and the level of services that can be provided. As part of its long term financial plan, Blayney Shire Council has considered applying for a special rates variation in order to ensure this balance. Specifically, the special rates variation funding will help address a significant gap in Council's rapidly ageing infrastructure. It will be utilised to address infrastructure backlogs and to fund infrastructure maintenance programs for roads, bridges and buildings.

Council considered two alternative plans of rates increase - a maintained services plan and a reduced services plan. Under a maintained services plan the residential, mining, farmland and business rates (excluding existing special rate variations) will uniformly increase by 15% per annum for each of the six years. Under a reduced services plan all rates will uniformly increase by 3.3% per annum for each of the six years.

Blayney Shire Council proposes to start implementing either of the plans in the financial year 2014-15. The implementation will stop in financial year 2019-20.

The rate increase will be in excess of the pegging percentage set by the Independent Pricing and Regulatory Tribunal (IPART), and therefore a separate application by Council has to be made to IPART, providing justification for a rates increase above the pegging threshold.

IPART guidelines specify that the relevant evidence supporting the application for the rate increase should include the discussion of the community's capacity to bear the effects of the rate increase (e.g. the SEIFA rankings, disposable income levels), 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 Blayney Shire 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 Blayney Shire residents, farm and non-farm businesses.
- The impact of the proposed rates increase on Blayney Shire residents' household expenditure, and viability (financial bottom line) of Blayney Shire farm and non-farm businesses.
- A comparison of the socioeconomic indicators in Blayney Shire and peer local government areas (LGAs), following the implementation of the rates increase.

Rate pegging by IPART

WRI notes that at in 2013/14 the pegging percentage set by IPART stood at 3.4%. IPART has announced that it will lower the pegging percentage by 0.3% in 2014/15, with the new level to be 3.1%. As a result, rate increases under the reduced services plan will now require approval by IPART, whereas if the plan was introduced in previous years it would not require such approval.

Scope of the report

WRI notes that Blayney Shire Council has implemented a special rates variation to general rates in the past. The special rate variation commenced in 2008/09 for a 10 year period and was equivalent to an 8.19% increase or approximately $75.00 per assessment at time of implementation. The purpose of the special rate variation was to repay a loan used to fund the redevelopment of Blayney Community Centre. This special rate variation has not been factored into the proposed maintained and reduced services plans. Blayney Shire Council has advised that it will attempt to remove this past special rate variation.

Blayney Shire Council also implemented a permanent special variation to the Mining category that commenced in the 2012/13 financial year to fund infrastructure programs and community grants. This special variation resulted in mining rates being increased from $627,080 in 2011/12 to $2,218,215 in 2012/13. Mining rates revenue collected by the Council in 2012/13 represented 37.6% of Council total rates revenue and was attributed to two mining companies operating in Blayney LGA. Mining rates were not considered in the report because the special rate variation in the mining category took place prior to 2014/15-2019/20 period and also because a comparison of mining rates across LGAs is not feasible.

The proposed maintained and reduced services plans do not apply to waste management and sewerage charges, however, charges for these services will grow over 2014/15-2019/20 period at rates specified in Blayney Shire Council long term financial plan.

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

2. METHODOLOGY

The report analyses both the maintained and reduced services plans 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 6 years. It is assumed for the purposes of this exercise that similar increases will occur over the next 6 years.

To determine the reasonableness of the rate increase for farm and non-farm business, input price increases over the last 6 years for each of the major industries in Blayney are considered. Again it is assumed that similar increases will occur over the next 6 years.

The rate increase is considered reasonable, if it will be in line with other price and costs increases over the next 6 years, or if other price and costs increases have been catching up with the rate increase over the past 6 years.

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 Blayney LGA are not available, but can be reconstructed from Australia-wide household expenditure survey and Blayney Shire's average household income. The proposed residential rates are then compared to the average expenditure of the Blayney 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 Blayney 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 Blayney are not available but GOS is part of the value-added of Blayney industry and the 2 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 Blayney industries over the period 2014-20. (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 Blayney 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

Blayney Council is compared to three peers: New South Wales as a whole, ‘Group 10 LGAs’ to which Blayney Shire belongs, as well as to a combined ‘Group 10 & neighbouring LGAs’. Neighbouring LGAs include Bathurst, Cabonne, Cowra and Orange. Specifically, WRI has examined whether the level of rates in Blayney Shire has been in line with its peers, and at how Blayney Shire 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 points to the unaffordability of the rates’ increase. In addition WRI makes a projection of the future ranking of the Blayney Shire in terms of rates.

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

- Following the implementation of either the maintained or reduced services plans, the rates ranking of Blayney Shire 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 substantial rate increases in the Blayney Shire over the 6 year period.

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

3. RESULTS

3.1 Price comparisons

a. Households

As shown in Table 1, over the past seven years the inflation was uneven across industries and sectors. The cumulative percentage change in the aggregate CPI was 16.8%. Utilities prices rose by an average of 79.6%, the cost of several services rose as well (education costs by 33.7%, health care costs by 34.8%, child care by 12.3%) while the CPI for recreation and culture and household equipment declined (by 2.2% and 8.3% respectively). The cost of goods rose by an average of 12.8% over seven year period. The actual increase in property rates and charges was also substantial, totalling 27.6%.

When comparing proposed rates increases in Blayney Shire, WRI assumed the following:

- For all cost items, the past growth trend is likely to continue in the near term with cumulative price increases in 2014-20 being commensurate with CPI gains in 2007-13. 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.
- For electricity, two alternative growth scenarios were modelled: the continuation of the past growth, and the possibility of smaller growth. The latter is the case if administrative action moderates inflation pressures for electricity. As reported by the Australian Energy Market operator (AEMO), in this case in NSW electricity prices will rise more gradually from 2014, with cumulative changes reaching 37% over 2014-20.[1]

The data in Table 1 suggests that under the maintained services plan (131% cumulative increase over 2014-20 period), the proposed rate increase will be above goods, services and utilities inflation (except if electricity costs grow by as much as in the past 6 years).

Under the reduced services plan (21.5% cumulative increase in 2014-20), the proposed rate increase will be above goods and services inflation, but below utilities inflation.

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

Table 1: Actual and projected costs for Blayney Shire Council households based on the Sydney CPI (cumulative % change)

Period	Past change (Sept 2007 - Sept 2013)	Assumed change (2014 - 2020)	Past change + Assumed change - past rate change
All groups CPI	16.76	16.76	-23.67
1. Services	22.02	22.02	-13.16
Healthcare	34.80	34.80	12.41
Education	33.74	33.74	10.29
Insurance and financial services	18.42	18.42	-20.35
Travel and accommodation	3.02	3.02	-51.16
Recreation and culture	-2.19	-2.19	-61.57
Communications	4.49	4.49	-48.21
Child care	12.26	12.26	-32.68
2. Goods	12.79	12.79	-31.61
Food and beverages	12.47	12.47	-32.25
Alcohol and tobacco	34.57	34.57	11.94
Clothing and footwear	2.82	2.82	-51.55
Household equipment	-8.29	-8.29	-73.76
3. Utilities	79.59	79.59	101.99
Electricity (continuation of past growth)	98.50	98.50	139.81
Electricity (AEMO forecast)		37.00	78.31
Gas	48.32	48.32	39.45
Water and sewerage	53.03	53.03	48.87
4. Property rates and charges	27.62	27.62	-1.95
5. Blayney rates	57.19		
Maintained services plan		131.31	
Reduced services plan		21.51	

Note. * Forecast by the Australian Energy Market Operator

b. Farm and Non-Farm businesses

As shown in Table 2, over the 2007-13 period, the increase in input costs (past change in 2007-13 plus assumed change in 2014-20 minus past rate change) was 158.1% in the electricity industry, while the rise in input costs in manufacturing and house construction were not as high (6.2% and 6.5% respectively). Input costs fell in the agricultural sector (-29%). The increase in wage costs ranged from 10.0% in accommodation and food services to 34.2% in metal ore mining.

Table 2: Actual and projected costs for Farm and Non-Farm businesses.

With the exception of the electricity industry,[2] the proposed rates increases are above both the input prices and wage costs of Blayney Shire farm and non-farm businesses.

Industry	Input prices (past change + assumed change - past rate change)	Output prices (past change + assumed change - past rate change)	Wages (past change + assumed change - past rate change)
Metal ore mining	32.75		34.21
Electricity (continuation of past growth)	158.12		27.33
Electricity (AEMO forecast)	104.11		27.33
Manufacturing	6.23		17.54
House construction	6.53		24.09
Accommodation & food services		12.82	10.03
Rail freight		54.96	
Road freight		27.31	
Agriculture	-29.33		
Public administration & safety			13.08
Education & training			25.04
Health care & social assistance			18.38
Imported materials	26.54		
Domestic materials	-13.54		
Intermediate inputs	7.02		
Past farmland rate change (2003-2013)	57.19		
Past business rate change (2003-2013)	23.89		

Note. For agriculture and manufacturing it is not anticipated 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.

For Blayney Shire households the rate increase under the maintained services plan is not in line with cost inflation, whereas under the reduced services plan, the rate increase is in line with utilities inflation, but

2 Upper end of range of potential future increases.

not goods and services inflation. The reasonableness criterion is not satisfied under the maintained services plan, and partially satisfied under the reduced services plan.

For Blayney Shire farm and non-farm businesses the rate increase under the maintained services plan is in line only with electricity price changes (upper range of forecast) and with none of the wage cost changes. Under the reduced services plan, the rate increase is in line with input and output price changes for a range of industries and with wage cost changes for a range of industries. The reasonableness criterion is not satisfied under the maintained services plan, and partially satisfied under the reduced services plan.

Overall, for both households and businesses in Blayney Shire, a rate increase of 15% per annum will be in excess of increases in household costs, wages and input costs. In contrast, a rate increase of 3.3% per annum will be in line with a range of household costs, wages and input costs.

3.2 Impact

a. Household expenditure

Tables 3.1 and 3.2 present the proportion of residential rates under the maintained and reduced services plans in the overall expenditure of Blayney Shire households.

- It is shown that under the maintained and reduced services plans the total cost of residential rates incurred by the households in the lowest quintiles will not exceed 1.94% and 1.02% of the total expenditure respectively by 2019/20.
- For those households receiving the age pension, the costs will stand at 2.39% and 1.26% of the total expenditure.
- For all categories of government support recipients, the rates/household expenditure ratio will range from 1.66% to 2.39% in 2019/20, and on average will be 2.03%. Blayney Shire Council could consider an offset (rebate) payable to government support recipients in order to bring rates/household expenditure ratio closer to 1%.
- For all households, the cost of residential rates will be 1.04% and 0.55% of the total expenditure under maintained and reduced services plans respectively in financial year 2019-20.

Table 3.1 Blayney Shire Council rates as a proportion of total expenditure (% in 2019-20) – Maintained services plan

a). Level of income

	Lowest	Second	Third	Fourth	Highest	All households	Second and third deciles
Initial (2013/14)	1.43	0.99	0.75	0.61	0.49	0.76	1.20
After 7 years (2019/20)	1.94	1.37	1.03	0.83	0.67	1.04	1.65
Change (2013-2020)	0.51	0.37	0.28	0.23	0.19	0.28	0.44

b). Sources of income

	Wages and salaries	Own unincorporated business income	Other income	All households
Initial (2013/14)	0.63	0.62	0.68	0.76
After 7 years (2019/20)	0.87	0.84	0.93	1.04
Change (2013-2020)	0.24	0.22	0.25	0.28

c). Sources of government transfers

	Receives age Pensions	Receives disability and carer payments	Receives unemployment and study payments	Receives family support payments	Receives other payments
Initial (2013/14)	1.75	1.41	1.39	1.24	1.72
After 7 years (2019/20)	2.39	1.93	1.85	1.66	2.34
Change (2013-2020)	0.64	0.52	0.47	0.42	0.62

Note. Changes are calculated as rates/household expenditure ratio in 2019/20 minus rates/household expenditure ratio in 2013/14.

WRI notes that Blayney Shire Council has a pensioner and hardship assistance policy in place that:

- provides rebates of rates to eligible pensioners who are granted mandatory concessions under the Local Government Act;
- offers alternative payment arrangements and extensions to payment timetables; and
- provides assistance to other ratepayers experiencing hardship, subject to individual application (write-offs, reduction and deferral of payments)

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

Table 3.2 Blayney Shire Council rates as a proportion of total expenditure (% in 2019-20) – Reduced services plan

a). Level of income

	Lowest	Second	Third	Fourth	Highest	All households	Second and third deciles
Initial (2013/14)	1.43	0.99	0.75	0.61	0.49	0.76	1.20
After 7 years (2019/20)	1.02	0.72	0.54	0.44	0.35	0.55	0.86
Change (2013-2020)	-0.41	-0.28	-0.21	-0.17	-0.13	-0.21	-0.34

b). Sources of income

	Wages and salaries	Own unincorporated business income	Other income	All households
Initial (2013/14)	0.63	0.62	0.68	0.76
After 7 years (2019/20)	0.46	0.44	0.49	0.55
Change (2013-2020)	-0.17	-0.18	-0.19	-0.21

c). Sources of government transfers

	Receives age Pensions	Receives disability and carer payments	Receives unemployment and study payments	Receives family support payments	Receives other payments
Initial (2013/14)	1.75	1.41	1.39	1.24	1.72
After 7 years (2019/20)	1.26	1.01	0.97	0.87	1.23
Change (2013-2020)	-0.50	-0.40	-0.41	-0.37	-0.49

Note. Changes are calculated as rates/household expenditure ratio in 2019/20 minus rates/household expenditure ratio in 2013/14.

The proposed increase of residential rates in Blayney Shire is likely to have a low impact, because:

- Under the maintained services plan, rates as a percentage of total household expenditure will rise by 0.28 percentage points in 2013-20 in the 'All households' category, by 0.51 percentage points in the low-income category and by 0.64 percentage points in the pensioner category.
- Under the reduced services plan, rates as a percentage of total household income will fall by 0.21 percentage points in 2013-20 in the 'All households' category, by 0.41 percentage points in the low-income category and by 0.5 percentage points in the pensioner category.
- Therefore, under both plans the reasonableness criteria will be satisfied.

As shown in Table 3.3, the rates/household expenditure ranking of Blayney Shire LGA against its peers will deteriorate, if rates in peer LGAs grow at 8.3% per annum (the average rate increase permitted by IPART in 2011-13) and if maintained services plan (15% per annum growth) is implemented. However, under the reduced services plan (3.3% growth per annum), the rates/household expenditure ranking of Blayney Shire will remain stable.

WRI notes however that over the past few years many peer LGAs increased rates well above the 8.3% average (e.g. Cobar, Junee), meaning that Blayney Shire's ranking may not deteriorate to the extent described above by the end of the maintained services plan implementation.

WRI notes that under both plans, in 2013-20 the change in rates/household expenditure ratio will not exceed 1 percentage point (except for Gwydir Shire, where past rate increases were excessive). Therefore, the reasonableness criterion is satisfied.

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

LGA	Current (2013-14)	After 7 years (*)
Bathurst Regional Council	1.01	0.97
Berrigan Shire Council	1.13	1.08
Bland Shire Council	0.85	0.81
Blayney Shire Council		
Maintained services plan	0.76	1.04
Reduced services plan	0.76	0.55
Cabonne Shire Council	0.72	0.69
Cobar Shire Council	0.48	0.46
Cootamundra Shire Council	0.86	0.83
Cowra Shire Council	0.69	0.66
Dungog Shire Council	0.99	0.95
Forbes Shire Council	1.08	1.04
Glen Innes Severn Shire Council	0.98	0.94
Gloucester Shire Council	0.90	0.86
Gwydir Shire Council	1.99	1.91
Junee Shire Council	0.69	0.66
Kyogle Council	1.17	1.13
Lachlan Shire Council	0.73	0.70
Liverpool Plains Shire Council	0.88	0.84
Murray Shire Council	0.93	0.89
Narrandera Shire Council	0.85	0.82
Narromine Shire Council	0.85	0.82
Oberon Council	0.55	0.53
Orange City Council	1.23	1.18
Snowy River Shire Council	0.78	0.75
Temora Shire Council	0.79	0.76
Tenterfield Shire Council	0.63	0.60
Upper Lachlan Shire Council	0.68	0.65
Uralla Shire Council	0.71	0.68
Walgett Shire Council	0.45	0.43
Wellington Council	0.96	0.92
Wentworth Shire Council	0.84	0.80
Ranking of Blayney Shire Council		
Maintained services plan	20th highest	5th highest
Reduced services plan	20th highest	27th highest

(*) Assuming other LGAs increase their rates by 8.3% p.a. (i.e. by average rate increase permitted by IPART over 2011-2013). Several peer LGAs (such as Cobar and Junee) proposed rates increases in excess of this average.

Overall, it appears that in the year 2019-20 (i.e. by the end of implementation period), households across all classification categories will be able to pay the rates without unduly compromising their overall expenditure.

b. Farm and non-farm business viability

The impact of farmland rates on the viability of farm enterprises will vary depending on the projections of the agricultural value added in Blayney Shire and the forecast of the number of farms.

WRI examined the factors that affect agricultural production in rural NSW and considered that a growth scenario when agricultural production fluctuates around a 5-year mean is the most plausible, taking into account the drought and adverse economic conditions (e.g. strong Australian dollar) that may affect agricultural producers in Blayney Shire during 2014/15-2019/20.

WRI has also examined the number of farms over the last 12 years and assumed that the number of farms in 2014/15-2019/20 will follow a long term deterministic trend.

Table 3.4 shows that during plans' implementation period, the number of farms in Blayney Shire will be growing, while agricultural value added will stagnate. Under the maintained services plan, the farmland rate/value added ratio will stand at 2.76%, while under the reduced services plan the ratio will be respectively 1.45%.[3]

The implementation of the maintained and reduced services plans will result in the rates/farm value added ratio changing by 1.66 and 0.35 percentage points respectively.

Since in the former case the rates/farm value added ratio changes by more than 1 percentage point, WRI examined the level of rates increase that would cap the change in rates/value added at 1 percentage point by the end of the plan implementation period (2019/20). Modelling indicates that a rates increase of 9.95% per annum applied over the plan implementation period would restrict the change in rates/value added ratio to 1 percentage point.

3 The principal explanation of such seemingly high numbers is that the number of farms in Blayney Shire has not been declining over the past 20 years, as can be expected from the reading of economic theory and agricultural history. As a result the production structure of Blayney is dominated by a large number of agricultural enterprises 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 3.4 Farmland rates and farm business viability

a). Maintained services plan

Year	Farmland rates	No. of farms	Value added ($'000)	Rates/output (%)
2013-14	632.07	727	29,082	1.11
2014-15	726.88	730	33,930	1.09
2015-16	835.91	732	26,614	1.61
2016-17	961.30	734	29,975	1.65
2017-18	1105.50	736	32,528	1.75
2018-19	1271.32	738	34,007	1.93
2019-20	1462.02	741	27,422	2.76
Change (2013-20)				1.66

b). Reduced services plan

Year	Farmland rates	No. of farms	Value added ($'000)	Rates/output (%)
2013-14	632.07	727	29,082	1.11
2014-15	652.93	730	33,930	0.98
2015-16	674.48	732	26,614	1.30
2016-17	696.73	734	29,975	1.19
2017-18	719.73	736	32,528	1.14
2018-19	743.48	738	34,007	1.13
2019-20	768.01	741	27,422	1.45
Change (2013-20)				0.35

Notes: 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 Blayney Shire, the average revenues of non-farm businesses were high and business rates/value added ratios relatively low (Table 3.5). WRI assumes that this structural pattern will be preserved during the course of the maintained or reduced services plan implementation. It is expected that under the maintained services plan the business rates / value added ratio will be as low as 0.43% by 2019-20, while under the reduced services plan it will be around 0.23%. Also, following implementation of the maintained services plan, the rates/ business value added ratio will rise by 0.2 percentage points, while under the reduced services plan the ratio will remain unchanged.

Table 3.5 Business rates and non-farm business viability

a). Maintained services plan

Year	Business rates	No. of businesses	Value added ($'000)	Rates/output (%)
2013-14	2490.59	260	201,147	0.23
2014-15	2864.17	265	211,484	0.25
2015-16	3293.80	270	222,353	0.28
2016-17	3787.87	275	233,779	0.31
2017-18	4356.05	280	245793	0.35
2018-19	5009.46	285	258424	0.39
2019-20	5760.88	290	271705	0.43
Change (2013-20)				0.20

b). Reduced services plan

Year	Business rates	No. of businesses	Value added ($'000)	Rates/output (%)
2013-14	2490.59	260	201,147	0.23
2014-15	2572.78	265	211,484	0.23
2015-16	2657.68	270	222,353	0.23
2016-17	2745.38	275	233,779	0.23
2017-18	2835.98	280	245,793	0.23
2018-19	2929.57	285	258,425	0.23
2019-20	3026.24	290	271,705	0.23
Change (2013-20)				0.00

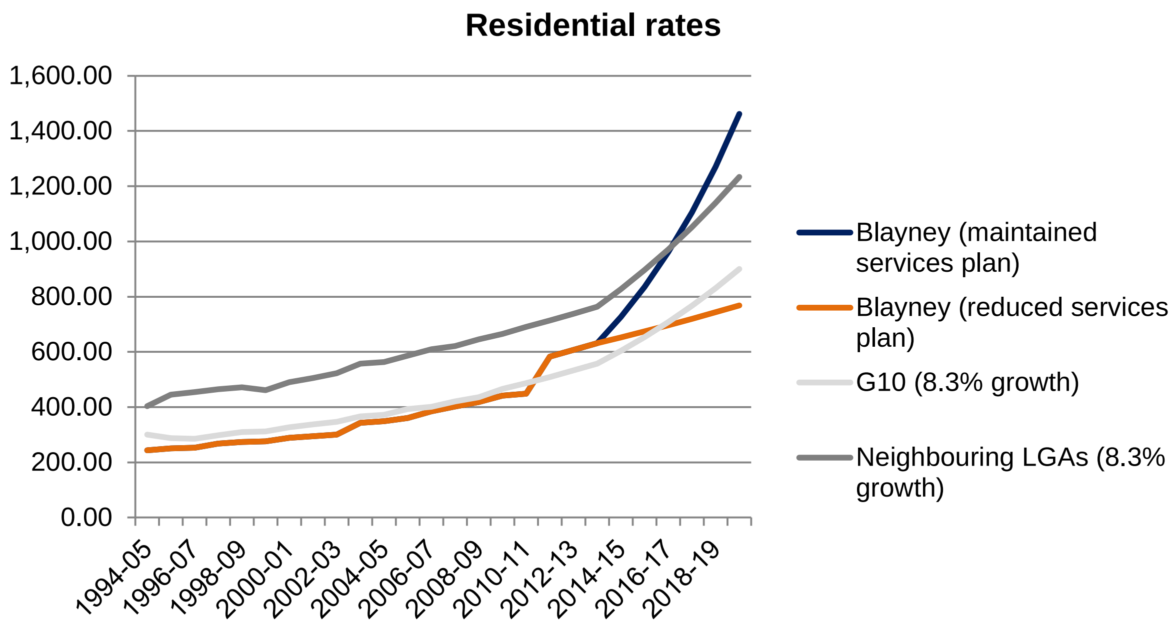
For Blayney Shire farm businesses, a proposed rates increase of 15% per annum will have a significant impact on financial bottom line, however a reduced rates increase of 9.95% for farm rates would be considered serviceable. Rates increases of 3.3% per annum under the reduced services plan will have only a moderate impact. In the case of non-farm businesses, the rates increase will have an insignificant impact.

3.3 Blayney Shire Council and its peers

WRI has examined past and projected council rates in Blayney Shire, Group 10 peer LGAs and neighbouring LGAs (Bathurst, Cabonne, Cowra and Orange). Two rate increase plans in Blayney Shire were compared – the maintained and reduced services plans.

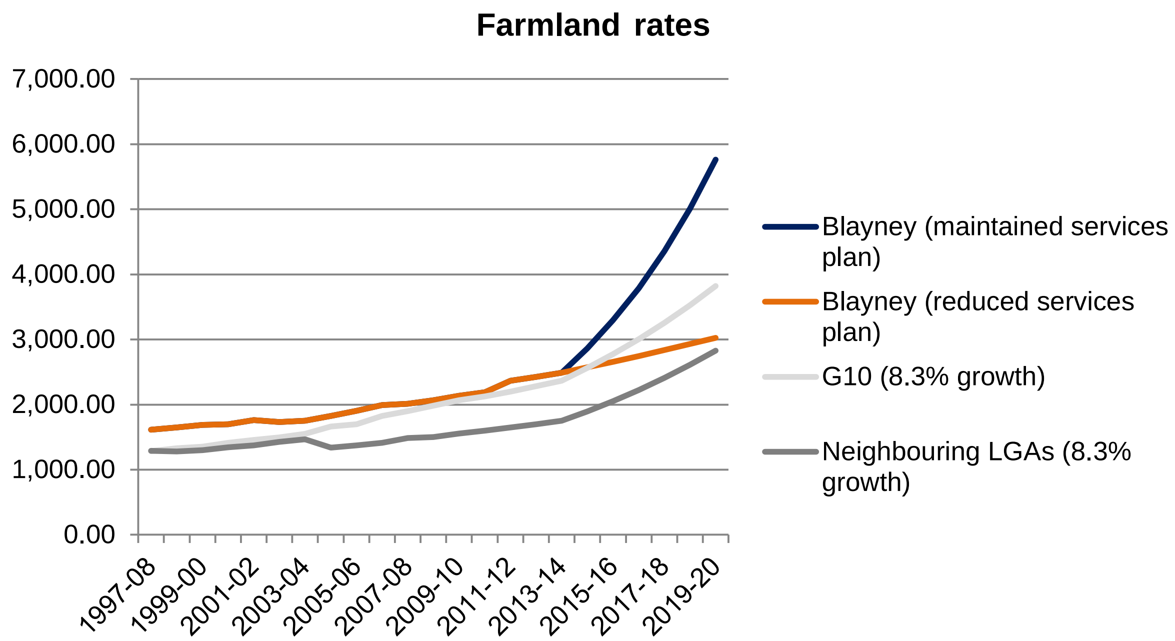
In addition, WRI considered the likelihood of rates' change in peer LGAs over 2014/15-2019/20 period. As stated in NSW Treasury Corporation report, in 2009-12 the financial position of 78% of NSW local governments was either moderate or unsustainable, meaning that raising funds via rates increase to address operational deficits and infrastructure backlogs would be needed.[4] As to the magnitude of the likely rates' increase, the IPART determinations can provide guidance. Over the last 3 years, the average annual rate increase permitted by IPART stood at 8.3%. For the purpose of this analysis, WRI assumed that rates in peer LGAs will grow at 8.3% per annum over 2014/15-2019/20 period.

Growth scenario for peer LGAs – Growth at 8.3% per annum



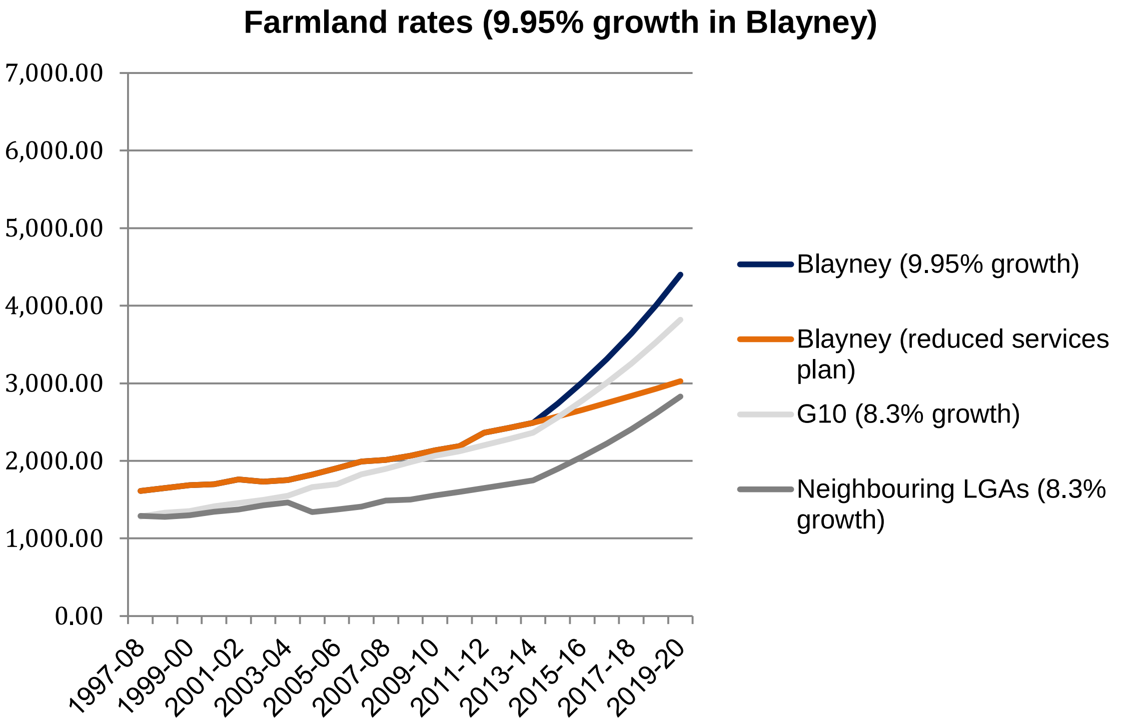
Under the 8.3% growth rate scenario in peer LGAs and the maintained services plan, Blayney Shire residential rates will exceed Group 10 LGA levels by a factor of 1.62 in 2019/20, but will exceed neighbouring LGA levels by only18%. WRI notes that the Blayney Shire long term financial plan (2013/14 – 2022/23) envisages rates' growth of 3.3% in 2019-2023. As a result, residential rates will move to neighbouring LGA levels by 2023. If the reduced services plan is implemented, Blayney Shire residential rates will be below its peers' levels by 2019/20.

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

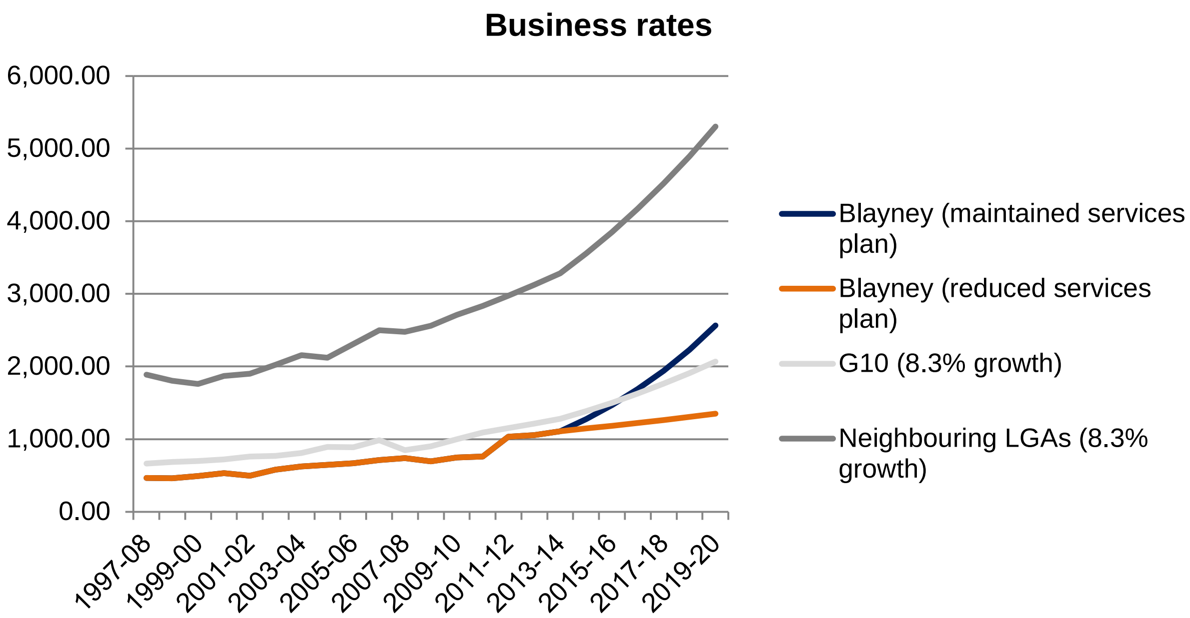


Under the 8.3% growth rate scenario in peer LGAs and the maintained services plan, Blayney Shire farmland rates will exceed Group 10 LGA levels by a factor of 1.51 in 2019/20, and will exceed neighbouring LGA levels by a factor of 2.03. If the reduced services plan is implemented, Blayney Shire farmland rates will be below Group 10 levels and above neighbouring LGA levels by 2019/20.

As modelled in previous section, the increase in farmland rates will change rates/farm value added ratio by more than 1 percentage point. Also, farmland rates in Blayney Shire under the maintained services plan are higher than in peer LGAs. Therefore, WRI examined a rates' projection if farmland rates in Blayney Shire grow by 9.95% per annum.



Under the 8.3% growth rate scenario in peer LGAs and the 9.95% growth in Blayney Shire, Blayney Shire farmland rates will exceed Group 10 LGA levels by 15% in 2019/20, and will exceed neighbouring LGA levels by a factor of 1.55.

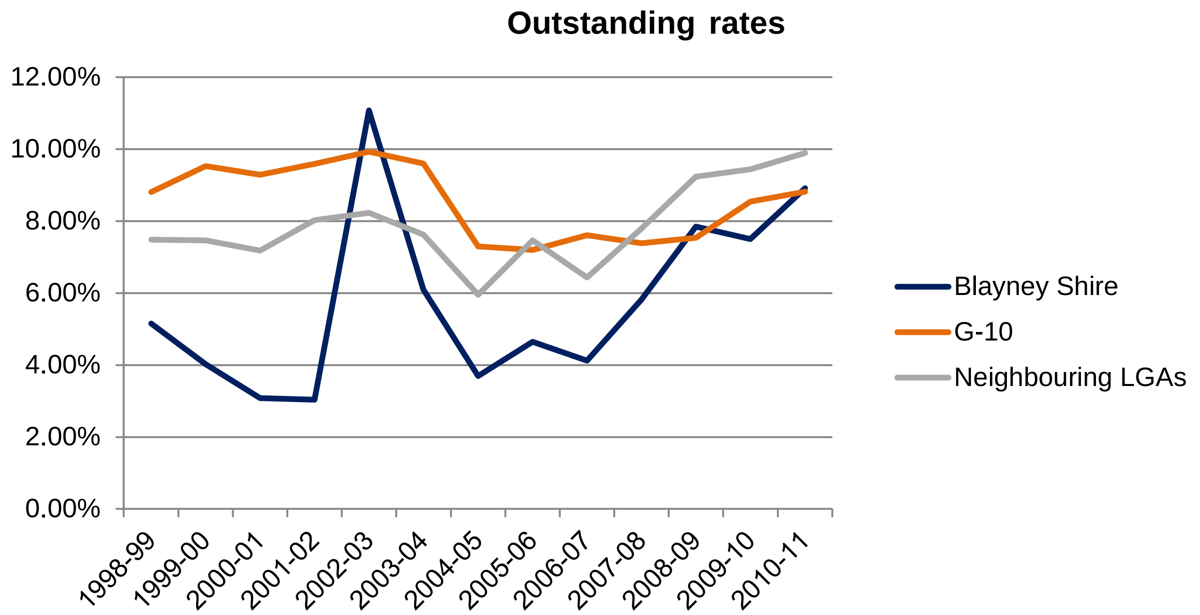


Under the 8.3% growth rate scenario in peer LGAs and the maintained services plan, Blayney Shire business rates will be well below business rates in neighbouring LGAs by 2019/20 and slightly above business rates level in Group 10 LGAs.

The adjacent comparisons reveal that under the assumption of an 8.3% growth rate in peer LGAs:

- Blayney Shire business rates will be below or in line with peer LGA business rates under both the maintained and reduced services plans.
- Blayney Shire residential rates will be in line with neighbouring LGA residential rates (particularly, at the end of long-term financial plan implementation in 2022/23) and above Group 10 LGA rates under the maintained services plan, and below both peer groups under the reduced services plans.
- Blayney Shire farmland rates will be above both peer groups under the maintained services plan and below Group 10 LGAs under the reduced services plan.

The ratio of outstanding rates to the total rates collected in Blayney Shire (shown below) has never exceeded the neighbouring LGA average, except in financial year 2002-03, and was below 10% in the past eight years. As advised by Blayney Shire Council, in financial year 2012/13 outstanding rates stood at 5.6%, pointing to the ability of the Blayney Shire community to pay current rates. WRI notes that the ratio is likely to increase once the maintained and reduced services plans are implemented; the magnitude of the increase cannot be known in advance.



As shown in Table 5 (a), Blayney Shire Council was ranked favourably relative to its peers in terms of the level of various types of rates. Out of 152 LGAs in NSW, it had the 34th lowest residential rates, 81st lowest farmland rates, 34th lowest business rates and 111th lowest outstanding rates. A similar pattern is observed, when Blayney Shire is compared to ‘Group 10’ and ‘Group10 & neighbouring LGAs’. Overall, Blayney’s residential and business rates are well below its peers’ median, while its farmland rates are above the median.

Table 5(a). Council rates (2010-11) – lowest of the sample

LGA	Sample	Residential	Farmland	Business	Outstanding
NSW	n=152	34	81	34	111
G-10	n=26	11	19	12	15
G-10 & neighbouring LGAs	n=30	10	16	11	14

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

Blayney is ranked above its peers' median in all four components of SEIFA (particularly in the Index of economic resources but less so in the Index of education and occupation). Blayney is ranked 21st highest (less socio-economic disadvantage) on average among G10 peers group (comprising 26 LGAs). It is ranked 23rd highest on average among Group 10 & neighbouring LGAs (comprising 30 LGAs).

Table 5(b). SEIFA (2011) – highest of the sample

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	92	95	117	72
G-10	n=26	22	21	23	19
G-10 & neighbouring LGAs	n=30	24	23	26	20

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

The average personal income of Blayney Shire wage and salary earners was well above the state median, while the income of its superannuation and annuity earners, own unincorporated businesses and investment income earners was below the median. Blayney Shire is ranked above the median of G10 and G10 & neighbouring LGAs in terms of income of wage and salary earners, income of superannuation and annuity earners and the income of unincorporated businesses. Blayney Shire is ranked above all peers' median in terms of total income.

Table 5(c). Average personal income (2009-10) – lowest of the sample

	Sample	Wage and salary earners	Own unincorporated businesses	Investment income earners	Superannuation & annuity earners	Other	Total
NSW	n=152	101	41	54	64	108	96
G-10	n=26	24	17	11	18	24	24
G-10 & neighbouring LGAs	n=30	27	17	12	20	28	26

WRI has modelled the ranking of Blayney Shire among its respective peer groups in terms of all three rating categories, assuming that rates in peer LGAs grow at 8.3% per annum. It appears that under the maintained services plan, Blayney Shire will move into the top decile of its respective peers in terms of all three rating categories by 2019/20. However, under the reduced services plan, Blayney Shire will remain below the median (or in some categories, slightly above the median) of its respective peers by 2019/20.

This disparity between ranking positions under the two plans is due to the following:

- 15% per annum under the maintained services plan is almost twice the size of average growth rate approved for peer LGAs by IPART (8.3%).
- This differential in growth rates is amplified by the period over which Blayney Shire rate increases are implemented.

A somewhat smaller rate increase (e.g. 10% as opposed to 15%) or a shorter plan implementation period (4 years as opposed to 6 years) would deliver a better ranking for Blayney Shire.

Table 6. Dynamics of Blayney Shire Council rankings of rates – lowest of the sample

a). Maintained services plan, G10 peers grow at 8.3% p.a.

	Sample	Residential	Farmland	Business
2013/14	n=26	18	17	13
2014/15	n=26	22	17	13
2015/16	n=26	23	19	19
2016/17	n=26	24	21	19
2017/18	n=26	24	22	19
2018/19	n=26	25	22	20
2019/20	n=26	25	22	20

b). Maintained services plan, G10 & neighbouring peers grow at 8.3% p.a.

	Sample	Residential	Farmland	Business
2013/14	n=30	20	21	14
2014/15	n=30	24	21	14
2015/16	n=30	25	23	20
2016/17	n=30	26	25	20
2017/18	n=30	26	26	20
2018/19	n=30	27	26	21
2019/20	n=30	28	26	21

c). Reduced services plan, G10 peers grow at 8.3% p.a.

	Sample	Residential	Farmland	Business
2013/14	n=26	18	17	13
2014/15	n=26	16	17	13
2015/16	n=26	12	13	13
2016/17	n=26	11	13	13
2017/18	n=26	9	12	11
2018/19	n=26	8	11	11
2019/20	n=26	7	10	11

d). Reduced services plan, G10 & neighbouring peers grow at 8.3% p.a.

	Sample	Residential	Farmland	Business
2013/14	n=30	20	21	14
2014/15	n=30	18	20	14
2015/16	n=30	13	16	14
2016/17	n=30	12	16	14
2017/18	n=30	10	15	12
2018/19	n=30	9	14	12
2019/20	n=30	7	13	12

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

Overall, the proposed rates increase under the maintained services plan will put Blayney Shire residential and farmland rates above the level of its peers. The proposed rates increase under the reduced services plan will keep Blayney Shire rates in line with rates in peer LGAs. Under both plans Blayney Shire will be ranked favourably in terms of socio-economic indicators and personal income.

4. CONCLUSION

WRI has analysed special rates variation proposed by Blayney Shire Council under the maintained and reduced services plans. The special rates variation was examined in terms of comparison with other costs and prices, impact on households and businesses, and the ranking of Blayney Shire Council against peer LGAs.

While the proposed rates increase under the maintained services plan exceeds that expected in Group 10 and neighbouring LGAs, the plan is unlikely to have a significant impact on the Blayney Shire community and non-farm businesses. A potential offset (rebate) payable to government support recipients could further reduce the impact of the proposed rates increase on this population group.

For farm businesses an alternative rate increase to that proposed in the maintained services plan of 9.95% per annum has been modelled. This is likely to have an insignificant impact on the financial position of farm businesses.

The rates increase proposed under the reduced services plan will have insignificant impacts on Blayney Shire community and on farm and non-farm businesses.

Under both plans, Blayney Shire will be ranked favourably against Group 10 and neighbouring LGAs in terms of socio-economic indicators and personal income.

APPENDIX 1: TECHNICAL NOTES

1. Costs of residents

The costs incurred by Blayney Shire residents over 2007-13 period (Table 1) are based on cumulative percentage changes of the consumer price index (CPI) for relevant sub-groups and expenditure classes over September 2007 – September 2013 period in Sydney.[5] WRI notes that the ABS does not construct regional CPI indices, as price movements in regional areas are not significantly different from those in metropolitan areas.[6] Based on this, Sydney CPI has been selected as the best approximation of Blayney Shire cost increases.

2. Costs of farm and non-farm businesses

WRI first examined the Blayney industrial profile and identified the major industries. It then compared proposed farmland and business rates' increases with cumulative percentage changes in either input or output prices for the respective industries in the Blayney Shire. 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 (2014-20) will not deviate from the growth in 2007-13.[7] 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.[8]

3. Household expenditure

The procedure for extracting Blayney Shire expenditure data is as follows.

Firstly, the average weekly expenditure data for NSW households is obtained from the ABS Household Expenditure Survey, 2009-10.[9] The numbers are inflated by the cumulative 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.[10] 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 Blayney household is obtained. The assumption is made that Blayney' household expenditure is smaller than NSW household expenditure in the same

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5 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.

6 Australian Bureau of Statistics (2010) Outcome of the 16th Series Australian Consumer Price Index Review. ABS Cat. No. 6469.0.

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

8 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.

9 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).

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

proportion as Blayney' personal income is smaller than NSW personal income, i.e. the savings patterns in Blayney and NSW as a whole are similar. The average household size in Blayney and NSW in general is similar.

Thirdly, the average weekly expenditure (total, as well as individual items) for Blayney is calculated in each of the years between 2014 and 2020 (corresponding to the Blayney Shire 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 maintained and reduced services plans, i.e. 15% and 3.3% per annum.

As a final step, the new level of residential rates in 2019/20 is compared to the new level of household expenditure, and an assessment is made as to the ability of the Blayney residents to bear the new rates.

4. Farm and non-farm businesses viability

For the Blayney agricultural sector, the relationship between proposed farmland rates and future farm output is estimated as follows. The value added of the agricultural sector is extracted from ABS input-output tables and other sources.[11] The most recent figure is available for 2009-10, equal to $30.89 mln. The number of farms is obtained from the NSW Division of Local Government publications (712 farms).[12] The average value added per farm is then calculated for 2009-10 ($43,365). The number of farms in 2013-2017 is assumed to follow a long term trend, with an annual increase of 0.3%.[13] The future value of Blayney agricultural value added (inflated by CPI growth factor of 3% per annum) is assumed to fluctuate around the 5-year mean. WRI considers it is reasonable, as in the past 5 years the value of NSW agricultural value added was volatile and fluctuated in the range between $10.7 bln and $14.5 bln.

The procedure is essentially the same for the non-farm businesses. The number of businesses in 2014-20 is assumed to follow a long term trend, with 1.78% increase in the number of businesses per annum. The non-farm value added is allowed to increase in line with the NSW gross state product.

5. Blayney Shire Council and its peers

In terms of average personal income, socio-economic standing and the level of rates, Blayney Shire is compared to 'Group-10' peers, as well as neighbouring LGAs (Bathurst, Cabonne, Cowra, Orange). The average personal income data is sourced from the ABS.[14] 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

11 Regional Development Australia - Central West (2011) RDA Central West and Centroc Regional Economic Profile. Final Report prepared by AEC Group Limited.

12 Division of Local Government, Department of Premier and Cabinet. Comparative Information on NSW Local Government Councils, 2009-10.

13 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 of output) regressed against time.

14 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).

and Disadvantage, Index of Economic Resources and Index of Education and Occupation.[15] The historical council rates are obtained from the NSW Division of Local Government.[16]

15 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).

16 Division of Local Government, Department of Premier and Cabinet. Comparative Information on NSW Local Government Councils, 2009-10.

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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