

City of Darwin Council

Economic Impact Analysis: Rate Variation

Final Report

May 2017

prepared by .id

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1. Introduction

1.1 Overview

The City of Darwin Council has requested an analysis of the economic and social impacts of the proposed variation to the general rate. For the 2017/18 financial year, Council proposes to increase the general rate and related minimum charges by 1.9% across all categories of ratepayers. Based on the average Unimproved Capital Value (UCV) of a single dwelling residential property in the Darwin municipality of approximately \$365,000, the total rates payable¹ will equate to \$1,535 in 2017/18, up from \$1,506 in 2016/17 (+\$29 and 1.9% impact).

In this document, we report on the analysis we have undertaken to assist the City of Darwin Council in assessing the economic and social impact on residents, including their capacity to pay a rate increase. While the total rates payable will differ from household to household, this report assesses the impact on the single dwelling residential property example above.

This report has been prepared in the following sections:

- ▣ Economy
- ▣ Employment
- ▣ Income and wealth
- ▣ Advantage and disadvantage indicators

1.2 A note on sources

The report utilises a number of economic and demographic datasets including:

- ▣ Australian Bureau of Statistics, Census of Population and Housing
- ▣ Economic data provided by National Economics

¹ excluding the annual kerbside garbage collection and recycling service

2. Economic outlook

2.1 Overview

The Darwin economy is highly dependent on the government sector, mining and mining support sectors (construction and transport). This dependence makes it highly prone to volatility, particularly once large investments wind down.

2.2 Economic conditions

Economic conditions in Darwin continue to moderate following a sustained period of above average growth. Economic growth in Darwin strengthened from 3.3% in 2014/15 to 4.3% in 2015/16. This level of growth is still below the 10 year average of 5.3% and is following a similar path to the Northern Territory economy. Economic growth is expected to remain below average in the immediate term with a return to stronger growth likely once exports earnings from the Ichthys LNG project grow. Deloitte Access Economics forecast the Northern Territory economy to strengthen from 1.9% in 2016/17 to 3.2% in 2017-18 and we expect Darwin to follow a similar path.

2.3 Employment conditions

Employment conditions in the Northern Territory and Darwin remain mixed. In the Northern Territory, the return to growth in investment during 2015/16 and jump in household consumption expenditure contributed to a rise in employment in late 2016. In Darwin, conditions appeared to soften throughout 2016 with the number of unemployed increasing by 9% in the year ending December 2016. In saying this, Darwin's unemployment rate (3.43% in December 2016) is still well below national levels (5.7%). But wage growth remains subdued and is likely to constrain household consumption growth, and therefore employment, in the near term.

Tourism continues to play an important role in creating new employment opportunities. While domestic visitation has strengthened in 2015/16, we note a large decline in international tourism visitation in the last year, highlighting the volatile nature of tourism in the Northern Territory.

With a number of projects nearing completion and recent job layoffs connected to the Ichthys LNG project, future employment growth is uncertain but likely to remain soft (circa 1%) in the immediate term (2017/18). According to the Department of Employment², employment in Darwin is projected to grow by around 1.7% per year, marginally above the Australian average. This suggests a period of more stable growth phase, albeit slower compared to the previous cyclical highs.

Non-residential building approvals in Darwin support this medium term view with non-residential building approvals increasing by 44.8% over the last year (3 year moving average). This highlights that there is a steady pipeline of non-residential projects that will support the construction sector over the short term followed by ongoing employment in the short to medium term to 2020.

The economic analysis supporting this commentary is provided at Appendix A.

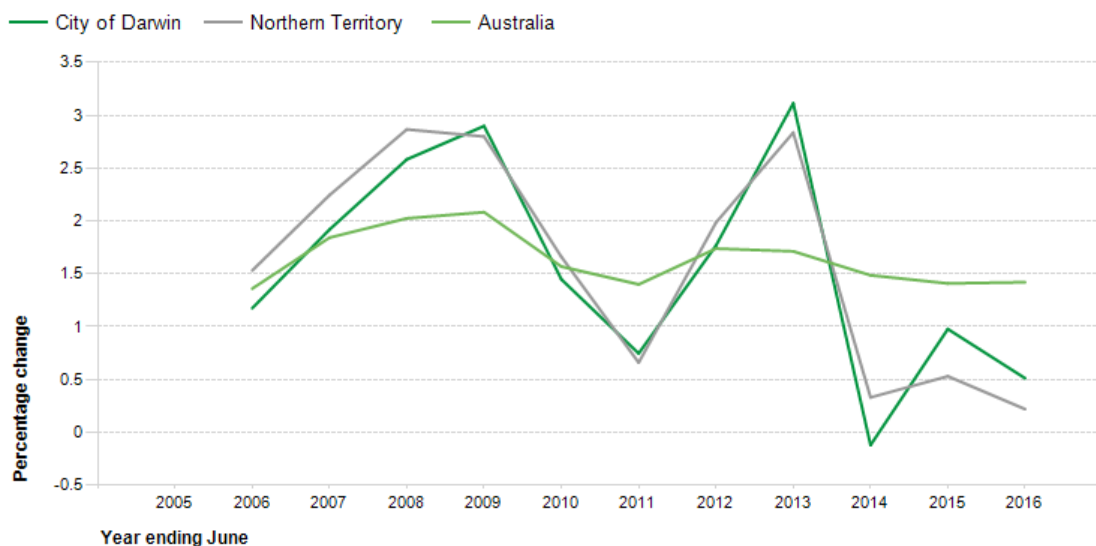
² Industry Employment Projections, March 2016, Department of Employment (Australian Government)

4. Socio-economic analysis

4.1 Population

Population growth slowed in 2015/16, growing by only 0.51%. This is well below the decade growth rate of 1.6% (annual average growth). It represents the third consecutive year of growth of 1% or lower and this slower growth could have implications for the household service sector (e.g. retail) and house prices.

Estimated Resident Population (ERP)



Source: Australian Bureau of Statistics, Regional Population Growth, Australia (3218.0). Compiled and presented in economy.id by .id, the population experts

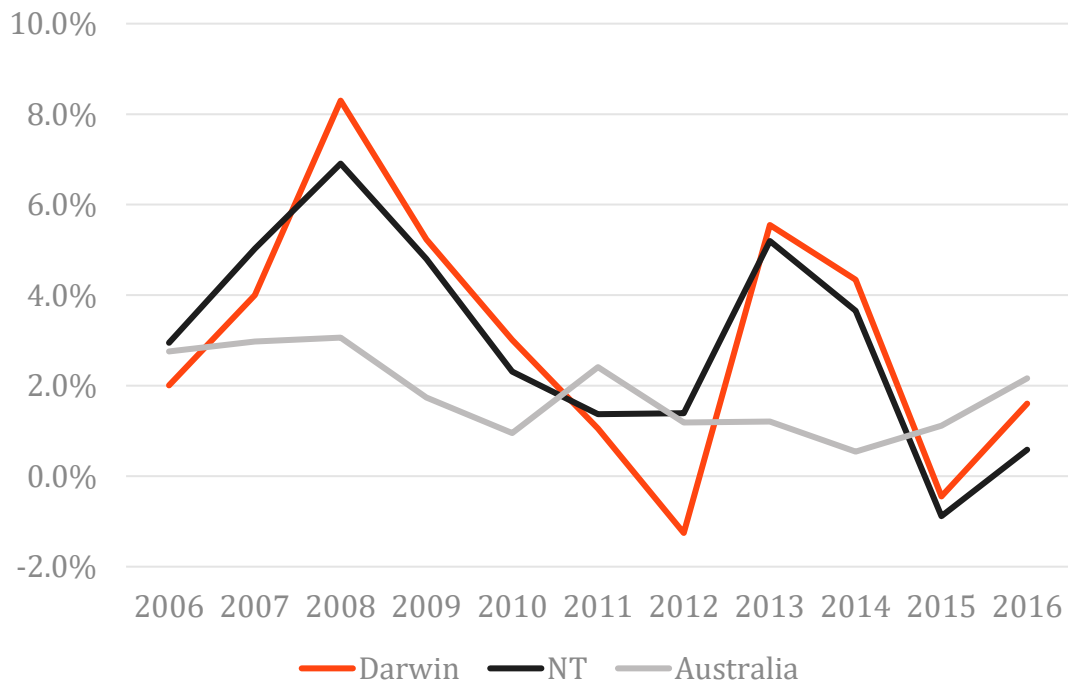
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4.2 Employment

Employment conditions improved from -0.5% in 2015 to 1.6% in 2016 but still remain at low levels compared to the growth achieved over the past decade. The growth in employment was driven by growth in the Mining and Government industry but weighed down by a decline in Retail Trade jobs.

Employment growth

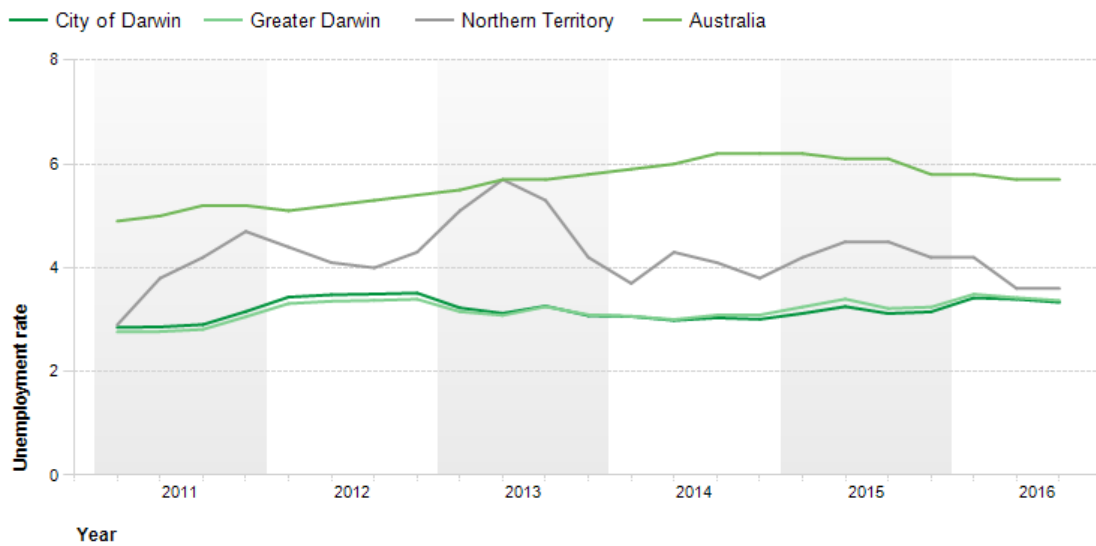
% change from previous year



Looking at more recent information about the Darwin labour force suggests that conditions continue to remain soft in this financial year with the number of unemployed increasing by 9% in the year ending December 2016.

In the 2016 September quarter, the unemployment rate in City of Darwin was 3.34%. Unemployment has been tracking upwards slightly but still consistently lower than that experienced by the rest of the NT and Australia more broadly.

Quarterly unemployment rate



Source: Australian Bureau of Statistics, Labour force survey, catalogue number 6202.0, and Department of Employment, Small Area Labour Markets, March 2016. Compiled and presented in economy.id by .id the population experts.



Small Area Labour Market estimates show considerable variation in unemployment rates across the City of Darwin. A number of suburbs have rates of unemployment below 2%. In several other areas, unemployment is consistently higher than the average for the City of Darwin. As shown in the table below, in Ludmilla – The Narrows, Coconut Grove and Karama rates are above 5% in the December 2016 quarter, higher than both the City of Darwin (3.4%) and the Northern Territory (3.7%). Higher unemployment is also evident in the SA2s of Millner (4.9%) and Malak – Marrara (4.8%). These areas may be more affected by a rates increase.

Table: Unemployment rates

Statistical Area Level 2 (SA2)	Unemployment rate (%)		
	December 2016	Average Dec 2015 – Dec 2016	Average Dec 2014 – Dec 2015
Darwin City	3.9	3.8	3.8
Fannie Bay – The Gardens	1.2	1.4	1.4
Larrakeyah	1.6	1.1	1.5
Ludmilla – The Narrows	5.5	4.5	5.1
Parap	2.4	2.7	2.5
Stuart Park	2.3	2.5	2.3
Woolner – Bayview – Winnellie	1.3	1.3	1.5
Alawa	4.6	3.9	4.6
Anula	3.2	3.0	3.2
Brinkin - Nakara	4.3	3.3	4.2
Coconut Grove	5.4	4.8	5.2
Jingili	3.4	3.2	3.4
Karama	5.3	4.8	5.2
Leanyer	2.4	2.2	2.5
Lyons (NT)	1.2	1.0	1.1
Malak – Marrara	4.8	4.4	4.7
Millner	4.9	4.0	4.8
Moil	4	4.6	4.2
Nightcliff	2.9	2.5	2.8
Rapid Creek	3.2	2.9	3.3
Tiwi	3.9	3.8	3.8
Wagaman	3.5	4.1	3.9
Wanguri	3.8	3.4	3.7
Wulagi	2.7	3.0	2.7
City of Darwin	3.4	3.4	3.2

Source: Australian Bureau of Statistics, Labour force survey, catalogue number 6202.0, and Department of Employment, Small Area Labour Markets,

4.3 Incomes

4.3.1 Sources of income

While Darwin residents have a range of income sources, wages and salaries make up 58% of total income earned in the LGA. Ownership of dwellings makes up the second greatest source of income in Darwin, following the trend across the Northern Territory. City of Darwin residents rely far less on business income and cash benefits than the Australian average, with wages and salaries comprising just 50% of total income per household across Australia. These characteristics should be considered when assessing capacity to pay.

Sources of income per household, 2015



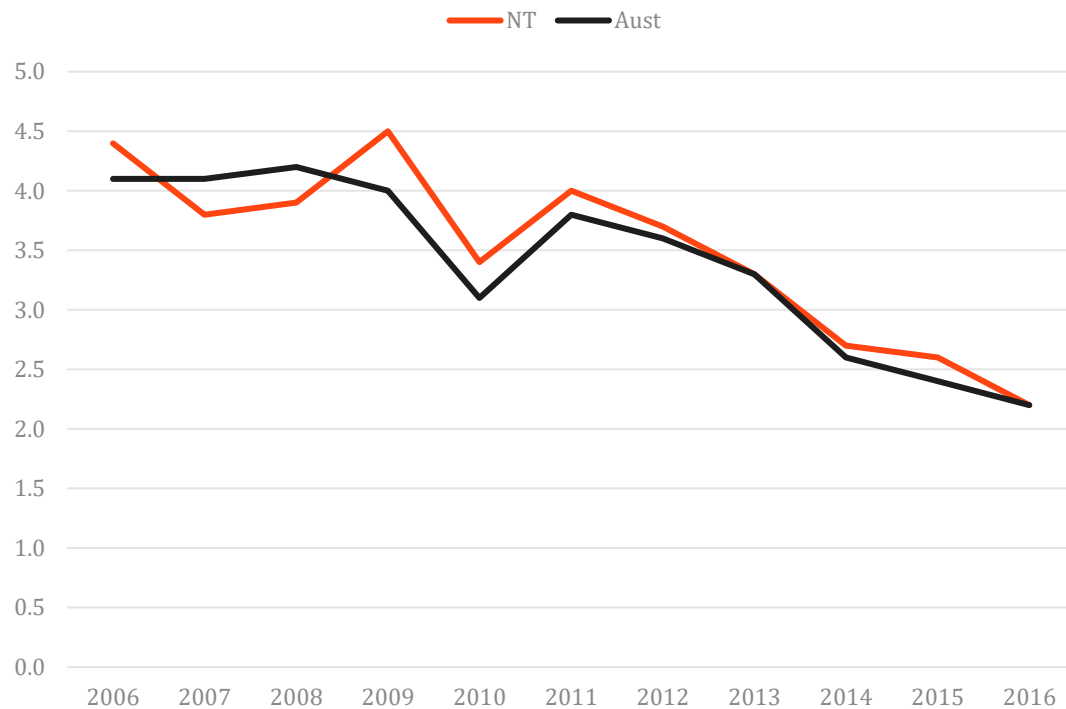
Source: NIEIR, compiled and presented by .id the population experts

4.3.2 Income growth

Wages in the Northern Territory continue to moderate with the Wage Price Index estimated at 2.1% in the year to December 2016. Wage growth is expected to remain subdued, resulting in household consumption expenditure and employment growth.

Wage Price Index, Northern Territory, Dec 2016

% change from previous period

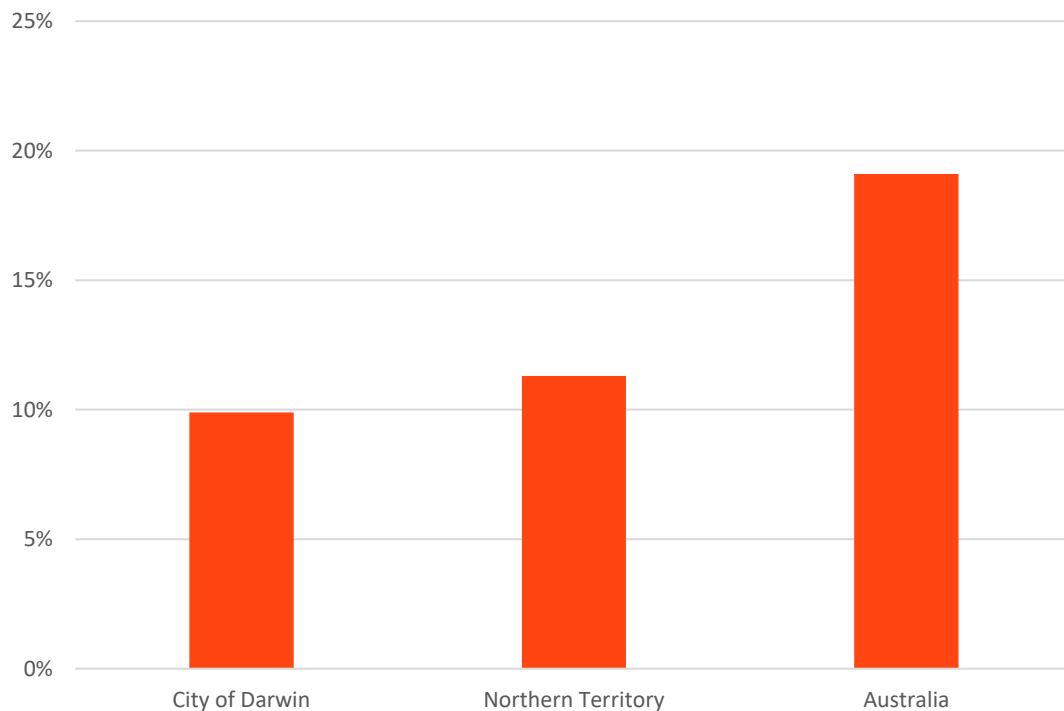


Source: ABS 6345.0 - Wage Price Index, Australia, Dec 2016

4.3.3 Income distribution

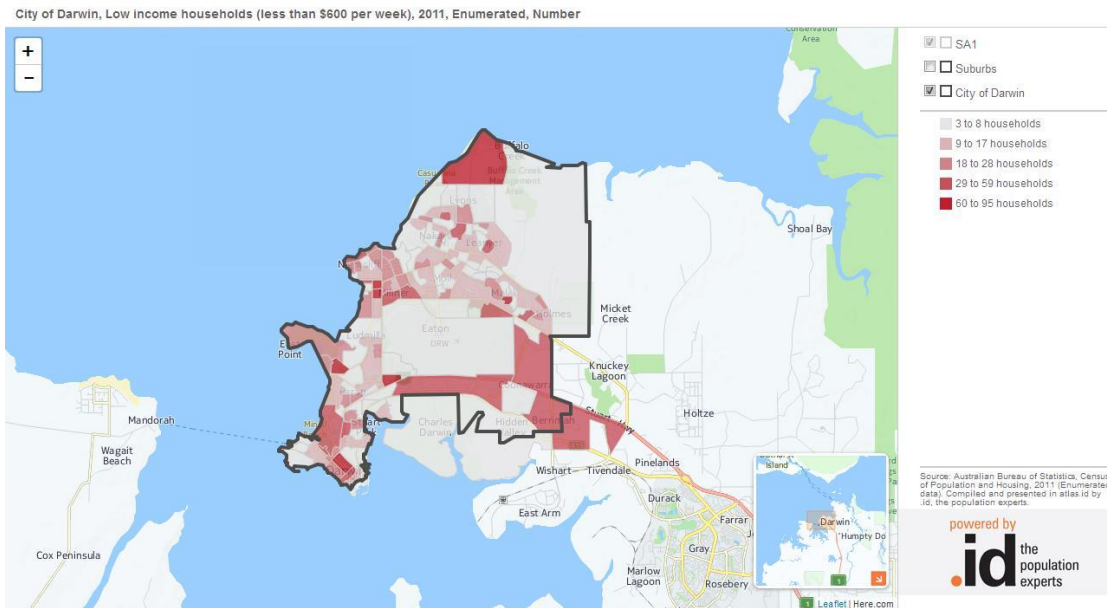
Incomes in the City of Darwin are higher than the Australian average. At the time of the 2011 Census, 29.5% of households were in the highest income quartile, earning over \$2,571 per week. As shown by the chart below, only 9.9% of Darwin households are classified as low income, far below the national average of 19.1%.

Percentage of low-income households, 2011



Source: ABS Census of Population and Housing, compiled and presented by .id the population experts

Incomes in the City of Darwin are moderately higher than the average across the Northern Territory. Approximately one in every ten households in the LGA is classified as low income, earning less than \$600 per week. While these households reside throughout the city, particularly high concentrations are evident around Lee Point, Coconut Grove and the Darwin CBD. This trend is shown in the map below. Understanding the spatial distribution of socioeconomic characteristics will be critical in a consideration of capacity to pay higher rates.

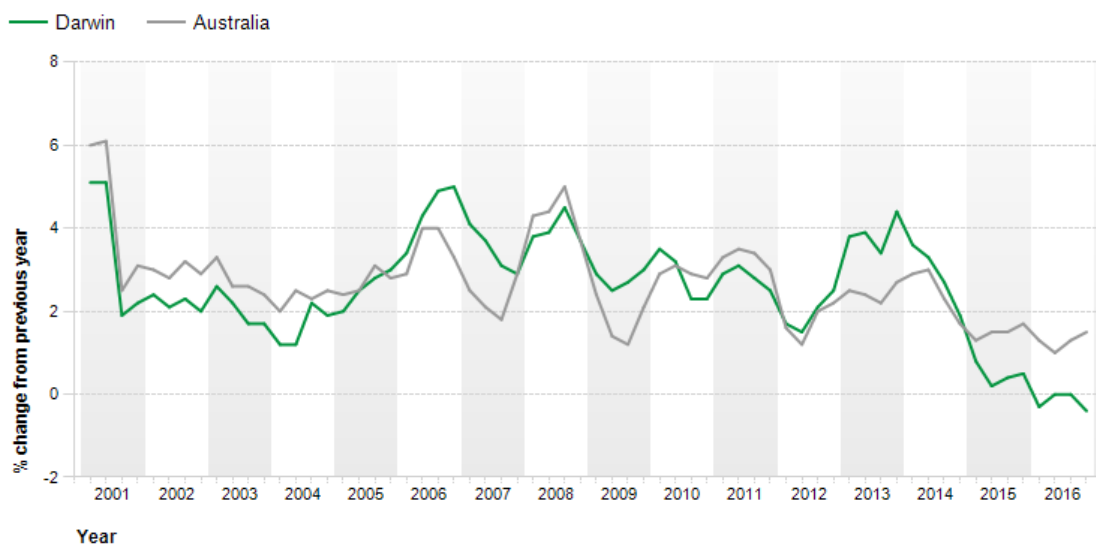


4.4 Prices

4.4.1 Inflation

In the year to December 2016, the CPI for Darwin decreased 0.4%. During the same period, the CPI for the eight capital cities in Australia increased 1.5%. The areas weighing CPI down were mainly from declines in housing and recreation and culture spending.

Consumer Price Index (CPI)



Source: Australian Bureau of Statistics. Consumer Price Index, Australia, catalogue number 6401.0. Compiled and presented in economy.id by .id the population experts

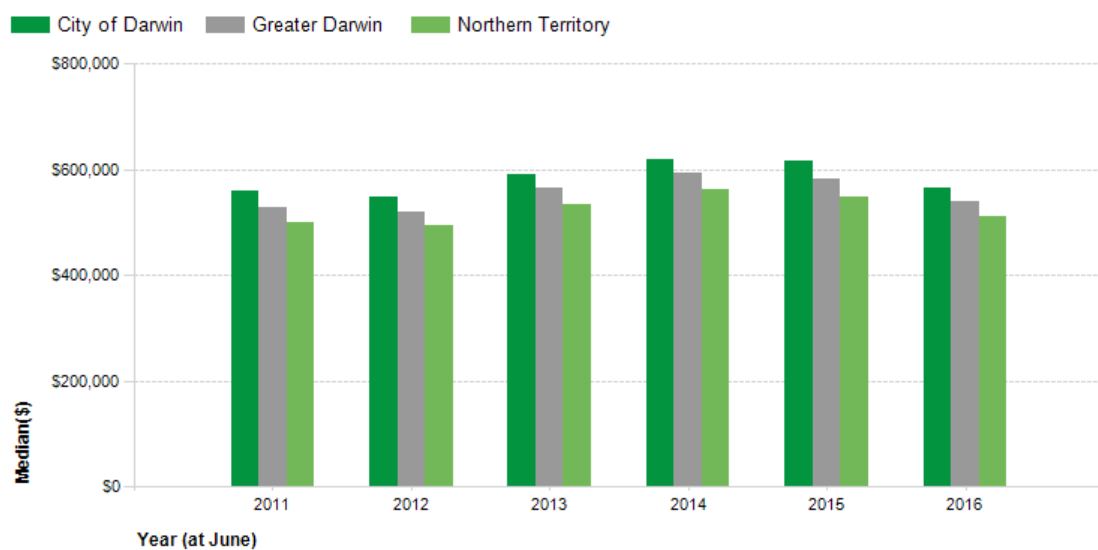
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4.4.2 House prices

The fall in business investment, lower population growth and weak employment growth have combined with a house price correction in Darwin.

House prices fell for a second consecutive year and this time by a large margin. At June 2016, the median house valuation in City of Darwin was \$566,509, almost \$50,000 less than 2015.

Value of houses



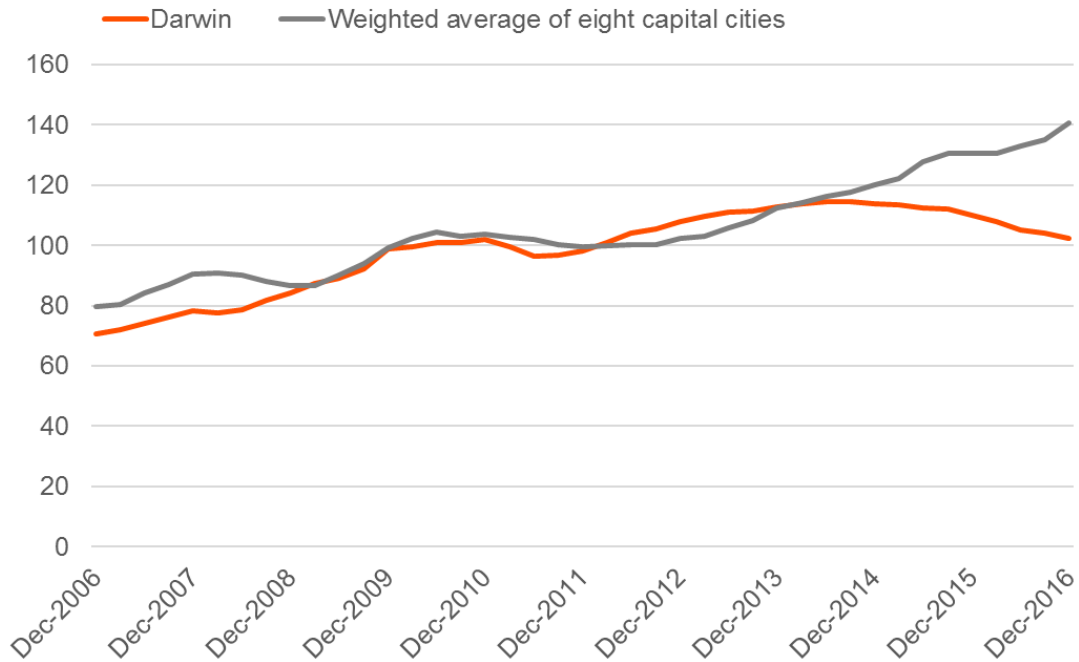
Source: Hometrack 2011-2016, Housing Valuation System

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The Darwin residential property price index continued to fall in 2016 and in Dec 2016 was 11.6 points below the peak of March 2014. It continues to diverge from the weighted average of eight capital cities. Perth is the only other capital city to experience similar falls in property prices.

Annually, residential property prices fell in Darwin by 7.7 points in 2016.

Residential property price index Index Mar 2012 = 100

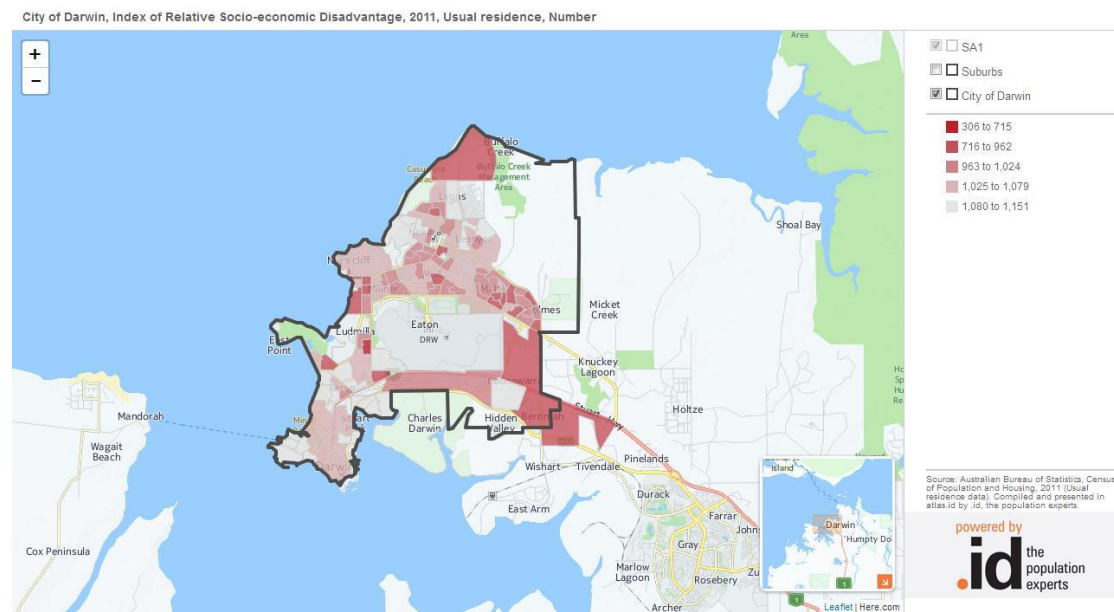


Source: ABS Cat 6416.0 - Residential Property Price Indexes: Eight Capital Cities, Dec 2016

4.5 Advantage and disadvantage indicators

The SEIFA index of disadvantage is the most commonly used aggregate measure of socio-economic disadvantage at the local level. Higher scores indicate less disadvantage while lower scores indicate more disadvantage. With a SEIFA index of 1,034.6, the City of Darwin ranks as the least disadvantaged of all 16 Local Government Areas in the Northern Territory. Besides the City of Darwin, the two LGAs with the highest SEIFA scores in the NT, Litchfield (1,030.4) and Palmerston (1,018.1), are also located in the Greater Darwin region.

The SEIFA Index produces a score for LGAs based on a range of socioeconomic



attributes that include income levels, employment status, educational attainment and prevalence of skilled occupations. Darwin has a median weekly household income of \$1,772, higher than the NT average of \$1,606. The rate of unemployment in the City of Darwin, consistently lower than the NT, as noted above, may be partially explained by the higher level of educational attainment in the capital city. Approximately 22% of working age Darwin residents has a Bachelor or Higher degree, compared to 15% across the NT. Further, the City of Darwin has a higher proportion of skilled occupations than the Territory, with larger shares of the total workforce employed as Managers or Professionals.

6. Impact analysis

6.1 Impact on incomes

This section assesses the impact of the rate increase on household budgets. The impacts are based on household disposable income (using NIEIR estimates) but also broken down by household income quartiles (using Census data) to understand impacts on lower income households. The rate increase will be considered low impact if the rate impacts household income by less than 1%.

The economic impact on average household income (wages only) in Darwin is expected to be low, with the increase in rates (+\$29) having a -0.021% impact on disposable incomes. Households share of income spent on rates is projected to increase slightly from 1.09% to 1.11%.

Table: Impact on disposable income (wages minus taxes/rates) in Darwin

	Impact analysis
Darwin - Average wage per household (NIEIR), 2016	138,729
Proposed rate increase %	1.90%
Proposed rate increase \$ (based on a \$365,000 property)	\$29
Impact on wages	-0.021%

Source: NIEIR, .id

Looking at income quartiles shows a similar story. As expected the largest impact will be on low income households who are projected to experience a -0.19% impact. This is considered low.

Table: Impact on average wages by household income quartile in Darwin

Quartiles	Number of households	Annual income (2011)	Adjusted Annual income (2016)	Impact of rates on income
Lowest group	4,724	22,646	26,700	-0.19%
Medium lowest	5,208	64,402	75,930	-0.07%
Medium highest	5,608	108,550	127,980	-0.04%
Highest group	6,489	133,692	157,623	-0.03%

Source: ABS, .id

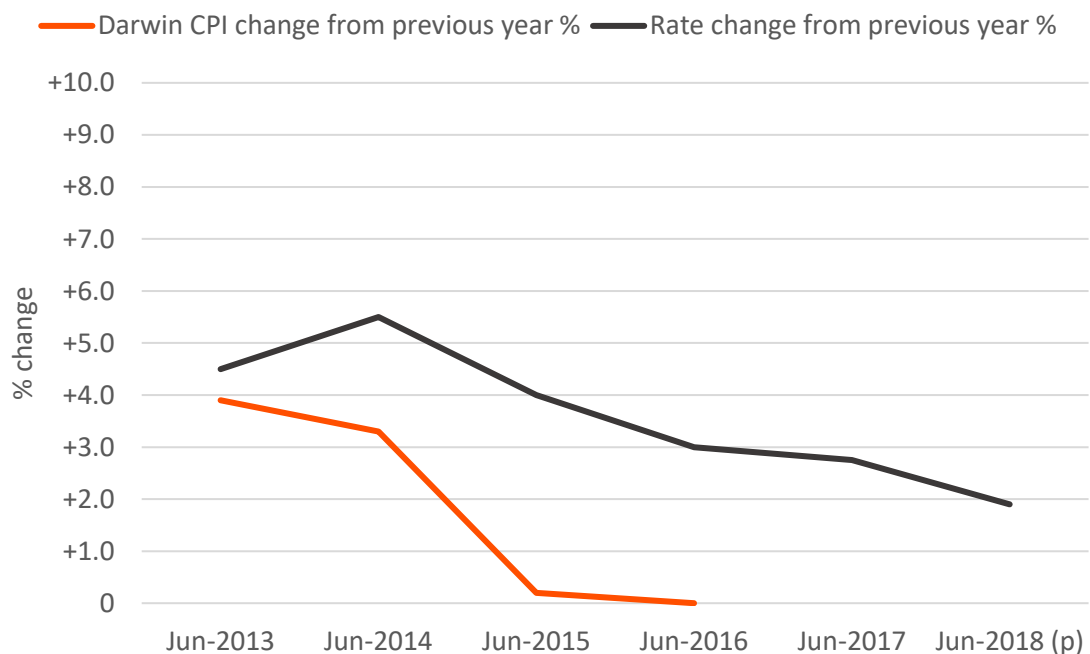
It is important to acknowledge however that some households may already be in financial hardship, given the economic and employment conditions noted earlier. This is particularly the case for high unemployment areas like Ludmilla – The Narrows, Coconut Grove and Karama.

6.2 Price comparisons

To understand the potential impact on households from an increase in rates, this section compares the rate increase with cost increases borne by households. The rate increase will be considered low impact if the rate increase is in line with cost increases.

The chart below compares Darwin's CPI change with historical rate changes and the proposed rate change for 2017/18. This shows that the increase in rates has been above overall price changes in Darwin, but that the rate changes have followed a similar pattern (i.e. both have declined).

Rates and CPI change compared



Source: ABS, .id

The table below presents the change in CPI groups. The proposed rate increase will be below price changes for Alcohol and tobacco, Education, and Health but will be above for all other categories.

Table: CPI Groups, Darwin

	Dec-15	Dec-16	% change
Food and non-alcoholic beverages	104.6	106.2	1.6
Alcohol and tobacco	121.3	128.3	7.0
Clothing and footwear	98.5	95.1	-3.4
Housing	112.9	109.5	-3.4
Furnishings, household equipment and services	107.3	107.8	0.5
Health	117.8	120.7	2.9
Transport	103.3	102.7	-0.6
Communication	94.1	88.6	-5.5
Recreation and culture	105.4	103.6	-1.8
Education	118.9	122.9	4.0
Insurance and financial services	109.8	108.1	-1.7
All groups CPI	109.0	108.6	-0.4

Source: 6401.0 - Consumer Price Index, Australia, Dec 2016

While the proposed rate increase is not in line with the majority of other price and cost increases estimated between December 2015 and December 2016 we consider the impact to be low given the rate increase has moderated from 2.75% in 2016/17 to 1.9% in 2017/18. It is also acknowledged that local government costs (e.g. materials, asphalt, labour) are typically higher than the broad CPI measure.

7. Conclusion

The Darwin economy continues to adjust to the end of the Ichthys LNG project investment phase and start of the production phase. This has led to a softening in the economy and a sharp decline in population growth. Also, the increase in unemployment has weighed on consumption expenditure and wages, further dampening local employment growth, particularly in retail. Darwin's exposure to the tourism sector has helped, but continues to be a volatile source of growth.

In light of weak economic conditions for Darwin, it would be prudent to minimise the general rate increase so that the impact on the community is low. The economic impact analysis shows that the proposed 1.9% rate increase is likely to have a low impact on incomes, even for low-income households.

However, the report does point out that some more disadvantaged groups may already be facing financial hardship and any increase in rates will represent a large impact. Initiatives to ease the burden on these groups could be considered.

8. Appendix – Darwin Economic Outlook 2017

Reference document