

Economic impact analysis: Rate Variation

Prepared for City of Darwin Council
Final Report

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prepared by .id

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1. Introduction

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 2019/20 financial year, Council proposes to increase the general rate and related minimum charges by 3.0% across all categories of ratepayers.

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.

This report has been prepared in the following sections:

- ▾ Economic outlook
- ▾ Socio-economic analysis
- ▾ Impact analysis
- ▾ Conclusions

2. Economic outlook

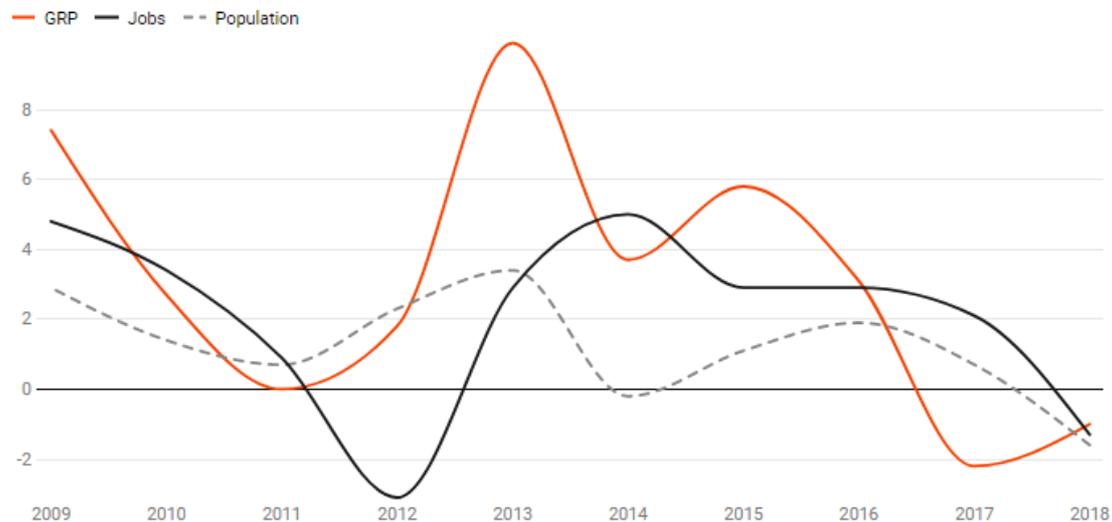
2.1 Overview

The City of 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.

Economic conditions have been weak over the last two years as the City of Darwin and Northern Territory economy transitions from a period of rapid economic expansion. This transition was driven largely by the Ichthys LNG project shifting from construction to production. The construction phase of the Ichthys LNG project is likely to be completed by 2018-19 and production ramping up to full export capacity by 2020-21¹.

Chart 1 City of Darwin historical growth – GRP, Jobs and Population

City of Darwin - Annual growth



Source: NIEIR (2018)

GRP growth is expected to remain below trend in 2018-19 and employment is expected to decline further due to the fall in construction employment and flow-

¹ <https://nteconomy.nt.gov.au/outlook>

on multiplier effects related to the Ichthys LNG project. The outlook for 2019-20 is likely to improve marginally, then move towards trend growth from 2020-21. The timing of this upswing back to trend will depend largely on gas export revenues, public investment, recovery of household consumption and the impact these have on business confidence and private investment in City of Darwin. There are also several global and macro forces pointing to downside risk to economic growth over the next five years.

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

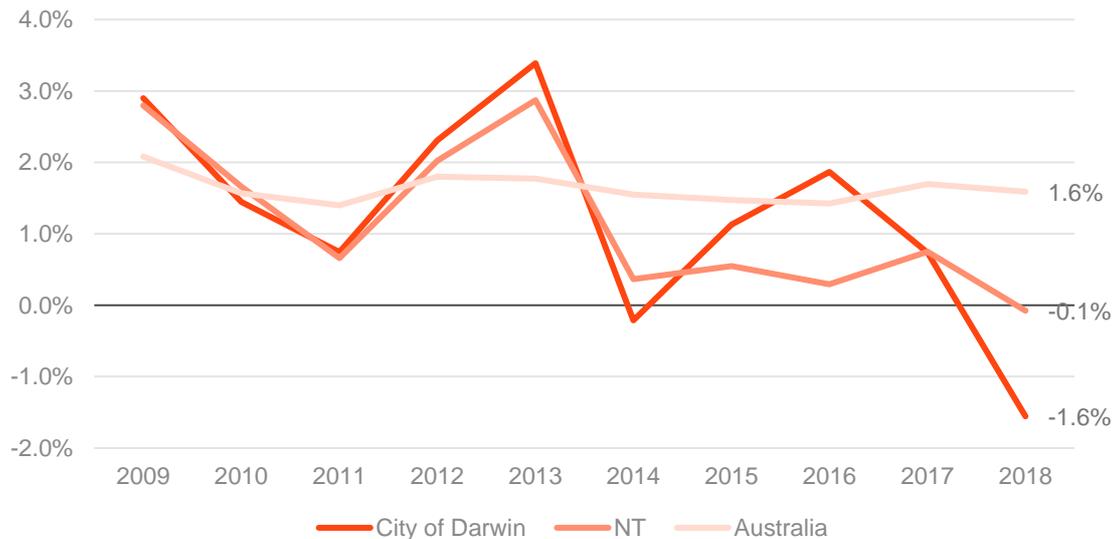
3. Socio-economic analysis

3.1 Population

Weak employment conditions are having a major impact on population growth rates in City of Darwin. In 2018, the City of Darwin population fell by 1.6%. Lower overseas net migration and outflow of interstate migration were the major contributors to this population decline.

Slower population growth is likely to reduce demand for household consumption (e.g. retail), put downward pressure on house prices and higher levels of unemployment.

Chart 2 Population growth



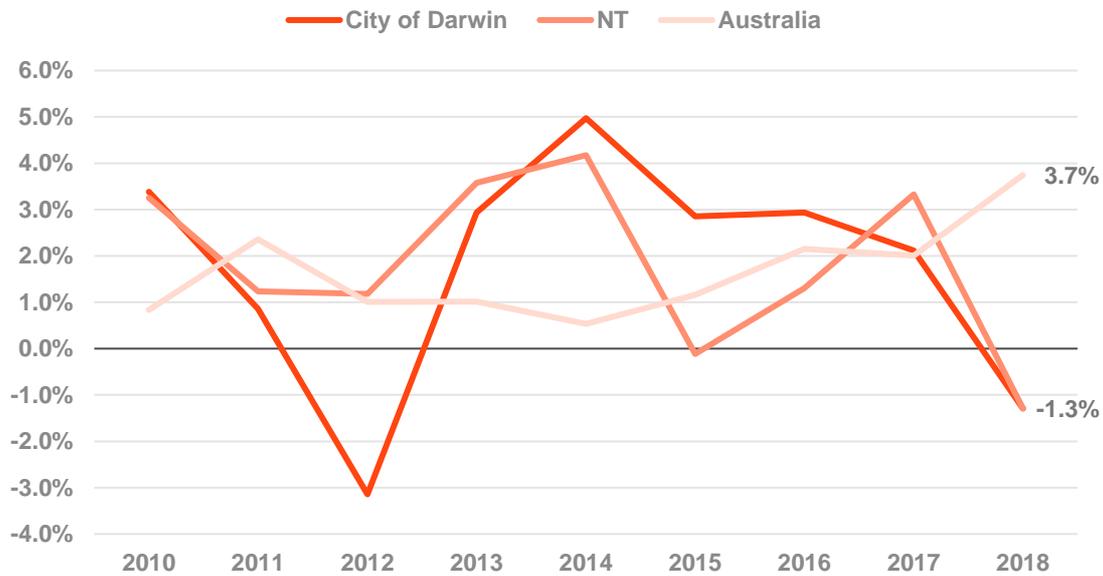
Source: ABS Regional Population Growth, Australia (3218.0).

3.2 Employment

Local job growth declined sharply in 2017-18, falling by 1.3% to 62,766 jobs. This was the first year of negative growth since 2011-12. The construction industry experienced the largest impact (-333 jobs) due to the transition of the Ichthys LNG project from construction to production. The smaller operational workforce required by the Ichthys LNG project has also led to an outflow of interstate migration. This outflow has led to a decline in aggregate demand with employment losses in Retail Trade (-209), Education and Training (-207). The fall in employment was partially offset by growth in Health Care and Social Assistance (+332 jobs).

Employment conditions are expected to remain weak in 2018-19 as the construction phase of the Ichthys LNG project winds up.

Chart 3 Job growth

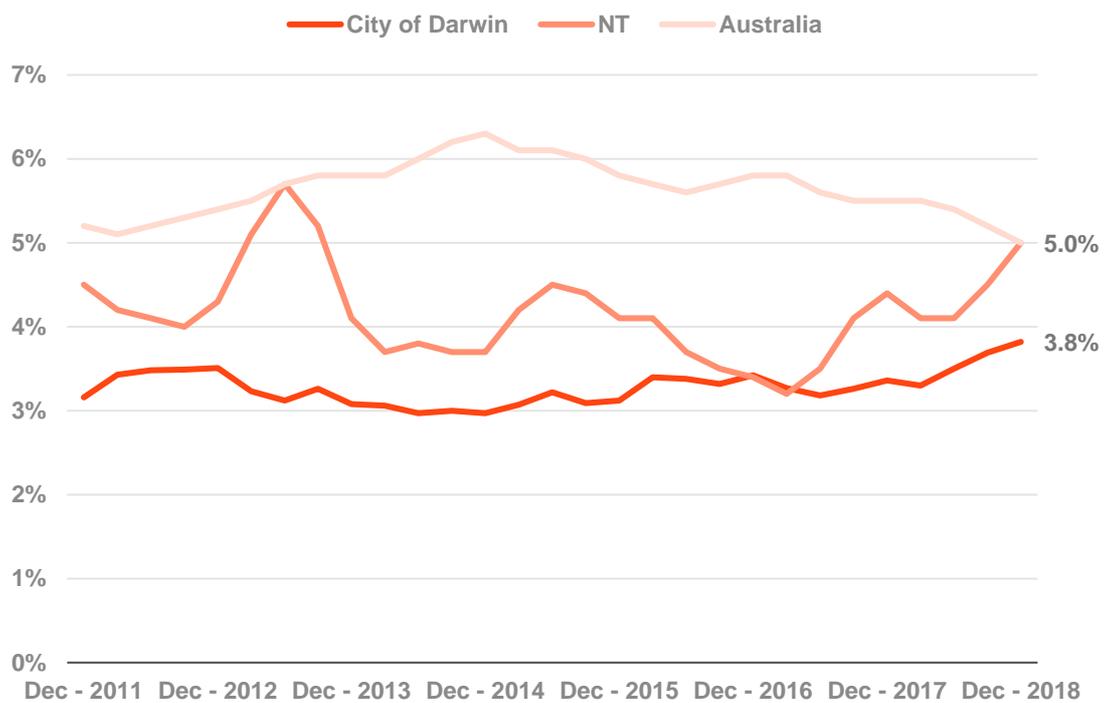


Source: NIEIR (2018)

Looking at more recent information about the City of Darwin labour force suggests that conditions continue to remain soft through 2018-19. The unemployment rate in the City of Darwin has started to trend upwards following a period of job losses, again largely due to the wide down of the Ichthys LNG project. City of Darwin’s unemployment rate was 3.8% December Quarter 2018, up from 3.4% in the same quarter last year. While lower than the NT and Australia, this is City of Darwin’s highest unemployment rate in the last 7 years.

Unemployment is likely to fall further through 2018-19 before moderating as many unemployed workers move to other areas of Australia for employment opportunities.

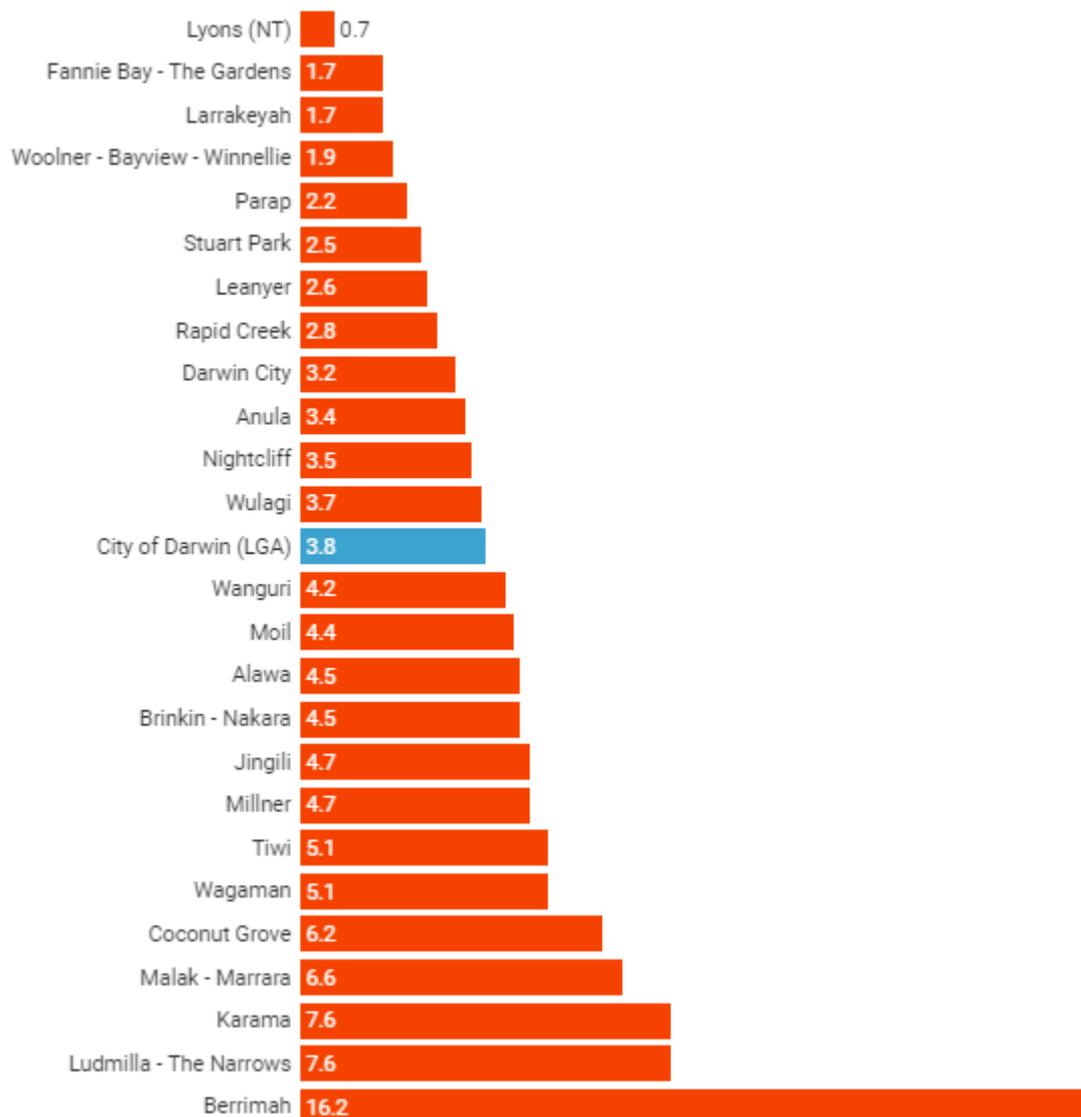
Chart 4 Unemployment rate



Source: ABS Labour force survey (6202.0); Department of Employment, SALM, 2018

Small Area Labour Market estimates show considerable variation in unemployment rates across the City of Darwin. Several suburbs have rates of unemployment below 3%. In many other areas, unemployment is well above the average for the City of Darwin. Areas with an unemployment rate above 5% were Tiwi, Wagaman, Coconut Grove, Malak-Marrara, Karama, Ludmilla – The Narrows and Berrimah. These areas may be more affected by the proposed general rate increase.

Chart 5 Unemployment rate by SA2



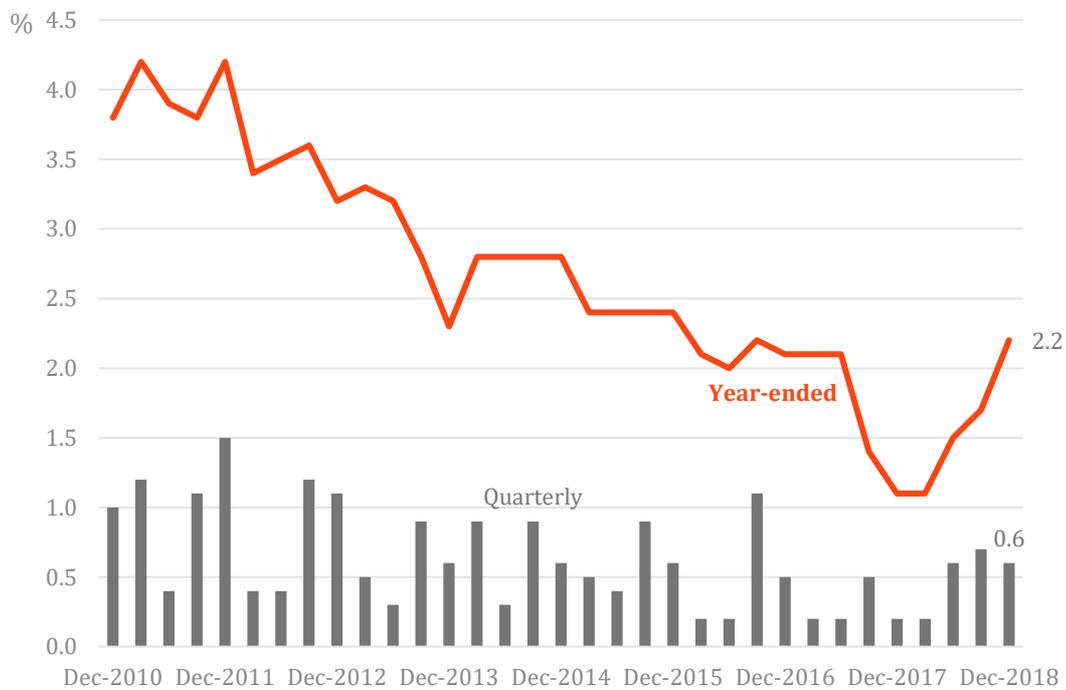
Source: Australian Bureau of Statistics, Labour force survey (6202.0) and Department of Employment, Small Area Labour Markets.

3.3 Incomes

Wages in the Northern Territory remain at relatively low levels. The Northern Territory wage price index increased by 0.6% in the December quarter 2018. Annual change was 2.2% through the year to December quarter 2018.

Wage growth is expected to remain subdued, in line with national trends and local demand for labour. This low wage growth is likely to lead to slower consumption expenditure.

Chart 6 Wage Price Index Growth, Northern Territory



Excludes bonuses

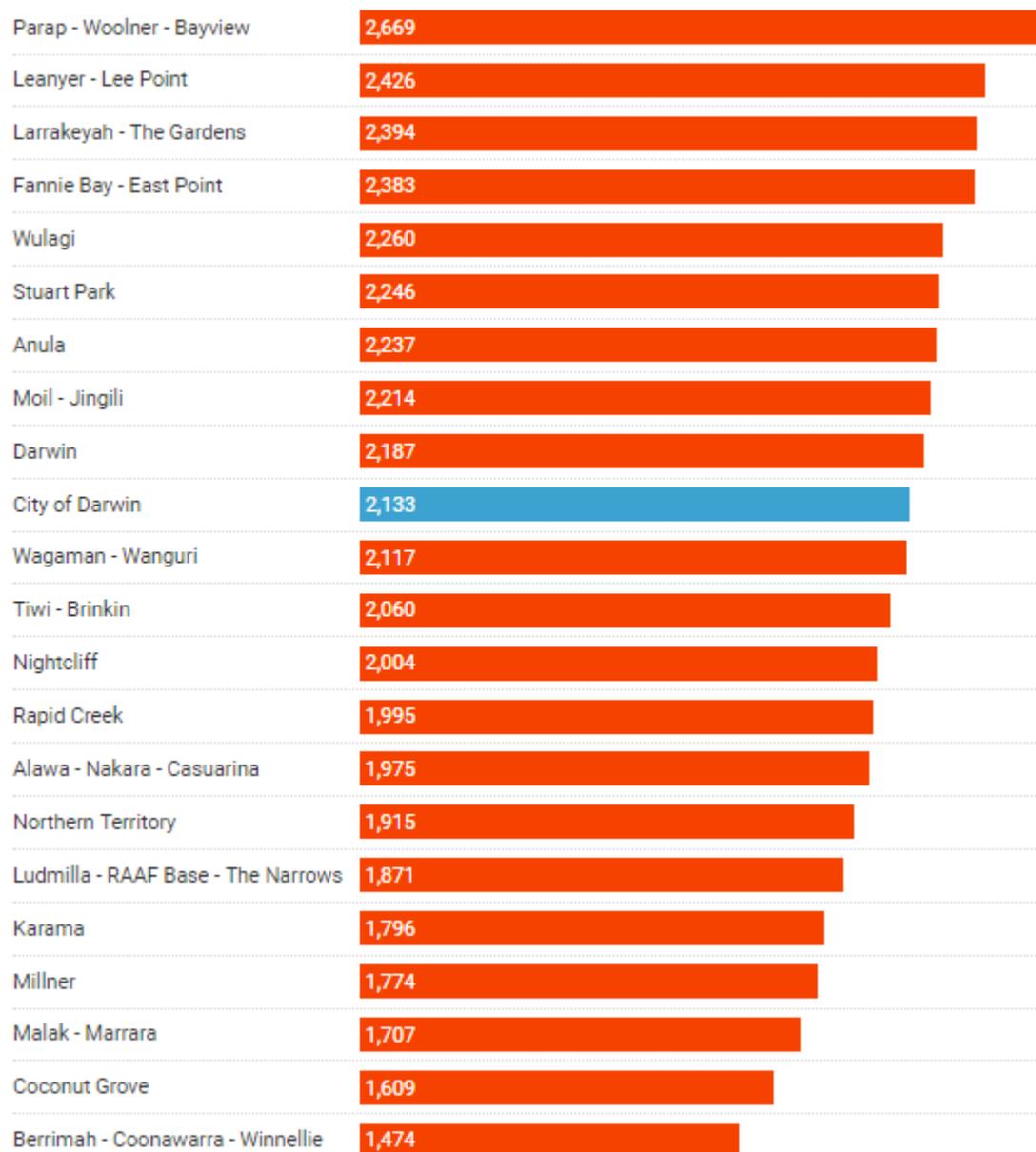
Source: ABS Wage Price Index, Australia, Dec 2018 (6345.0)

3.4 Income distribution

In 2016, City of Darwin had a median weekly household income of \$2,133, almost 50% higher than the national average (\$1,431 per week) and 11% higher than the Northern Territory average (\$1,915 per week).

However, there is considerable variation in income levels across the City of Darwin. At a suburb level, household incomes vary from \$1,474 per week in Berrimah – Coonawarra – Winnellie to \$2,669 per week in Parap-Woolner-Bayview.

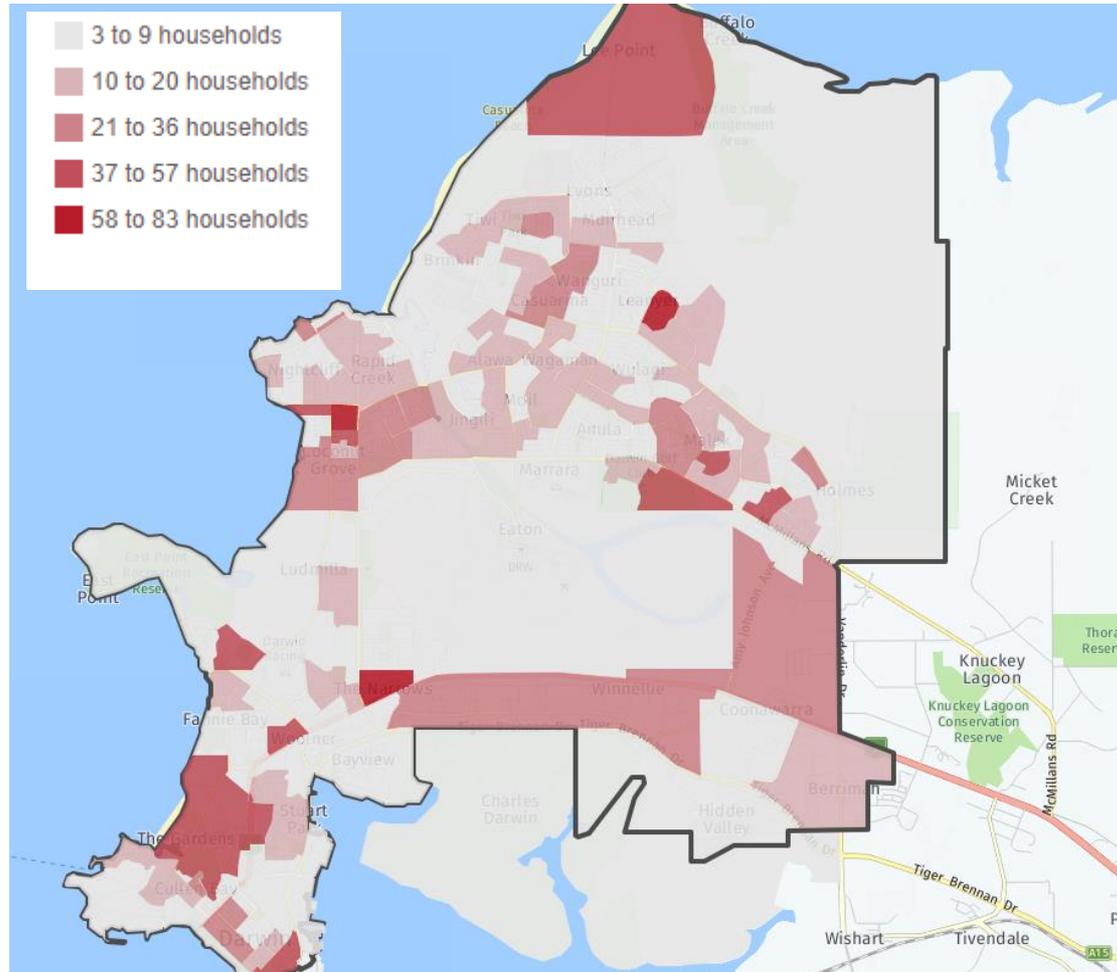
Chart 7 Median household income, 2016



Source: ABS Census of Population and Housing (2016)

As illustrated in the map below, there were also high concentrations of households on low incomes² around The Narrows, Coconut Grove, and Leanyer. Households in these areas are more likely to experience higher levels of financial stress from the proposed rate increase.

Map 1 Low-income households (less than 650 per week), 2016



Source: ABS Census of Population and Housing (2016)

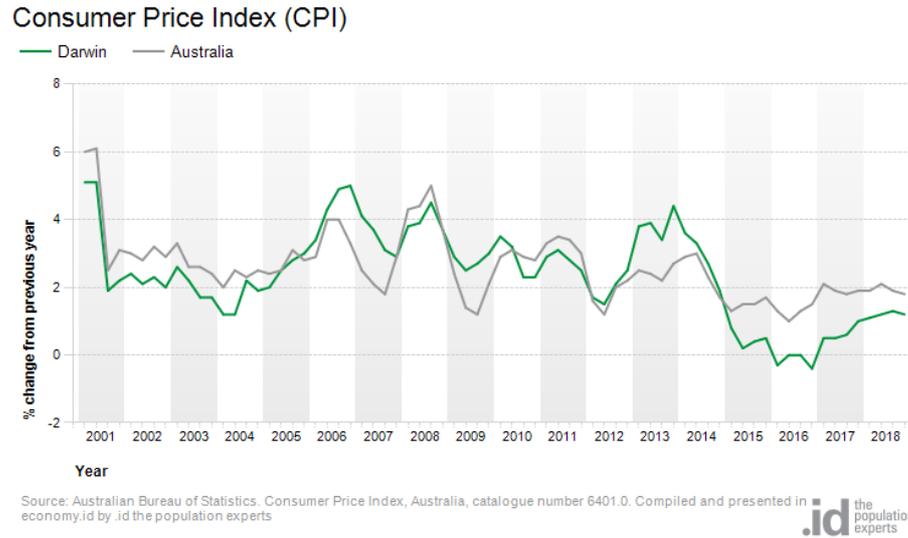
² Households earning less than \$650 per week.

3.5 Prices

3.5.1 CPI

In the year to December 2018, the CPI for Greater Darwin increased by 1.2%, well below the rates experienced through 2006-2014. The categories driving most of this recent growth were alcohol and tobacco.

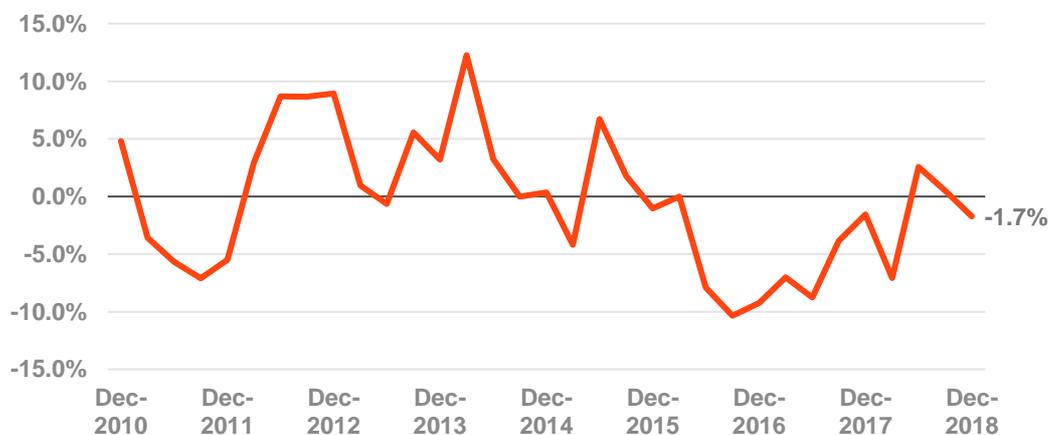
Chart 8 Consumer Price Index



3.5.2 House prices

Housing market conditions remain weak with the median established house price falling by 1.7% in the year to December 2018. The rate of decline, however, has gradually improved since December 2016. House prices are expected to continue to be weak as population declines and demand for housing continues to fall.

Chart 9 Annual change in the median established house price, City of Darwin



Source: ABS Residential Property Price Indexes: Eight Capital Cities, Dec 2018 (6416.0)

3.6 Advantage and disadvantage indicators

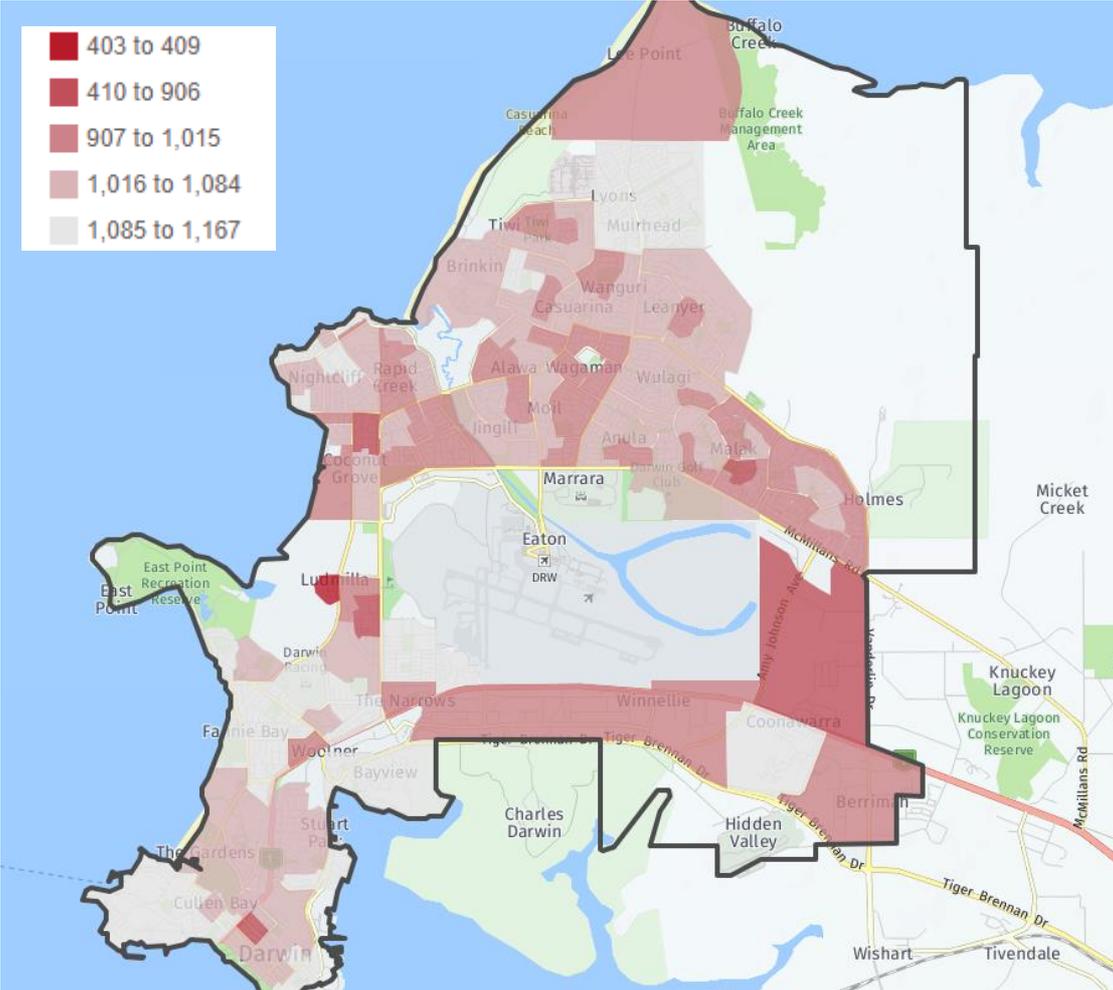
The SEIFA index of disadvantage is the most commonly used aggregate measure of socio-economic disadvantage at the local level. The SEIFA Index produces a score for LGAs based on a range of socioeconomic attributes that include income levels, employment status, educational attainment and prevalence of skilled occupations. Higher scores indicate less disadvantage while lower scores indicate more disadvantage.

With a SEIFA index of 1,041.0, 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 (1,040) and Palmerston (1027), are also located in the Greater Darwin region

As illustrated in the map below, there were several pockets of disadvantage within the City of Darwin. The areas of most disadvantage within the City of Darwin were:

- Ludmilla - RAAF Base - The Narrows
- Coconut Grove
- Berrimah - Coonawarra – Winnellie
- Karama
- Malak - Marrara

Map 2 Index of Relative Socio-economic Disadvantage, 2016



Source: ABS Census of Population and Housing (2016)

3.7 Housing stress

Housing Stress is defined as per the NATSEM (National Centre for Social and Economic Modelling) model as households in the lowest 40% of incomes who are paying more than 30% of their usual gross weekly income on housing costs.

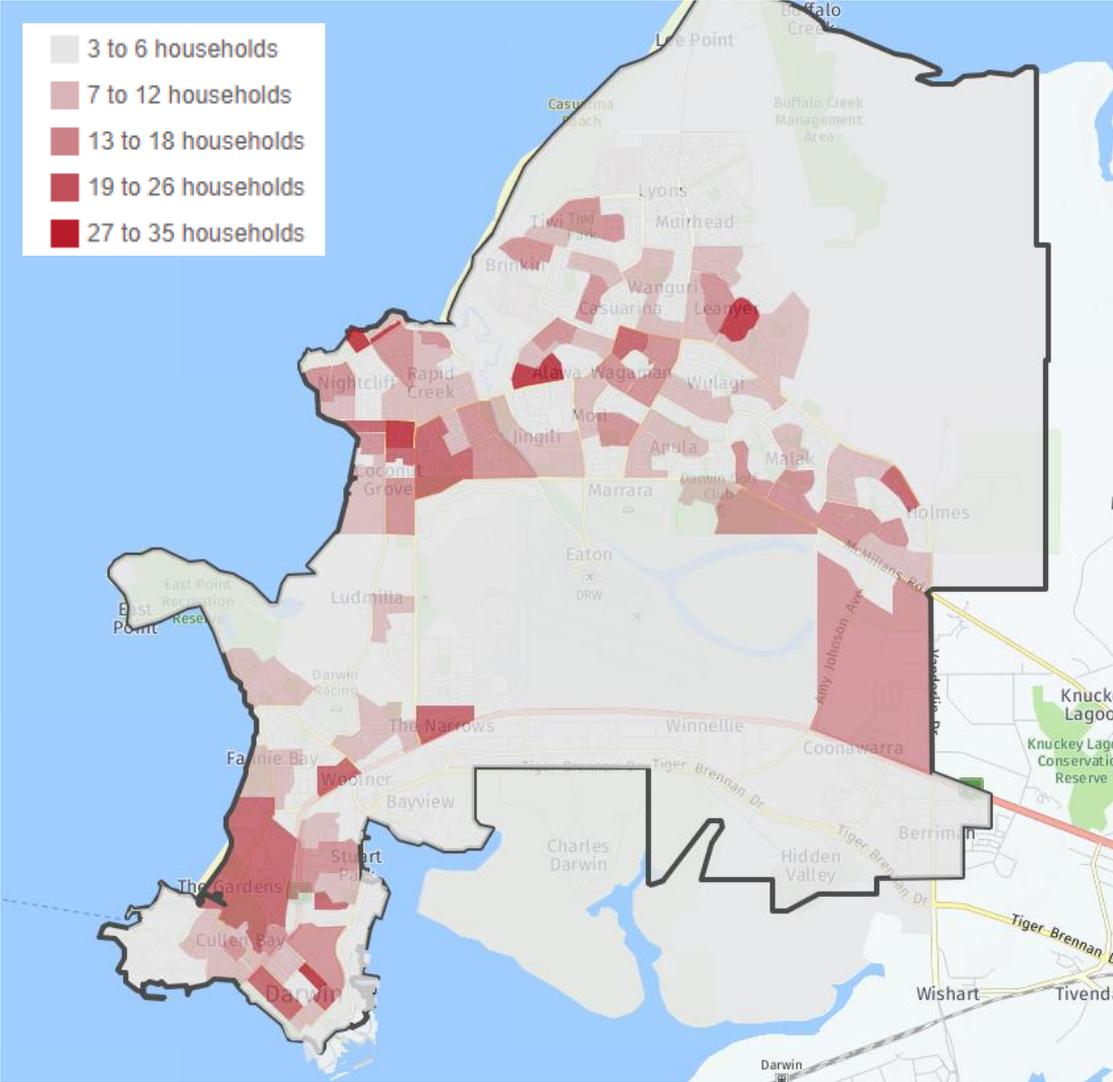
Housing affordability is a significant issue if mortgage and rent payments rapidly increase as a share of income. While stress can be highly dependent on individual circumstances, using Census data to analyse this provides a good overview of the problems, and highlights any areas in City of Darwin where households may be having problems meeting their commitments.

In 2016, 5.9% of City of Darwin's households were experiencing housing stress, well below the national average of 11.4%. The five areas with the highest percentages were:

- Millner (9.0%)
- Karama (8.3%)
- Coconut Grove (7.6%)
- Rapid Creek (7.6%)
- Wagaman - Wanguri (7.5%)

The following map illustrates concentrations of housing stress across the City of Darwin. The largest concentrations were around the areas of Darwin, Karama and Leayner-Lee Point.

Map 3 Housing stress, 2016



Source: ABS Census of Population and Housing (2016)

4. Impact analysis

4.1 Proposed rate increase

For the 2019/20 financial year, Council proposes to increase the revenue from the general rate and related minimum charges by 3% across all categories of ratepayers. Based on the average Unimproved Capital Value (UCV) of the average rateable property in the Darwin municipality, the general rates will equate to \$1,831 for the year. This equates to a \$53.3 increase on the average general rate in 2018/19.

Question for Council – do we need to include annual kerbside garbage collection and recycling service here?

Table 1 Impact on general rates from a 3% increase - Example based on average Unimproved Capital Value (UCV) for a single dwelling residential property

	2017/18	2018/19	2019/20
General rates per year	\$1,726.0	\$1,777.8	\$1,831.1
\$ increase		\$51.8	\$53.3
% increase		3.0%	3.0%

Source: .id

4.2 Impact on incomes

The first test looks at the impact of the rate increase on household budgets. The income impact assessment is based on:

- The average household: uses NIEIR estimates of average wages and salaries per household.
- Low-income households (using Census data) to understand impacts on lower income households.

The rate increase is be considered low impact if the rate impacts household income by less than 1%.

The economic impact on average household income (wages only) in City of Darwin is expected to be low, with the increase in rates (+\$53.3) having a -0.03% impact on disposable incomes. Households share of income spent on rates is

projected to increase slightly from 1.13% to 1.16%, conservatively assuming household incomes remain unchanged in 2019/20.

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 -0.164% impact. This is considered low.

Table 2 Income test

Quartile	Household	2016		2019	
		Annual income ³	Adjusted annual income ⁴	Adjusted Annual income ⁵	% Impact
Lowest group	4,897	\$27,040	\$30,206	\$32,441	-0.164%
Medium lowest	5,572	\$76,856	\$85,855	\$92,208	-0.058%
Medium highest	6,214	\$127,348	\$142,259	\$152,786	-0.035%
Highest group	7,251	\$155,116	\$173,278	\$186,101	-0.029%

Source: .id based on ABS, ATO

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 Tiwi, Wagaman, Coconut Grove, Malak-Marrara, Karama, Ludmilla – The Narrows and Berrimah.

4.3 Price comparisons

The second test looks at whether the proposed increase in general rates is consistent with changes in other prices. The rate increase will be considered low impact if the rate increase is in line with cost increases.

³ ABS Census of Population and Housing

⁴ Estimates of personal income from ATO/ ABS 6524.0.55.002 shows the median total annual income in the City of Darwin was \$60,354 in 2016. According to the ABS Census it was \$54,028. This suggests that the Census under-estimates income by around 12%.

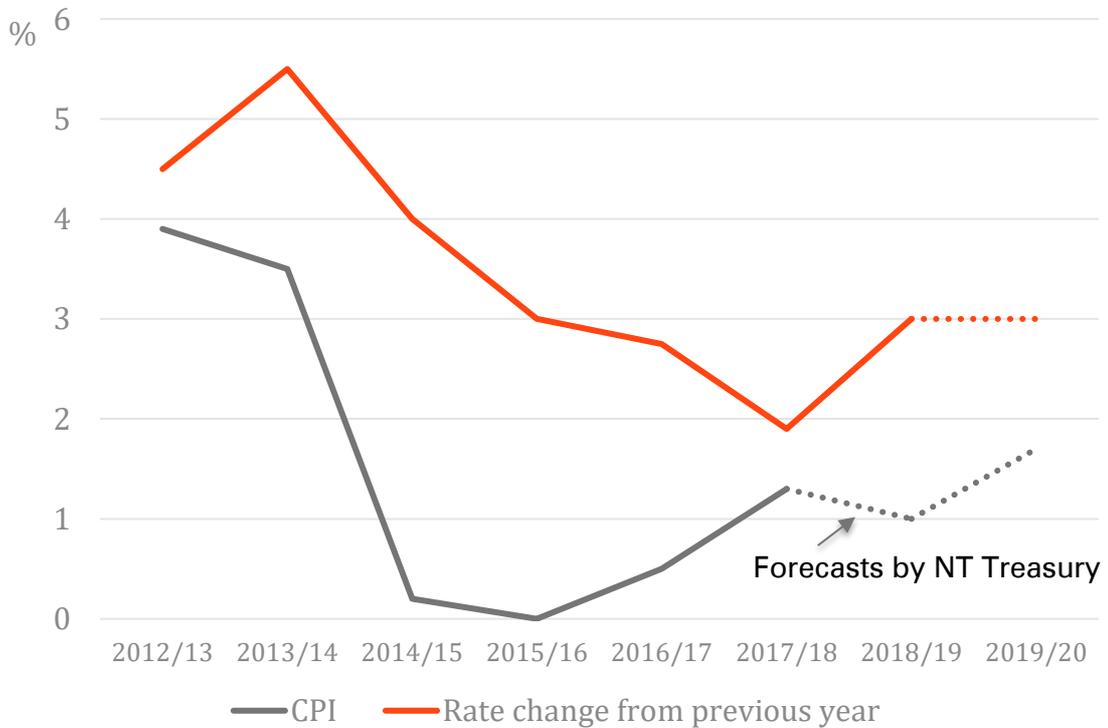
⁵ Adjusted based on WPI for NT

The chart below compares Greater Darwin’s CPI change with historical rate changes and the proposed rate change for 2019/20. The forecast for CPI is based on forecasts by the NT Department of Treasury and Finance.

This shows that the increase in rates has been above overall price changes in the City of Darwin, but that the rate changes have followed a similar pattern (i.e. both have started to increase).

The general rate increase remains below the historical average.

Chart 10 Price test - Greater Darwin CPI annual change compared with changes to General Rates



Source: ABS, City of Darwin Council

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

While the proposed rate increase is higher than the price increase across most categories, we consider the impact to be low given the rate increase remains at 3% even with higher CPI growth forecast in 2019/20. It is also acknowledged that

local government costs (e.g. materials, asphalt, labour) are typically higher than the broad CPI measure.

Table 3 CPI Groups, Darwin 2017-18

CPI Groups	% change
Communication	-4.2
Housing	-1.8
Furnishings, household equipment and services	-0.8
Recreation and culture	0.1
Clothing and footwear	0.4
All groups CPI	1.3
Health	2.3
Insurance and financial services	3.6
Education	5.9
Transport	8
Alcohol and tobacco	9.8

Source: ABS Consumer Price Index, Australia (6401.0)

5. Conclusion

Economic conditions have been weak over the last two years as the City of Darwin economy transitions from a period of rapid economic expansion. This transition has been largely driven by the Ichthys LNG project shifting from construction to production. Based on current expectations, the construction phase of the Ichthys LNG is likely to be completed by 2018-19 and production ramping up to full export capacity by 2020-21⁶.

This transition has led to a softening in the economy and a sharp decline in population and employment growth. Also, the increase in unemployment and decline in tourism visitation has weighed on consumption expenditure and wages, further dampening local employment growth, particularly in retail.

In light of weak economic conditions for City of 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 3.0% rate increase is likely to have a low impact on incomes, even for low-income households. The 3.0% rate increase is also appropriate considering stronger price growth in 2019/20 as the economy slowly moves back to trend.

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

⁶ <https://nteconomy.nt.gov.au/outlook>

6. Appendix A – City of Darwin Economic

Outlook 2019

Reference document