Walcha Council Capacity to Pay Report

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Executive Summary

This Report demonstrates that ratepayers would need to pay over fifteen percent higher taxes in order to come up to the average total tax take expected of a local government with Walcha's specific socio-economic attributes. However, there is good reason to believe that Walcha is far from average in terms of its environmental constraints and hence that even higher levels will be required. Indeed, failure to levy appropriate rates in the past may mean that a certain degree of catch-up is now required. Our recommendations in this report, for a proposed SRV, reflect this reality.

In this report we also draw attention to some deficiencies in the rate structure levied at Walcha Council. We make several important recommendations regarding matters that need to be addressed to improve distributive justice.

1. Introduction

The raison d'etre for any government is the provision of public goods and services (Oates, 1993). To economists these goods are characterised as non-excludable (it is often cost prohibitive or impractical to stop people from consuming the good), and non-rival (one person's use of the good doesn't appreciably affect the amount of good available to others; Grant and Drew, 2017). Archetypal examples of public goods include recreation spaces, local roads, and lighting.

It is absolutely essential that government provide public goods and services because the free market certainly won't do so (and thus the common good would suffer accordingly because people would not have access to basic infrastructure and the like). To pay for the provision of public goods – and also the subsidy component of merit goods and goods with positive externalities[1] – it becomes necessary for government to levy taxes (also referred to as 'rates' in Australian local government).

A tax is a moral obligation that accrues as a consequence of one's membership to a community (Messner, 1952). Indeed, some have argued that tax could also be viewed as a form of charity (coerced help for others), or even as a pre-requisite for natural justice[2] (Finnis, 2004). *Tax is certainly not a fee for service, as is often unreasonably misapprehended at the local government level*. This common misconception results in people believing that they ought to pay different rates of local government taxation according to the services that they have access to. However, this type of thinking is inconsistent with practice elsewhere – for example, we don't expect to pay variable

[1] Merit goods are items that people believe are virtuous for others to consume (such as reading and exercise). Local government may choose to provide a subsidy to encourage consumption of merit goods. Goods with positive externalities are things that also have benefits for people other than the consumer – items such as rubbish collection and early childhood education. It is reasonable for the community to subsidise the portion of consumption that provides benefits beyond those internalised by the community.

[2] The argument here is that nature was created for all and therefore belongs to all. Forcing people to return some of the unearned value from the property that they control allows government to be able to fund basic necessities that people could have got themselves in their natural state.

rates of tax at the federal level depending on how many federal services we consume. Instead, most people accept that being a member of the nation comes with burdens as well as benefits and that accordingly all people who belong to the Australian community ought to pay their fair share.

In Australia, and many jurisdictions abroad, local government is constrained to a single property tax (Dollery, Johnson, and Crase, 2006). Indeed, in New South Wales (NSW) the specific property tax mandated for use is an unimproved land tax. The basic idea of an unimproved land tax harks back to natural law philosophy and was prominently advocated for by the leading 19th Century thinker, Henry George (2010). The idea is that people ought not benefit, in a fiscal sense, from the work of others. Unimproved land (that is land without buildings, clearing, fencing or the like) tends to go up in value on an annual basis as a result of the efforts of others. For instance, population growth, new transport infrastructure and local development all mean that most people's land-based wealth increases annually even if they do nothing to improve the asset. Natural law philosophers believe that this unearned wealth should be returned – at least in part – to the community from which it was essentially derived. Otherwise stated, a property tax on unimproved land can also be conceived of as a tax on unrealised capital gains.

When thought of in this way a property tax is morally superior to most of the taxes that are levied on us by other tiers of government. For instance, being asked to return a small portion of our unearned wealth to the community is far superior to having our income deducted directly. Indeed, it is also more economically efficient because a tax on unearned wealth is far less likely to routinely affect decision-making. Furthermore, a property tax cannot easily be avoided or moved and is thus less likely to result in tax evasion or tax jurisdiction 'shopping'. Moreover, a property tax also ought to be rather straight-forward to calculate, transparent, as well as relatively easy to administer.

The problems that occur for local government in relation to taxation are mostly the result of ill-advised interventions. In particular, the practice of setting taxation limitations (referred to as rate capping or rate pegging in Australia) effectively prevents tax revenue from growing sufficiently to meet needs of local communities[3]. Moreover, when Councils become forced by fiscal circumstances to apply for a special rate variation to address the compounding effect of many years of rate caps the process inevitably becomes politicised.

The politicisation of local government taxation is unfortunate because it tends to dissuade Councils from doing what is necessary to maintain financial sustainability and hence creates unreasonable burdens for future generations of ratepayers. Moreover, the politicisation of local government taxation stands in stark contrast to taxes levied by other tiers of government. For example, state governments are regularly the beneficiaries of seemingly inexorable increases to GST tax receipts driven by inflation, as are their federal peers with respect to income taxes (which generally increase annually in line with inflation and often result in 'bracket creep'). Yet for some reason most citizens seem to ignore these constant increases to their tax

[3] Without rate capping the total tax take would increase according to land prices which generally far exceed inflation.

burden by other tiers of government even though they usually constitute far more of their incomes.

Insufficient taxation (rates) leads to a direct deterioration of financial sustainability. It will be recalled that financial sustainability refers to the ability to meet the reasonable expectations of current residents in a way that does not put at risk the capacity of future generations to meet their own needs (Drew and Dollery, 2020). When revenues do not *at least* match expenditures then explicit and implicit debts are taken on which ultimately introduce significant constraints onto the decision-making of future residents. Explicit debt, such as bank loans, have to be repaid with future local government taxes. Implicit debts – such as unfunded depreciation[4], deferred maintenance, and infrastructure backlogs – will also ultimately have to be funded by future residents when matters can no longer be put-off.

The challenge of financial sustainability is made more difficult by high inflation. Most people will be aware that Australia has inflation of 6.1% as measured by the CPI for the June quarter in 2022[5], which is over twice the target rate set for the Reserve Bank of Australia (RBA). Moreover, even the RBA and the federal government now concede that inflation will rise much faster and be much stickier than once thought.

Inflation erodes the spending power of local governments, as well as consumers. This means that revenue buys less, and cash reserves have less purchasing power (that is lower real value). If revenues do not grow at a rate commensurate with the relevant element of PPI (see footnote 4) for the services that local government provides, then financial sustainability will deteriorate accordingly.

It is also important to note that Australian pensions are adjusted at least twice per year by CPI. Similarly wage earners generally received increases to their incomes on an annual basis, at least loosely based on inflation. If local government rates and charges don't keep apace of inflation, then it is inevitable that residents in a local government area will receive a real[6] cut to their local government taxes. On the face of things, it seems that providing a real tax cut might be a good outcome. However, if the tax cut comes at the cost of financial sustainability, then it is hard not to conclude that it is ultimately a great threat to the community and future generations.

For the last rate cap Walcha was allocated a 0.7 percent increase. The current CPI is 6.1 percent, and the civil engineering PPI is 9.0 percent. What this means is that in *real* terms (nominal price less inflation) most residents are currently projected to

[4] Whereby depreciation (the consumption of long-lived assets) has not been matched by savings to ultimately replace the assets at the end of their lives.

[5] CPI is the Consumer Price Index – it measures a basket of *household* goods and services. Certain *elements* of the PPI (Producer Price Index) are probably more suitable. The PPI currently stands at 5.6 percent, but this understates matters because local government doesn't produce many of the items created by the broader business community. For example, the PPI component of civil engineering currently sits at 9.0 percent and would provide a better guide regarding the costs faced by most local governments with respect to the provision of infrastructure.

[6] Nominal is the number actually printed (for the case of the last rate peg announcement, +0.7%). Real refers to the actual value of the increase, after taking into account the purchasing power of money (for example, 0.7 (rate cap granted by IPART) – 6.1 (June quarter inflation) = negative 5.4% (that is, a real tax cut ie. the money Council collects will have lower purchasing power than the previous year)).

receive a cut to their local government taxes of around 5.4 percent. Moreover, the revenue collected by local government will clearly be insufficient to meet Council needs – for instance, the component of revenue dedicated to infrastructure construction is likely to be around 8.3 percent lower in real terms. Hence a special rate variation would be essential even if Walcha simply wanted to maintain its current financial circumstances.

When local governments collect insufficient revenues to meet expenditure (including depreciation), then intergenerational equity[7] is eroded. Deficit outcomes (after excluding capital grants) certainly means that Council is either incurring explicit or implicit debts. Explicit debts are bank loans and the like that are paid for out of future rate revenues (see the Debt Report). Implicit debts include unfunded depreciation (which means Council does not have sufficient cash to fund the replacement of durable assets when they come to the end of their lives), the failure to address infrastructure backlogs, and the neglect to carry-out necessary maintenance. In an economic sense implicit debts have the same effect on future generations of ratepayers as do the explicit debts. Only for the purchase of long-lived[8] assets might it be reasonable to incur debt, but even then matters must be handled carefully to ensure that we are not creating unreasonable burdens for future generations (see the Debt Report).

The other problem that occurs when Council does not collect sufficient revenue is fiscal illusion. Fiscal illusion arises when residents cannot accurately perceive the true price of the local government goods[9] that they consume, nor the fiscal predicament of Council (see Drew, 2021). Fiscal illusion is generally exhibited by excessive consumption and demand for local government goods and services. It also sometimes manifests as shock or outrage when citizens presented with reasonable facts demonstrating the need to pay higher rates. The SRV process is an important way of dispelling fiscal illusion and should thus be embraced as an opportunity to inform the community.

These reports have been produced by Professor Joseph Drew, Professor Miyazaki (from Japan), and Professor Ferreira (Portugal). The work that follows is informed by world's best scholarship and employs theory, ratio analysis and econometrics (the sophisticated mathematics used by economists) to guide the community's decision-making. Ratio analysis is conducted against a peer group of fourteen councils informed by the Office of Local Government classification system as follows:

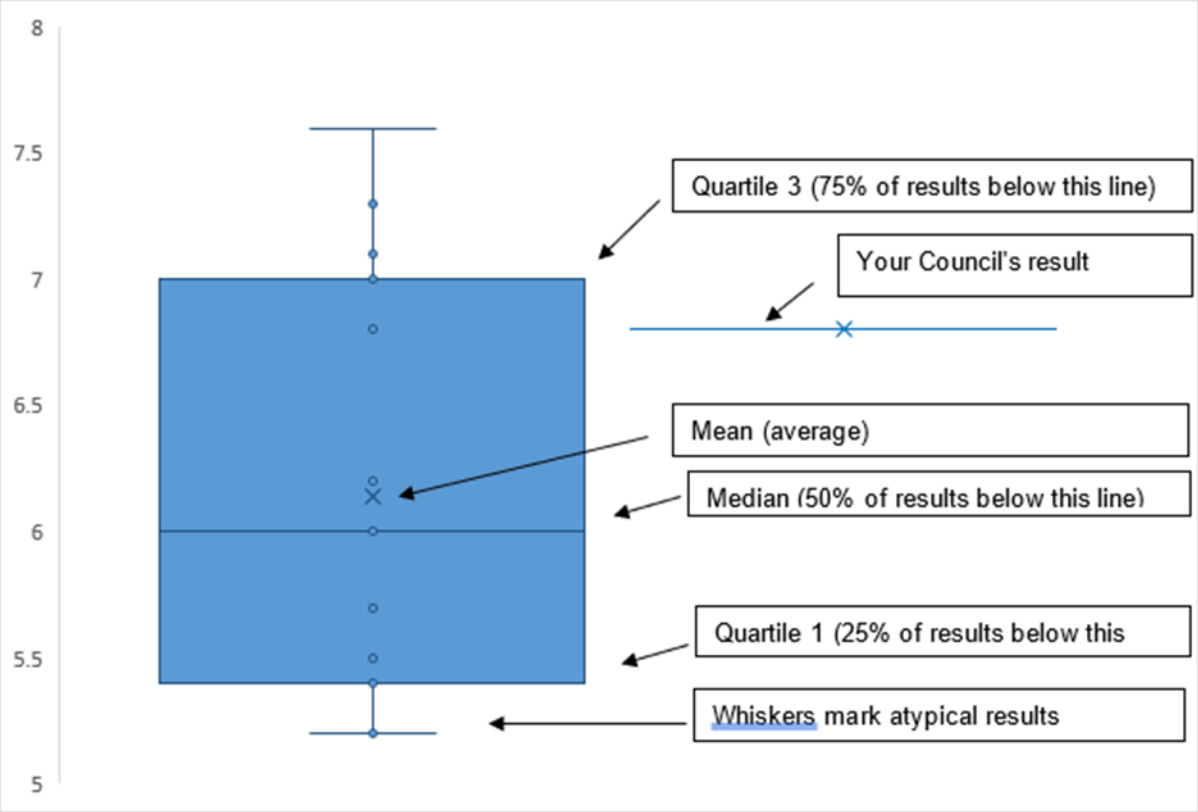
[7] Intergenerational equity is the notion that one generation's spending and revenue decisions ought not be allowed to unduly impact on other generations.
[8] Long-lived assets are durable items that are expected to take more than twelve months to be fully consumed – things such as buildings, machinery and the like.
[9] Goods and services that have local effects (Oates, 1999) – things such as local roads, recreation areas and the like.

Table 1. Peers Used in Comparisons

Bogan	Murrumbidgee	Tenterfield
Bourke	Weddin	Uralla
Coonamble	Dungog	Walgett
Gilgandra	Gwydir	Warrumbungle
Hay	Liverpool Plains	

Moreover, data is presented for the last three financial years in box and whisker plots which should be interpreted as follows:

Figure 1. Interpreting Box and Whisker Plots



The econometric analysis – which is the single most important output in this report – is conducted against an expanded peer group of fifty-seven New South Wales (NSW) local governments informed by the Australian Classification of Local Government schema. The econometric evidence also leverages off from a panel of four years of data to ensure that it is completely robust.

The remainder of this report is set out as follows. In the next section we examine the distributive justice of the extant rate structure at Walcha Council, along with a suite of ratios that provide some indication of capacity to pay higher rates. Following this we

take a more in-depth look at the characteristics of the statutory rating categories at Walcha – residential, business, and farm business. Thereafter, we explain and present the econometric evidence which is world's best practice capable for precisely calculating the total tax take expected if average rate effort is applied. We conclude with our recommendations regarding the precise rate increase that needs to be applied to the Walcha community.

2. Overview of Rates at Council and Its Peers

Distributive justice refers to the philosophical principle that both burdens and benefits ought to be allocated according to people's due (Messner, 1952). More specifically, it is generally argued that people ought to be treated equally by government unless they differ in some relevant respect (this was the dictum of one of economics' giants, Pigou; see Drew, 2020).

As detailed in the introduction, the tax base for local government (unimproved land) has strong philosophical foundations. The basic idea is to have people hand back to the community some of their unearned wealth which has arisen due to upwards movements to land prices. It is therefore difficult to mount an argument for large differences to the *ad valorem*[10] rate charged to various categories of rate payers without resorting to an erroneous 'fee for service' kind of argument[11]. Otherwise stated, what is the relevant factor that justifies some people handing back considerably less of their unearned property wealth than others?

For instance, in Table 2 it seems that residential Walcha residents have been asked to pay well-over three times more of their unearned wealth as local government tax, when compared with the farmland category. In similar vein, the general business tax is over twice the rate of the farmland category. If local government taxes are indeed only used to provide public goods and services (plus subsidies), consistent with economic theory, then it may be difficult to morally justify such large discrepancies in the tax rates levied.

Furthermore, some local government ratepayers – businesses, farm businesses, and landlords – have the capacity to export some of their burden as a deduction against their federal tax obligation. This means that the effective burden of local government taxes, for those who can export taxes, is considerably less than it is for others.

It is important that people don't jump to conclusions about precisely what is being argued here. We have not stated that all rates of taxation for all categories ought to be identical. Nor are we stating that extant practice is somehow 'wrong'. However, it is clear that further work needs to be done to articulate how the current practice conforms to widely accepted notions of distributive justice. This is a matter that will take some

[10] Literally means 'in proportion to value' – that is the cents in the dollar rate of tax on unimproved land.

[11] Moreover, it is important to remember that local government service availability is imputed into land prices in any case. For example, a quarter-acre in town is likely to be worth considerably more than a quarter-acre of farmland.

time to investigate, and we suggest that the General Manager be charged with an appropriate remit and report back to Council by the end of the 2023 calendar year.

Recommendation 1: That the General Manager be tasked with further exploring the distributional equity in local government taxation at Walcha Council.

Table 2. Extant Local Government Taxation at Walcha

RATING CATEGORY	MINIMUM RATE	MINIMUM REVENUE	AD VALOREM RATE	AD VALOREM REVENUE	TOTAL REVENUE
Farmland	**$479.50**	45,073.30	$0.00238165	$3,041,271.95	3,086,345.25
Residential	**$479.50**	65,691.94	$0.00288337	33,738.37	99,430.31
Residential – Walcha	**$479.50**	222,009.98	$0.00861786	169,037.20	391,047.18
Business	**$479.50**	5,754.04	$0.00546281	3,031.86	8,785.90
Business – Walcha Centre	**$479.50**	11,508.08	$0.01229694	69,108.81	80,616.89
Business – Walcha Industrial	**$479.50**	6,233.54	$0.00964309	24,898.47	31,132.01
Mining	**$479.50**	-	$0.01092694	-	-
TOTALS:		**$356,270.87**		**$3,341,086.66**	**$3,697,357.53**

Source: Walcha Council 2022-23 Revenue Policy (draft).

It is also apparent from Table 2 that an identical minimum rate is employed for each category of Walcha Council. It is important for Council to be aware of what a minimum rate actually achieves. Minimum rates are supposed to flatten the tax impost (reduce the gap between tax liabilities of different people) and also reduce the volatility arising from irregular land valuations. Both these arguments are indeed correct – however, these benefits are gained at the expense of the most vulnerable in the community (Drew, 2021).

A minimum rate sets a floor on the tax paid by any one individual. It thus means that people who gain the least unearned wealth from movements in the price of land, potentially pay more to subsidise those who have the greatest windfall wealth. Otherwise stated, a minimum rate forces the least wealthy to subsidise the unrealised capital gain of the most wealthy.

Furthermore, the minimum rate for some of the categories is likely to be redundant and thus introduces unnecessary complexity to the rate scheme at the expense of transparency. In addition, unless the minimum rate is based on a firm foundation (rather than an arbitrary figure increased by the rate cap), then it fails both to contribute to natural justice or send an appropriate price signal.

For these reasons we recommend removing the minimum rate from the extant structure. It might be the case that a base rate is deemed to be more appropriate, although we would argue that it should be linked to something tangible – such as Council overheads – to ensure provision of an adequate price signal.

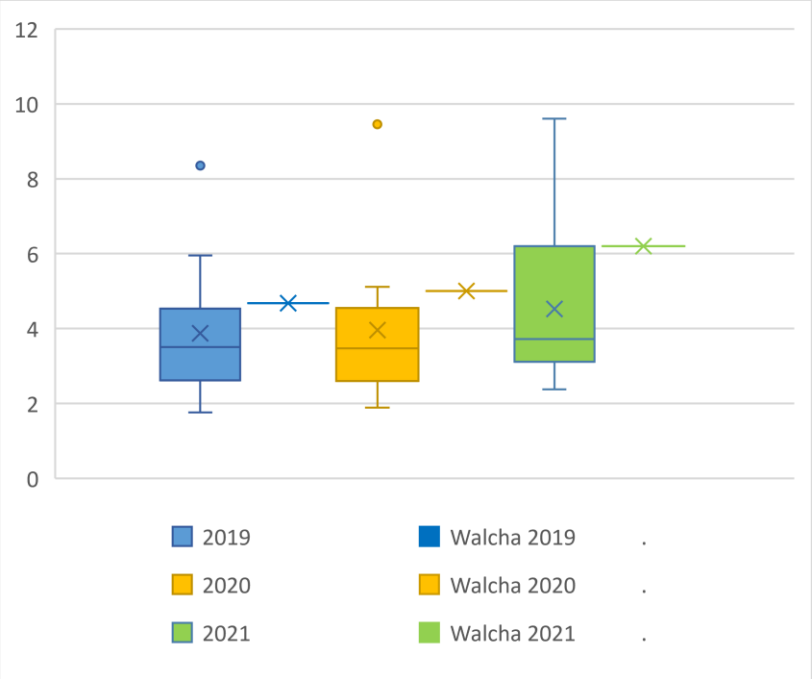
Recommendation 2: That the General Manager's investigation into distributive justice in Walcha Council's rating structure also review whether the minimum rate is appropriate.

We now turn to the question of trying to ascertain the capacity to pay higher rates with reference to what other similar communities are currently asked to do. The metrics that we employ (especially average rates for various categories of local government taxation) are largely set by the Office of Local Government. In general, we do not believe that average rates are a fair comparison or a sound basis for decision-making especially in a local government area with a high ratio of farmland to residential and where land values are very unevenly distributed. Thus, we direct readers to place relatively greater emphasis on the world's best practice econometrics that features later in this report.

Figure 2 provides a good illustration to support our assertions pertaining to the potential confusion that may be caused by examining average rate, fee and charges data. At first glance, it seems that Walcha residents are paying above the odds for their local government services consumed given that the result resides firmly in the top quartile. However, Walcha has an extraordinarily high proportion of extensive grazing properties (the proportion of farm assessments in Walcha is 41 percent, which is much higher than the peer group which sits at 28 percent). These properties have unusually large tax imposts associated with their very high land values. It is these relatively few outliers that have clearly skewed the data to the right thus making the arithmetic mean (average) an inappropriate basis for comparing typical burdens (see also Figure 7)[12].

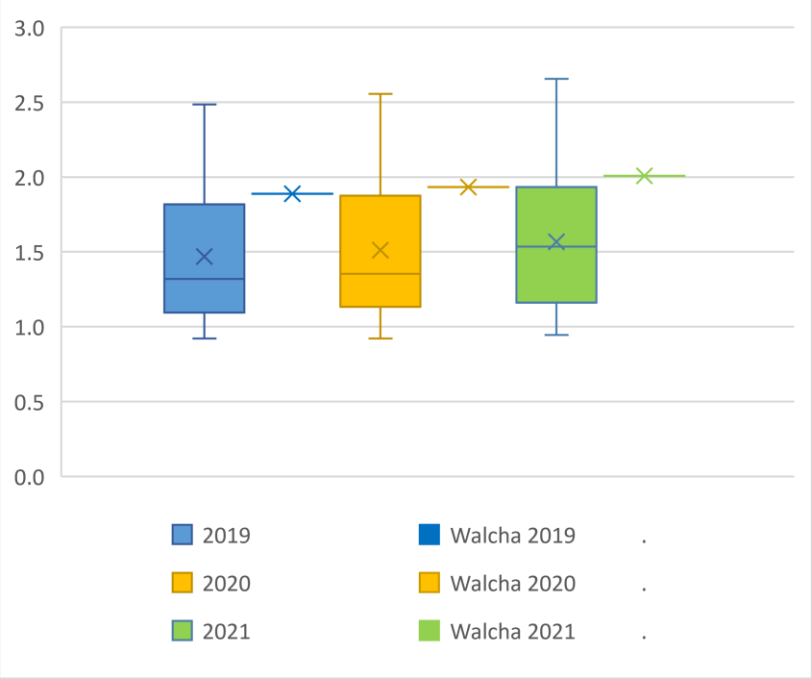
[12] To understand the effect of outliers on making an average inappropriate consider the number sequence: 1, 3, 3, 3, 90. Here the number '90' is clearly an outlier and I think most people would agree that '3' is the typical result. However, the mean has been skewed to the right (upside) by the outlier and sits at '20', which is hardly typical of the number sequence.

Figure 2. Rates, Fees and Annual Charges per Assessment ($'000)



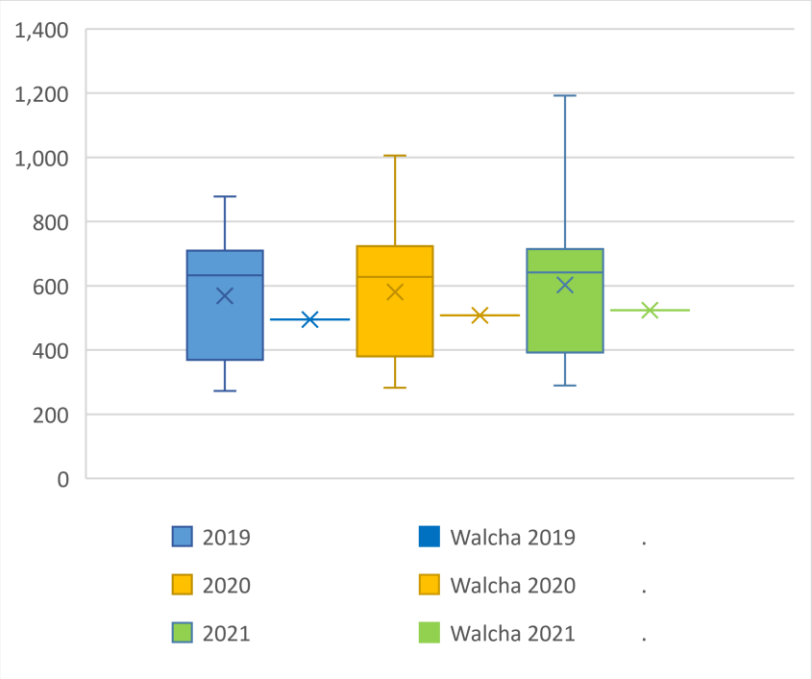
A similar effect occurs when we just look at the total rates on a per assessment basis, which confirms for us that the aforementioned skewing wasn't an artefact of unusually high fees and charges.

Figure 3. Total Rates per Property Assessment ($'000)



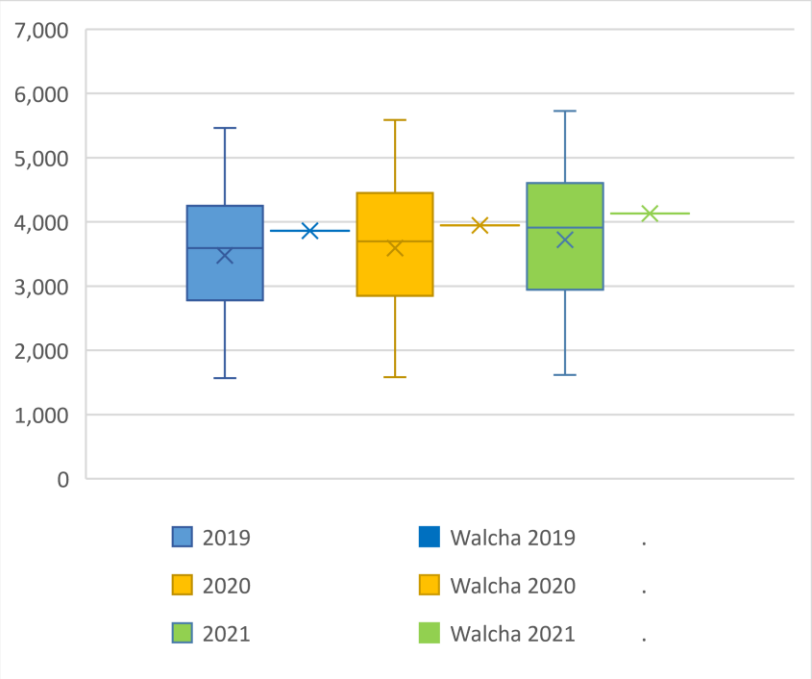
We can quickly validate our outlier argument by looking at the disaggregated rating categories. Figure 4 confirms that the residential rate paid by property owners at Walcha is far lower than the average for the peer group.

Figure 4. Residential Rates per Assessment ($)



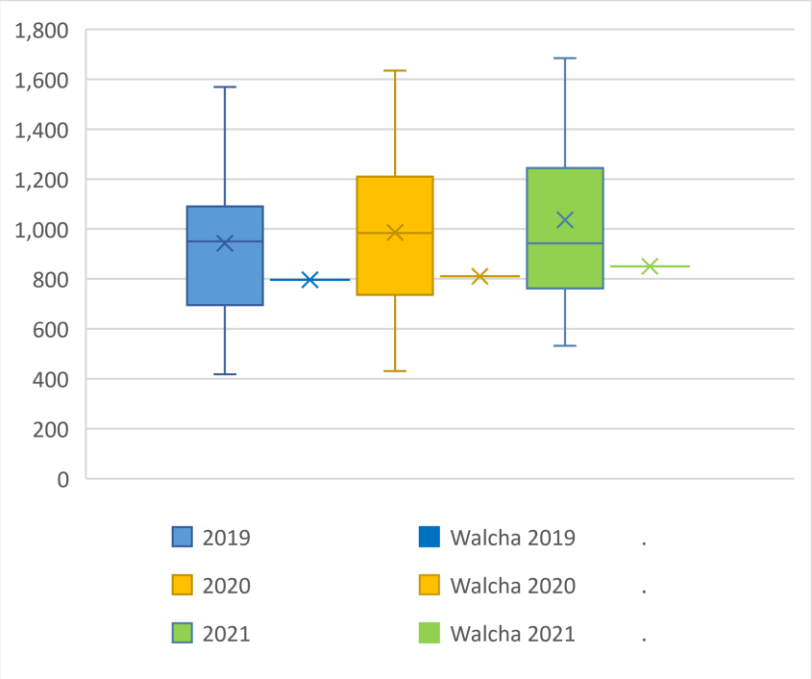
For farm rates the average outcome for each farm business sits just above the peer group. However, this should not be interpreted to suggest that farm rates at Walcha are particularly high because as we will show in Figure 7 there are some extreme outliers amongst the grazing properties that have clearly skewed the data. Moreover, the land size occupied for cool country grazing is almost certainly far greater than that occupied for some of the more warm-temperate operations in the peer group (such as lucerne hay enterprises that are typically relatively small by comparison).

Figure 5. Farm Rates per Assessment ($)



With respect to business assessments at Walcha, once again, the data appears to be skewed – however, this time things have been distorted to the left (downside). Walcha is notable for not having any major retail chains such as Woolworths, large industrial complexes, or large truck-stop style service stations. This means that the land occupied by retail in Walcha is likely to have a smaller footprint than some of its peers which do host large businesses. Accordingly, the average business rate may not be a sound basis for drawing conclusions in this case.

Figure 6. Business Rates per Assessment ($)



In Table 3 we state the precise average rate levied on the disaggregate categories for the 2020-21 financial year. The results detailed in Table 3 bear out our earlier conclusions from examining the graphs. We reiterate the need to exercise extreme caution when interpreting these average data points.

Table 3. Comparison of Average Rates, 2020-21

Council	Residential	Farm	Business
Walcha	**523.45**	**4,129.48**	**851.06**
Bogan	300.84	2,933.33	1,016.53
Bourke	376.43	3,052.36	533.02
Coonamble	502.75	4,603.19	761.90
Gilgandra	713.97	4,737.23	1,161.29
Hay	663.59	4,426.52	1,566.21
Murrumbidgee	289.12	3,746.84	600.00
Weddin	641.21	1,810.67	943.26
Dungog	1,191.84	2,942.31	1,204.48
Gwydir	757.33	5,728.70	1,683.67
Liverpool Plains	756.42	4,409.95	876.44
Tenterfield	644.74	1,615.17	1,244.44
Uralla	698.64	3,912.31	657.89
Walgett	391.78	4,747.60	763.95
Warrumbungle	592.61	3,054.29	1,683.20
AVERAGES	584.38	3597.04	988.44
MEDIAN	632.42	3746.84	950.15
Q1	391.78	2933.33	761.90
Q3	709.25	4426.52	1204.48

Moreover, some might reasonably seek to inquire about the actual tax rate paid in terms of cents in the dollar of land value. To make comparisons of this kind is difficult because most local governments have an extensive array of subcategories, base rates, and minimum rates. Moreover, the theoretical foundation of the unimproved land tax is to capture unearned wealth in terms of increases to property value (notwithstanding the fact that actual practice deviates from this ideal). Thus, comparing the cents in the dollar tax rate on land values is not consistent with the objective of the tax. In addition, the Independent Pricing and Regulatory Tribunal (IPART) (and the community) is mostly interested in the affordability of the tax and it is a matter of fact that local government taxes are invariably paid out of flows of income (not the stocks of wealth embodied in land).

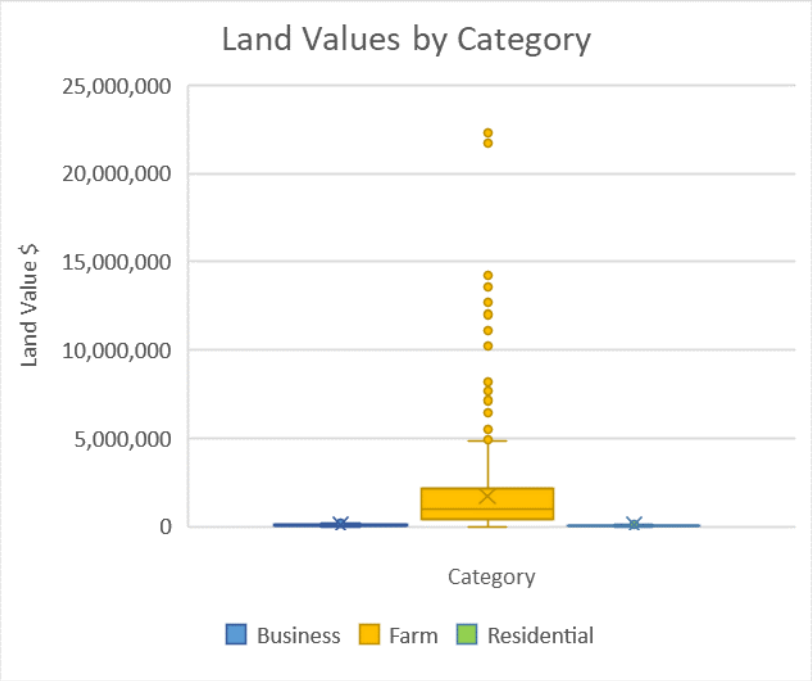
To make these points clear consider the rates levied in Bourke. Bourke is notable for having much lower average tax imposts than does Walcha for all three categories (see Table 3 presented earlier). However, as demonstrated in Table 4, the cents levied in the dollar at Bourke is far higher, according to the respective 2020-21 Operational Plans (please note that for simplicity we ignored the subcategories). Thus, comparisons of this kind are unlikely to shed much light on matters.

Table 4. Comparison of Rate in the Dollar – 2021-22

Council	Residential	Farm	Business
Walcha[13]	0.275991	0.235584	0.541220
Bourke	1.6988	0.410	1.6721

In Figure 7 we provide evidence of the significant disparity in land values which have skewed the average rate data presented earlier. As can be seen the residential and business land values are dwarfed by the farmland values. Moreover, the farm category includes a number of extreme outliers as indicated by the long tail of yellow dots. It is this relative disparity that explains most of the skewing in the overall average revenue data for Walcha Council.

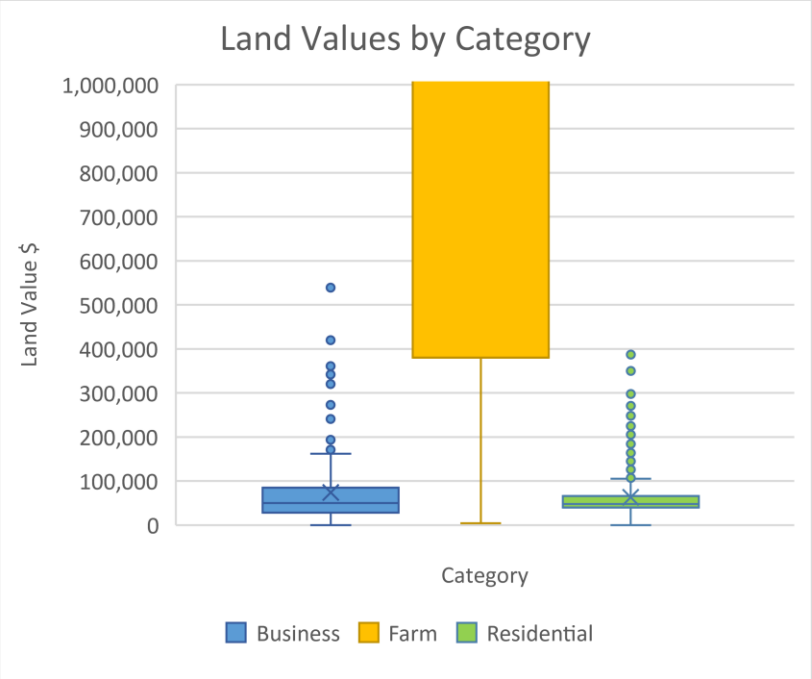
Figure 7. Distribution of Land Values by Category



In Figure 8 we truncated the tail of extreme outliers for farmland so that we could better see the distribution of land values for the business and residential categories. There is certainly some skewing for these categories however it is notable that most of the extreme outliers for these two groups are still lower in value than the first quartile (lowest twenty-five percent of values) of farmland. Moreover, it is now easier to see just how large the disparity is between farmland values and the values of the other categories. On the whole, these graphs confirm our earlier commentary and point to the need to employ a more sophisticated econometric approach in order to accurately assess capacity to pay.

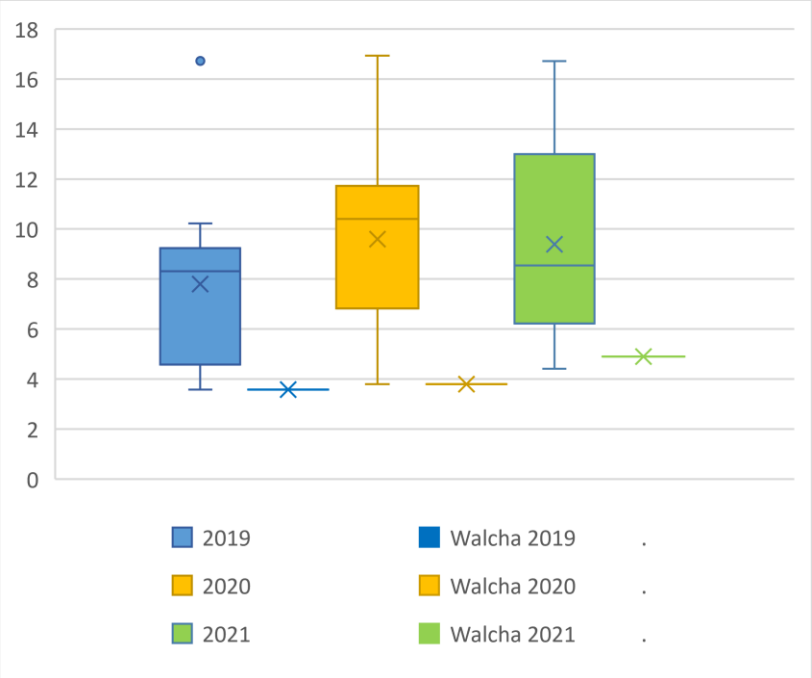
[13] We have multiplied Walcha's rate in the dollar by 100 so that it is expressed in equivalent terms to how Bourke presents their *ad valorem* rate.

Figure 8. Distribution of Land Values, With Fewer Outliers.



The last graph for this section looks at the proportion of rates and charges outstanding at Walcha Council relative to the peer group. The result has been consistently at or near the bottom of the peer group for the last three years. This is reflective of high capacity to pay additional rates, good revenue management by staff, and also strong community spirit.

Figure 9. Rates and Charges Outstanding



3. Residential Rate Variables

Office of Local Guidelines call for IPART to pay regard to the Socio-Economic Index for Areas (SEIFA) scores. As a matter of fact there are indeed four different SEIFA indexes, although it appears that our attention has been directed to the Index of Relative Socio-Economic Disadvantage.

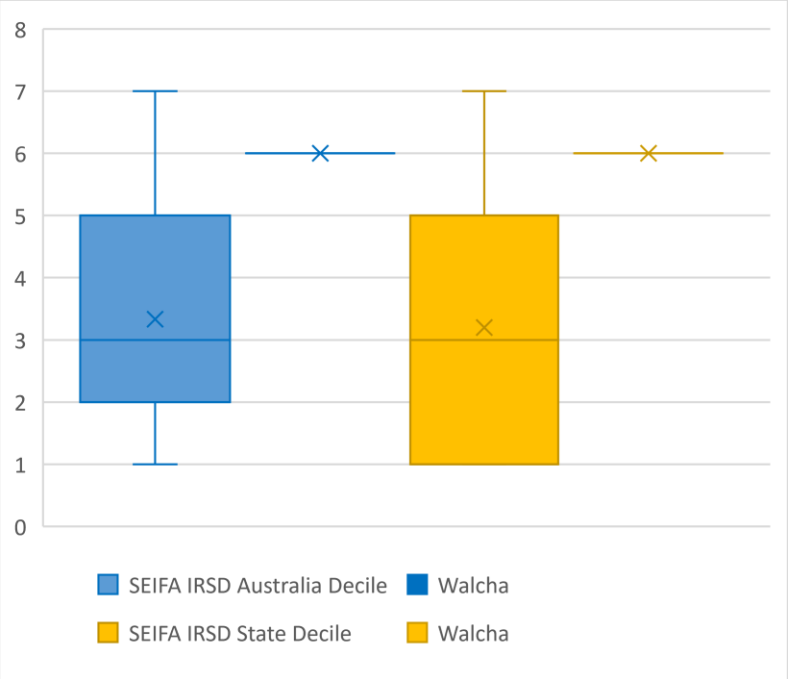
The aforementioned index is based on household income, household qualifications, and household skill data gathered each census (at the time of writing the most recent available data was 2016). Moreover, it should be noted that indexes are a bad way of attempting to understand the attributes of a community because their construction invariably results in information loss according to the weightings allocated to each variable. In addition, the construction of an index leads to conflation of data and, in this particular case, employs rather old data (the other variables that we will survey shortly are only a year or two old).

Nevertheless, we are obliged to present the SEIFA data which we do in Table 5, and also Figure 10. These two presentations of the data demonstrate that Walcha is much more advantaged than the peer group, and thus ought to have higher capacity to pay local government taxes.

Table 5. 2016 Census Data Socio-Economic Indexes for Areas (SEIFA)

Council	SEIFA IRSD Australia Decile	SEIFA IRSD State Decile
Walcha	6	6
Bogan	4	3
Bourke	2	2
Coonamble	1	1
Gilgandra	2	1
Hay	3	3
Murrumbidgee	5	5
Weddin	4	4
Dungog	7	7
Gwydir	3	3
Liverpool Plains	2	2
Tenterfield	2	1
Uralla	6	7
Walgett	1	1
Warrumbungle	2	2
Average	3.3	3.2
Standard Deviation	1.8	2.1
Median	3.0	3.0
Quartile 1	2.0	1.5
Quartile 3	4.5	4.5
Interquartile Range	2.5	3.0
Walcha	6.0	6.0

Figure 10. SEIFA Scores, 2016 Census



A much better approach is to review individual metrics associated with capacity to pay. In Figure 11 we present the data for Aged Pensions relative to the peer group.

One of the obstacles to achieving financial sustainability is the aged population at Walcha. The proportion of aged pensioners is only just approaching the average for the peer group however it should be noted that: (i) it has been trending steadily up over recent years, and (ii) the peer group can be characterised as a particularly old population (the average for the state is just 9.75%; ABS, 2022). The cost associated with ageing arises mainly because the NSW state government mandates a generous discount to local government rates for pensioners that is only partly compensated for by state subsidies. In addition, a host of scholarly work has regularly demonstrated that ageing populations place greater demand on community services (Drew, 2021). Most people understand that we have a collective responsibility to look after our older peers and do so willingly, but we can't escape the fact that this comes at a substantial cost in fiscal terms.

It might also be noted that the high proportion of pensioners (approximately 16.6 percent of the *adult* population in 2021) also means that a large component of Walcha incomes will be increased by CPI twice-annually according to Commonwealth Government policy. Thus, the current rate cap of 0.7 percent means that around one in six residents will receive a *real* tax cut of over five percent this fiscal year[14].

[14] This disparity between inflation and the rate cap will also reduce the purchasing power of Walcha Council taxation revenues and hence likely exacerbate deficits.

Figure 11. Aged Pension

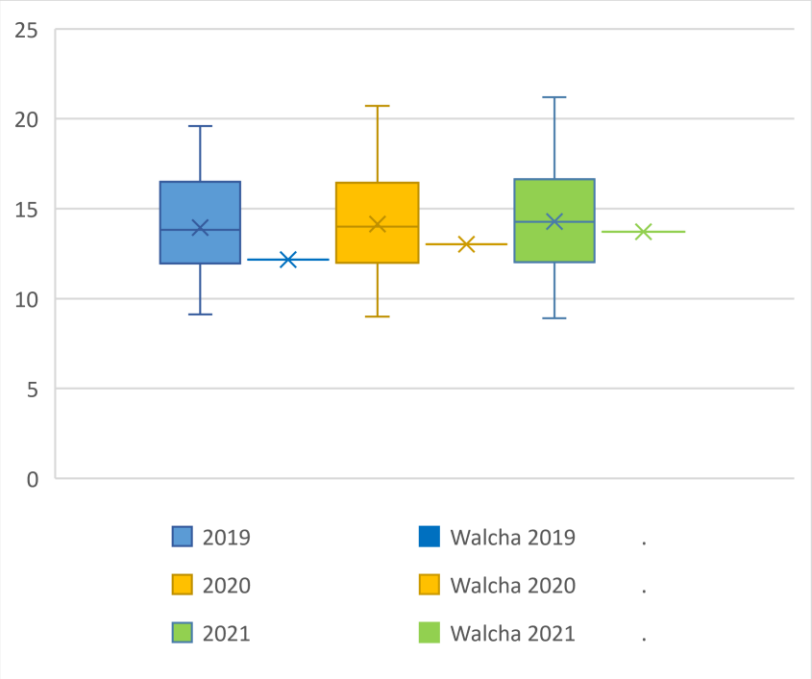
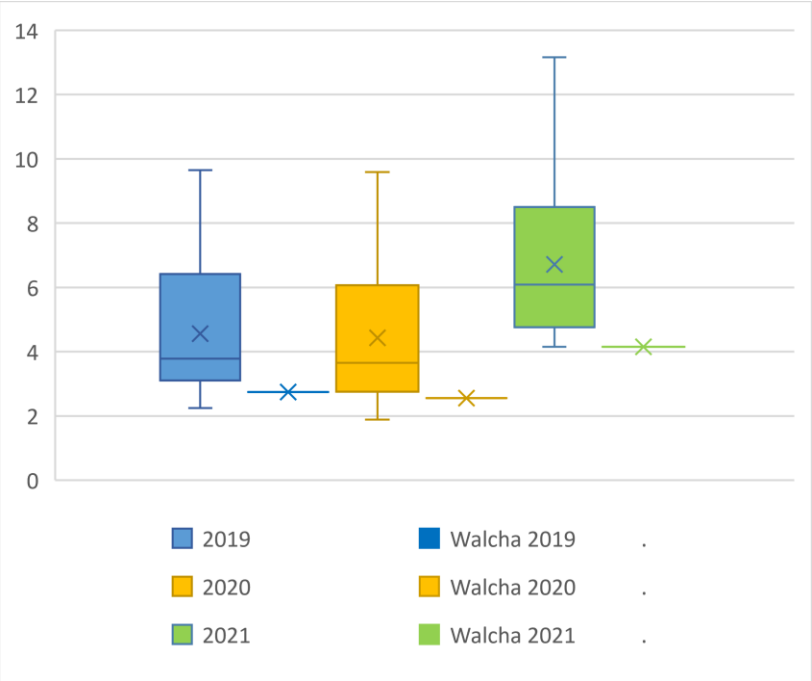


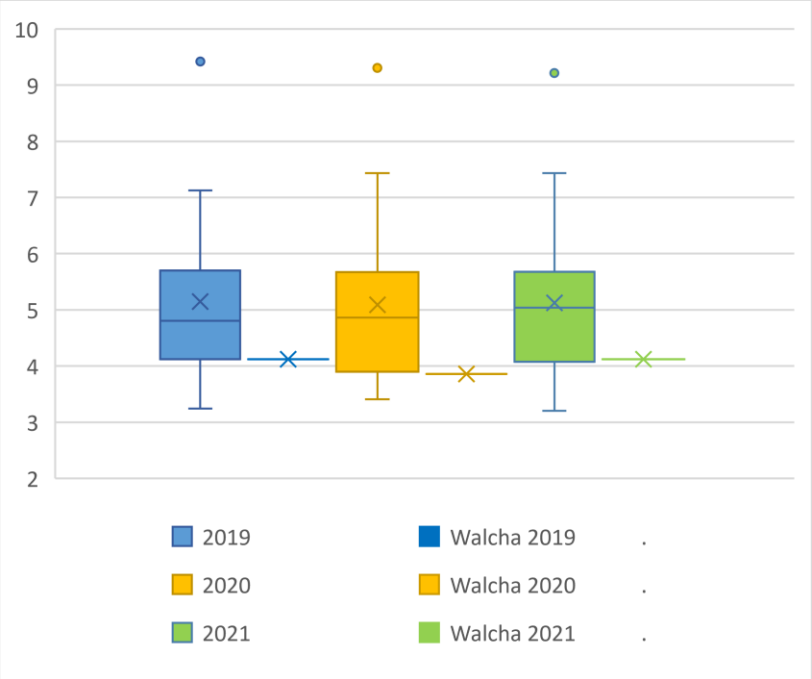
Figure 12 provides data regarding the receipt of unemployment benefits at Walcha relative to the peer group. As can be seen, unemployment rates are comparatively low and thus speak to higher than usual capacity to pay local government taxes. Notably, the spike in 2021 data is an artefact of the public policy response to COVID-19.

Figure12. Newstart Allowance/Jobseeker



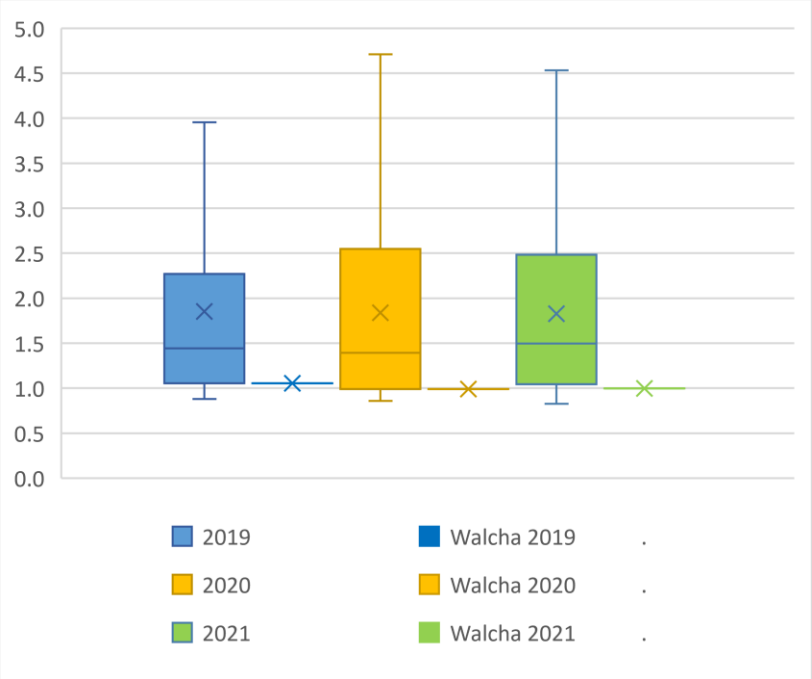
Similarly, the proportion of people on a disability pension is relatively low and also speaks to higher capacity to pay.

Figure 13. Disability Support Pension



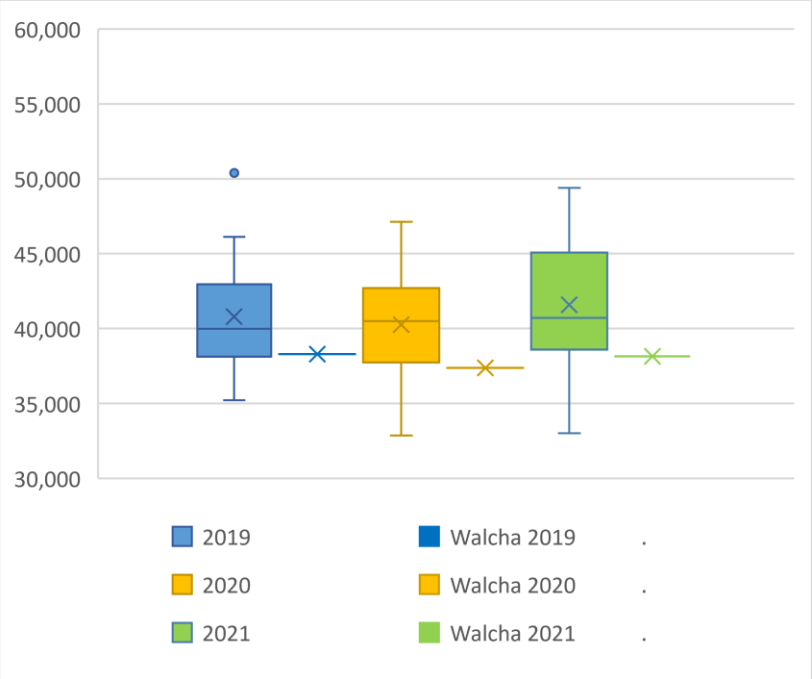
The same applies to the matter of single parent pensions.

Figure 14. Single Parent Pension



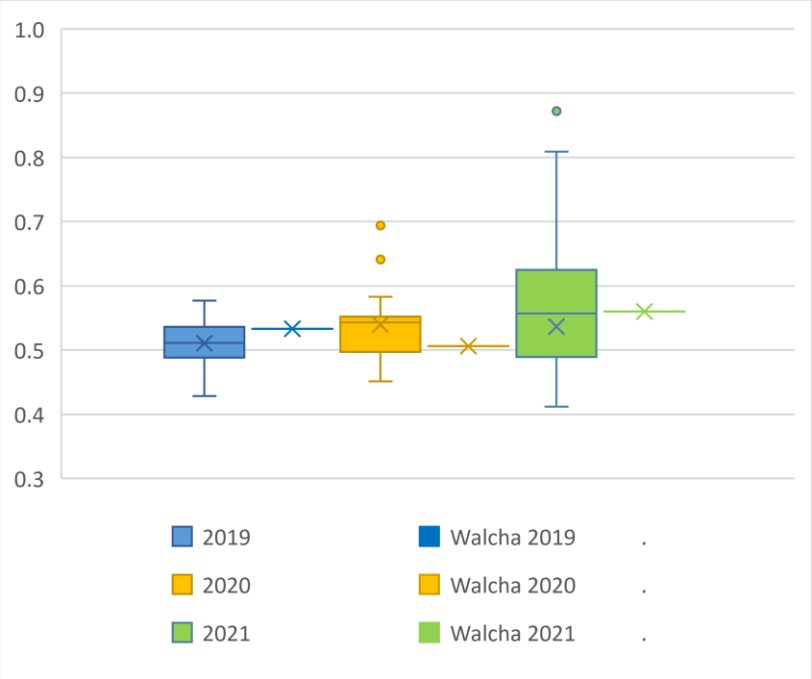
In Figure 15 we provide data on the median wage-earner income. At first glance this metric seems to be at odds with the SEIFA data presented earlier. However, SEIFA data is based on household statistics and the relatively high number of two-adult households in Walcha means that capacity to pay is higher than wage-earner data alone might suggest.

Figure 15. Median Wage-Earner Income



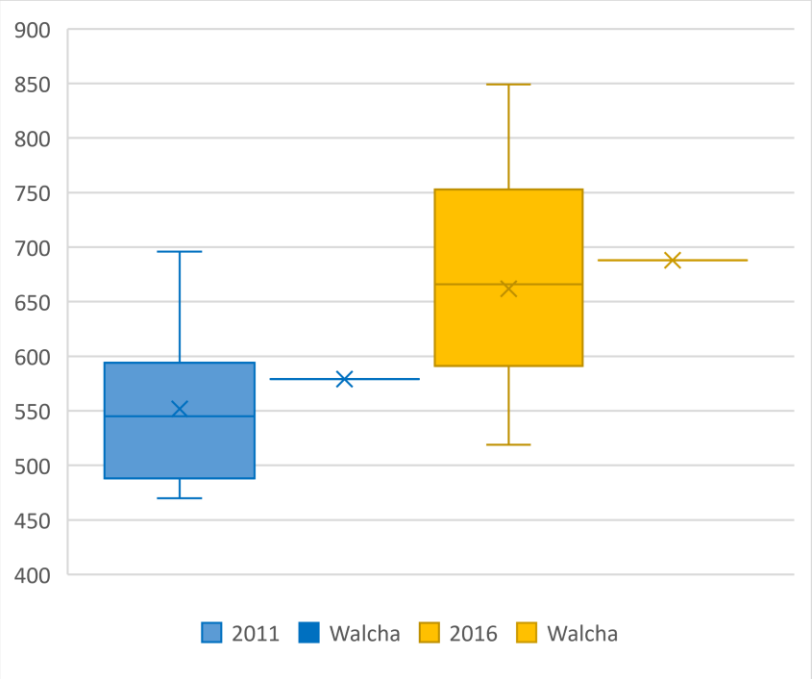
It is also important to understand the level of income inequality in a local government area because high inequality means that comparisons between local government areas regarding capacity to pay may not be valid. As it happens, Walcha has relatively low inequality as measured by the well-known GINI coefficient (whereby zero represents perfect equality and one, perfect inequality) with respect to the peer group. This suggests that it is indeed reasonable to make comparisons against the peer group.

Figure 16. Gini Coefficient Income Inequality Metric



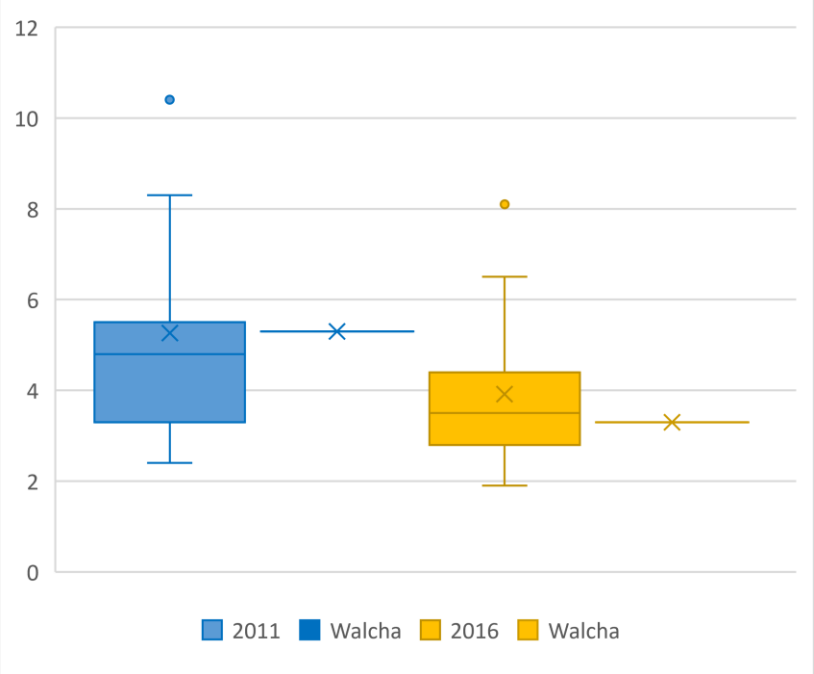
As already noted, Walcha has a relatively high proportion of dual income households compared to the peer group. Accordingly, Walcha's relative position on the equivalised household income data from the Australian Bureau of Statistics stands in contrast to the wage earner data presented earlier. Given that local government taxes are levied on households (not individuals), this statistic is clearly more relevant. Notably, Walcha was well-above average in terms of equivalised household income for the last two reporting periods.

Figure 17. Median Equivalised Household Income



Household stress data is also only available in census years. The ABS considered households stressed when their mortgage repayments exceed thirty percent of income. The last census data suggests that the community is exposed to typical household stress.

Figure 18. Household Stress (mortgage greater than or equal to 30% of household income)

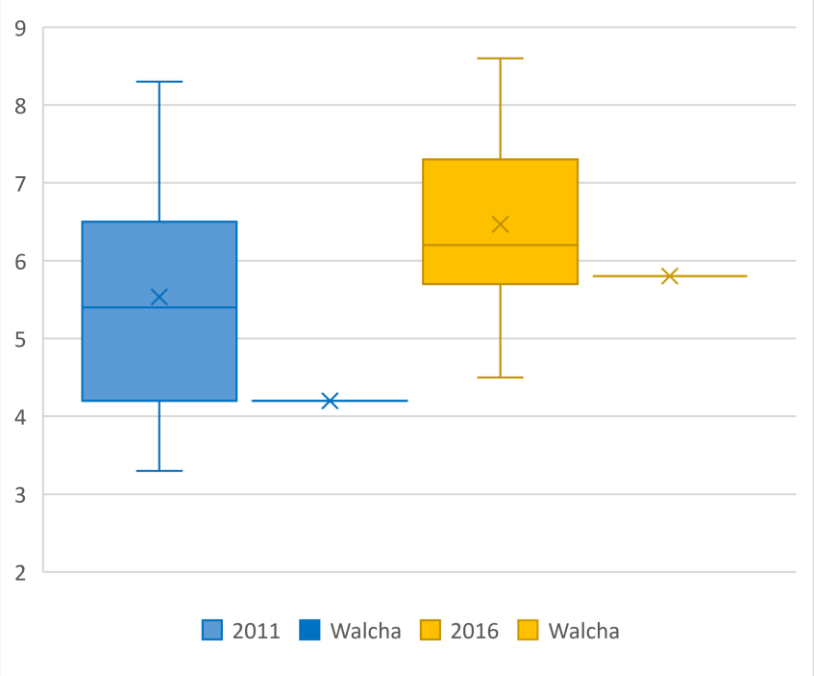


The ABS also reports on household stress arising from rent obligations. Notably renters do not pay local government taxes directly, but rather the tax is imputed into

the rent set. Moreover, rental agreements tend to cover relatively long periods of time wherein fluctuations to local rates cannot be passed onto the lessee. In addition, landlords can export local government rates as a federal tax deduction and thus can't justifiably pass on the entire increase in most cases.

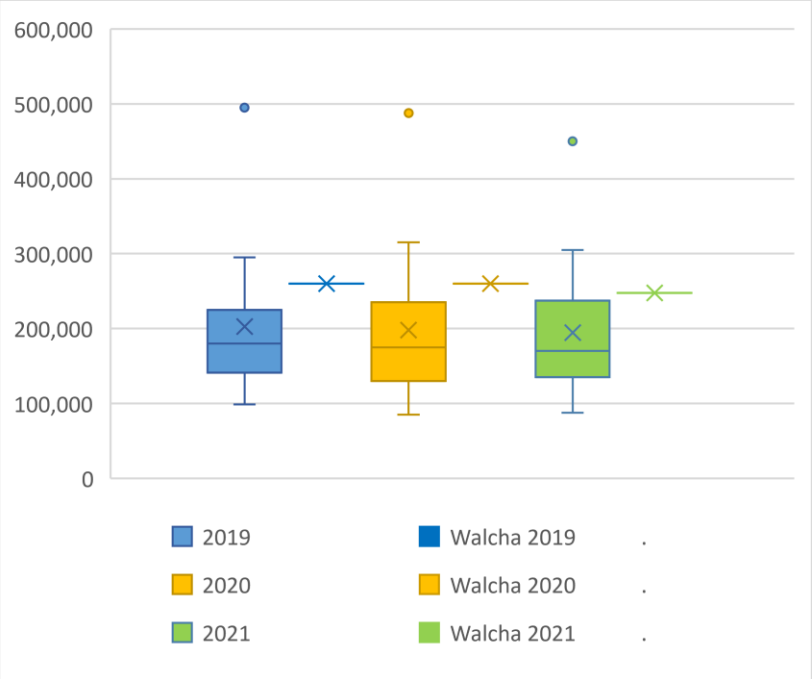
As it turns out Walcha Council, has relatively low levels of rent stress (the state average was 12.9 percent in 2016) and this statistic also speaks to higher capacity to pay.

Figure 19. Household Stress (rent greater than or equal to 30% of household income)



The final statistic that we look at is the median sales price for property in Walcha Council. As can be seen capital improved values of land in the local government area are relatively high. This data explains why the cents in the dollar tax rates at Walcha Council are so low in a comparative sense. Notably the most recent decline in 2021 has probably already been completely reversed in the post-COVID regional residential boom. Moreover, despite a small decline the result for Walcha is still firmly in the top quartile (highest twenty-five percent of the peer group).

Figure 20. Houses (Median Sales Price)



4. Farm Business

As we have already established, taxation revenue from farm business is the major source of income for Walcha Council. As illustrated in Table 6 and Figure 21, just 0.23% of the local government area is used for urban purpose. By way of contrast over half of the local government area is dedicated to agriculture, mostly grazing operations[15]. The fortunes of the agriculture sector are thus an important consideration with respect to capacity to pay.

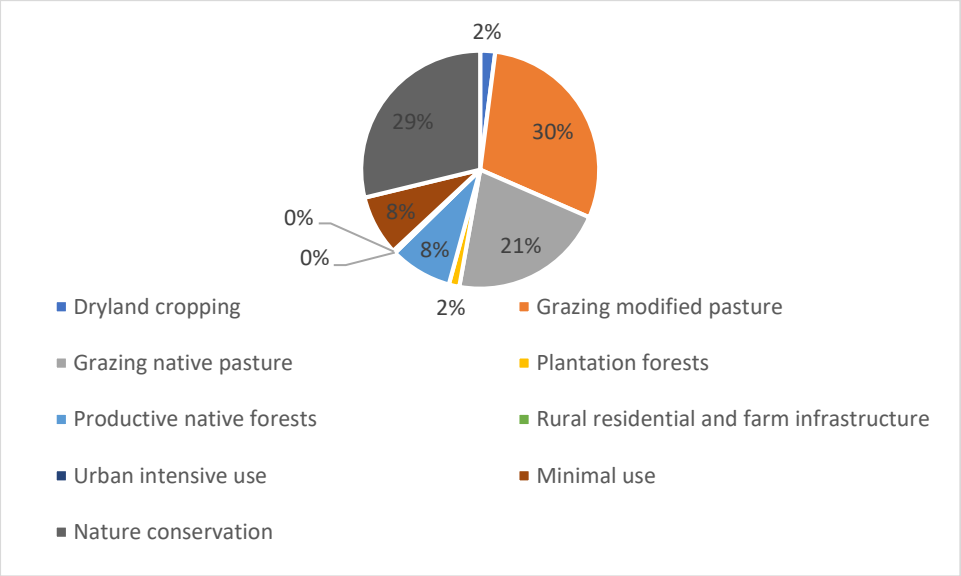
Table 6. Land Use in Walcha Council

Land Use		Area (ha)	Share (%)
Agriculture	Cropping	12,560	2.01%
	Grazing modified pasture	182,228	29.11%
	Grazing native pasture	131,289	20.97%
Non-Agriculture	Plantation forests	8,836	1.41%
	Productive native forests	52,029	8.31%
	Urban use	1,449	0.23%
	Nature conservation	177,654	28.37%

Source: ABARES (2022)

[15] Notably well over a third of the local government area is dedicated to nature conservation and forestry. This creates an enormous burden for the residents of Walcha, but very little opportunity for revenue.

Figure 21. Major land Uses in Walcha Council.



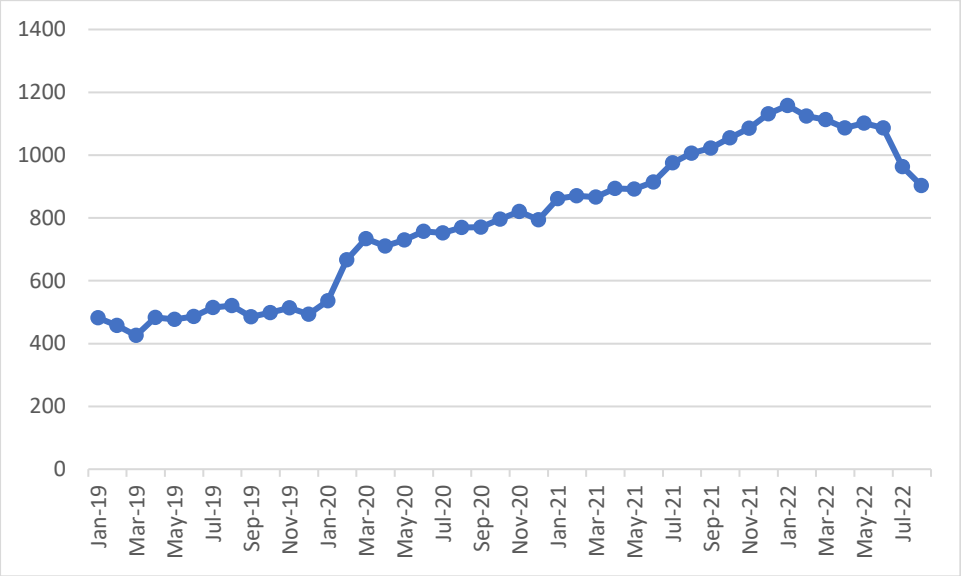
Agricultural fortunes are somewhat dictated by rainfall. In May 2022 the lengthy drought experienced by most of NSW was officially declared over. Moreover, above average rainfall is predicted right up until the end of January 2023 and a particularly wet start to spring is expected (Bureau of Meteorology, 2022). Dams are now full, aquifers have been replenished, and most farms have a good stock of feed to hand. Thus, the immediate future looks promising.

Indeed, the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES, 2022) June 2022 outlook statement forecasts livestock production to increase in value by 1.2 percent for the 2022-23 financial year. Unit prices for meat products are expected to decline a little[16] from recent record highs, however this is expected to be mitigated in part by higher volumes. Global demand for livestock products continues to rise and underwrites the buoyant forecasts.

Eastern Young Index data for sheep, sourced from Meat & Livestock Australia (2022), confirms that unit prices have declined in recent months. However, it should be noted that current prices are still well over twice what was recorded three years ago (see Figure 22 below).

[16] Mostly as a consequence of reduce pressure from restocking needs. This seems to suggest that many graziers will have significantly lower costs from this aspect of their operations going forward.

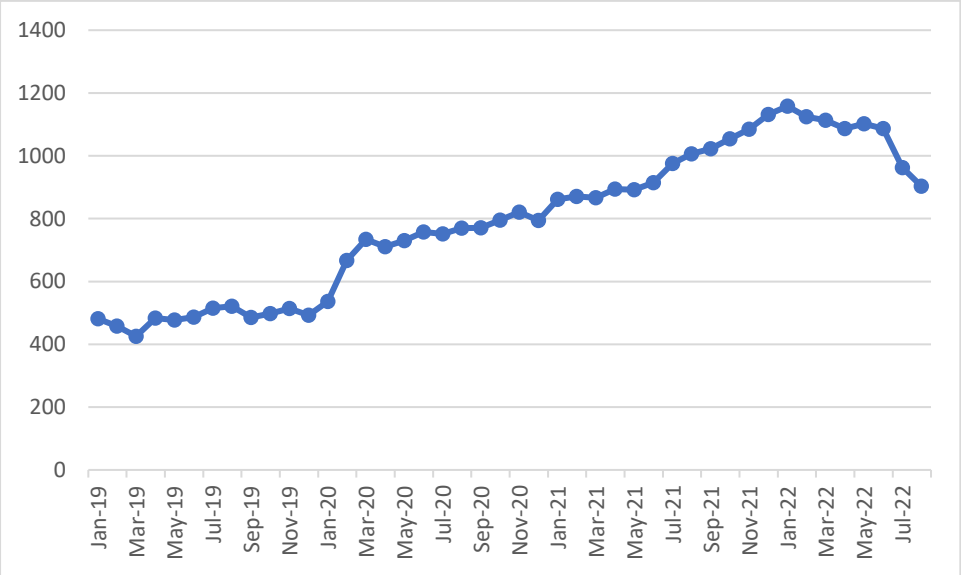
Figure 22. Sheep Price Index



Source: MLA Statistics Database, 2022

A similar story is illustrated in Figure 23 with respect to the eastern young indicator for cattle.

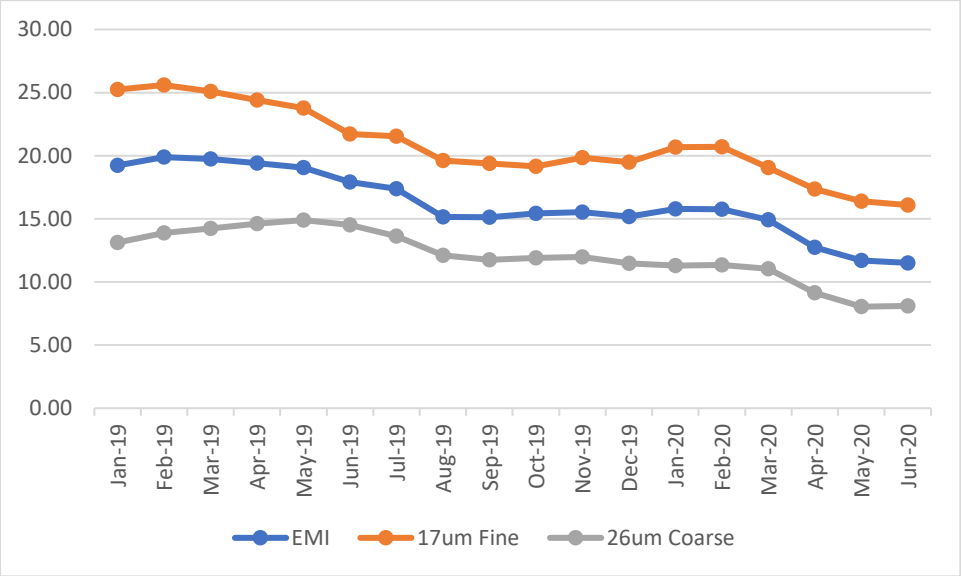
Figure 23. Cattle Price Index



Source: MLA Statistics Database, 2022

However, matters have not been anywhere near as rosy for wool, although we must be mindful of the aforementioned significant gains with respect to the secondary product (meat) from this enterprise. Moreover, the ABARES (2022) forecasts notable growth to the value of future wool outputs – driven mainly by increased levels of production.

Figure 24 Wool Price Data



Source: DPI, 2022.

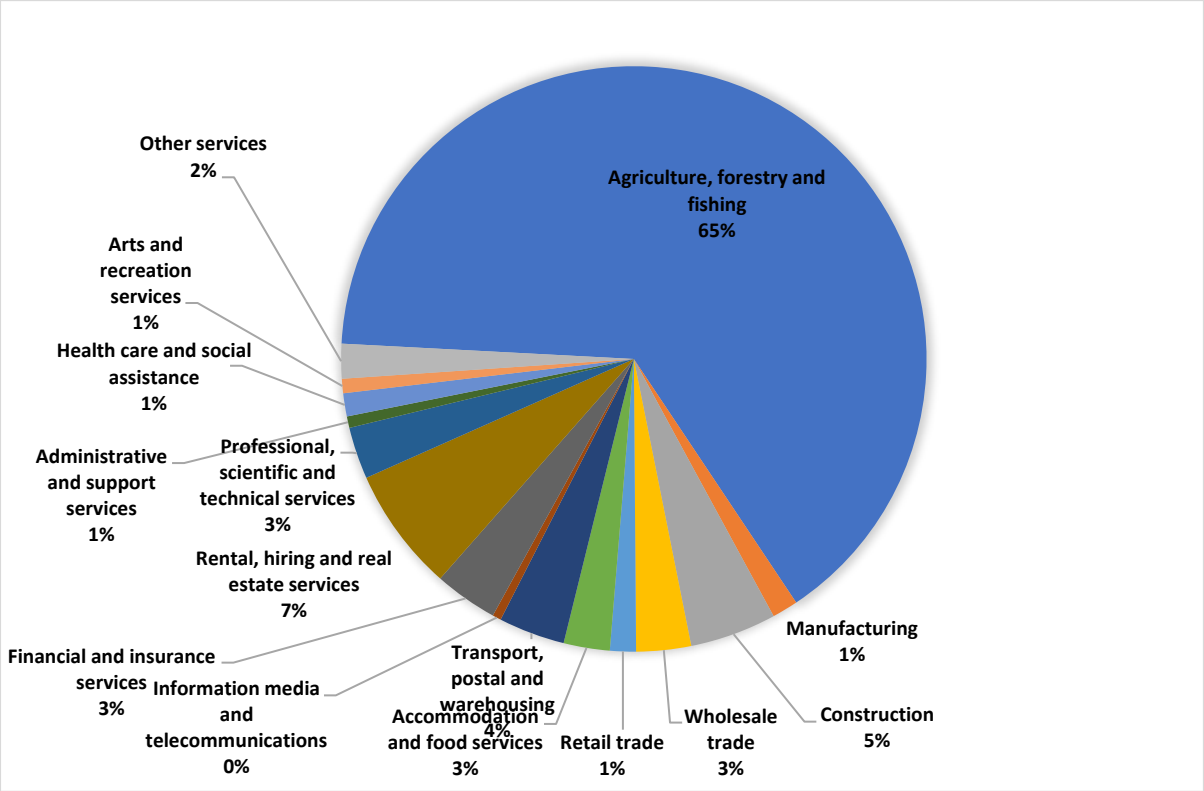
Indeed, the relatively good conditions experienced in recent times by farmers are reflected in top quartile outcomes in the most recent unincorporated data that was available at the time of writing this report (see the next section below). Thus, there are good reasons to suggest that the farm sector of Walcha is in good condition, and has a positive outlook moving forward.

5. Business Income Variables

Most of the business at Walcha is either directly agricultural or relies on the agricultural sector (see Figure 25). Indeed, it would be fair to say that the business centre is principally in place to serve the needs of the surrounding farmers.

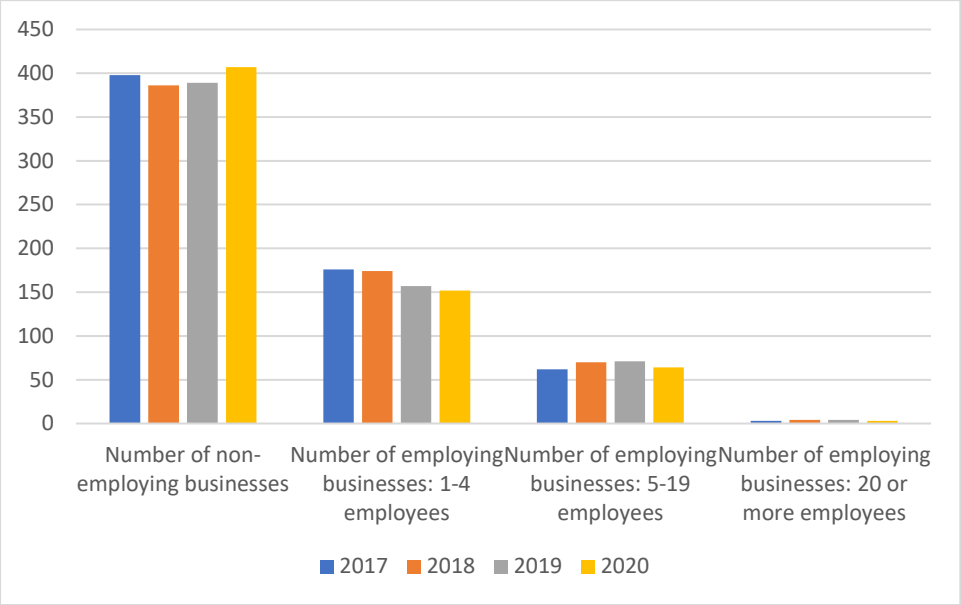
The dominance of agriculture in the local economy makes it difficult to collect data specific to the health of the other components. However, I think that most visitors to the area would agree that the commercial centre is somewhat depressed and has been so for some time.

Figure 25. Categories of Business (2020)



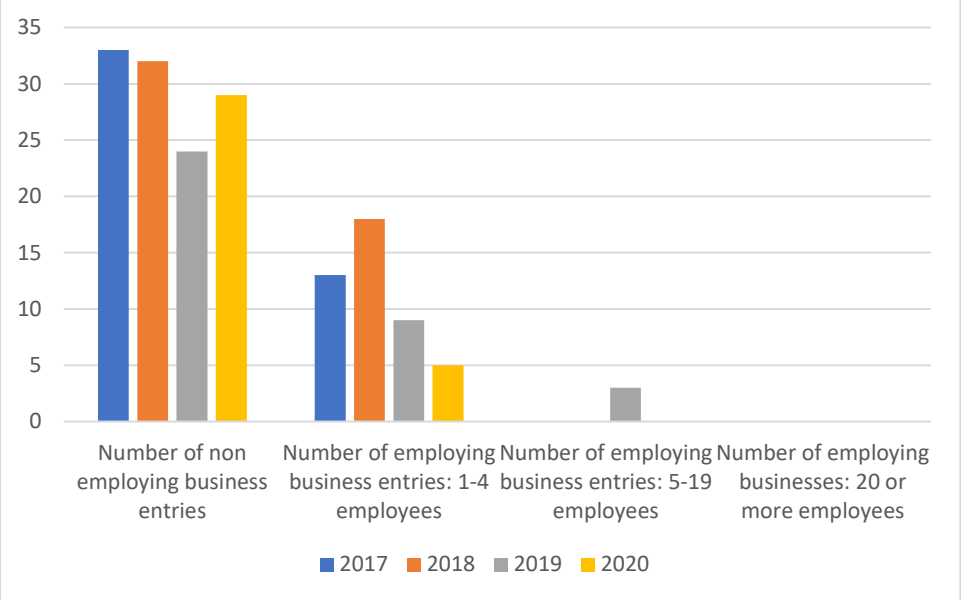
In Figure 26 we present data on the number of businesses at Walcha Council which tends to be dominated by non-employing, mainly agricultural, concerns. As already noted, the commercial district is far from thriving. Moreover, recent pressures arising from COVID-19 lockdowns as well as inflation, argue against adding significant extra burdens onto this business assessment category. For this reason, we recommend that Council consider shielding the business category from some of the special rate variation as part of its investigations into distributive justice that we recommended earlier.

Figure 26. Number of Businesses



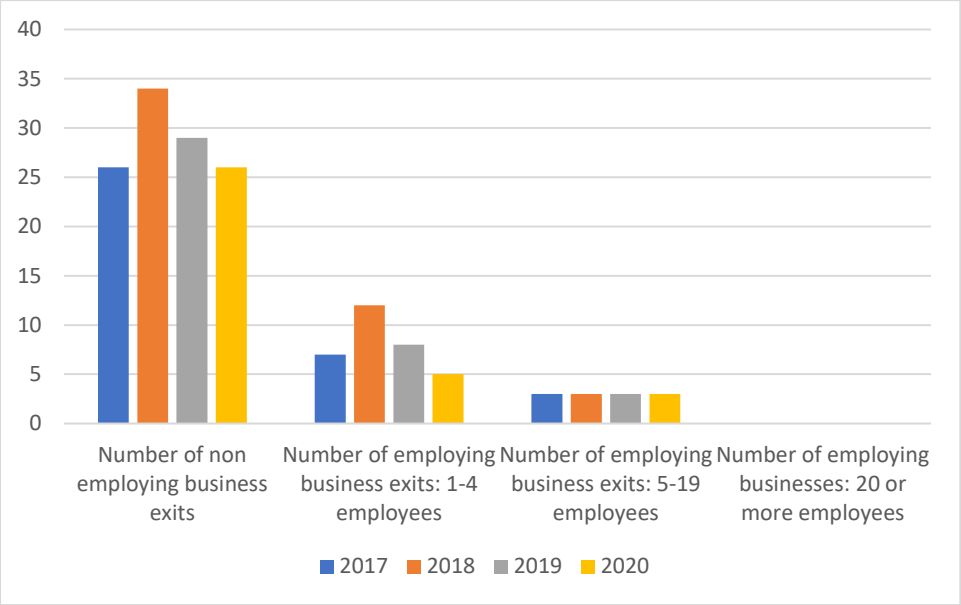
Our comments and recommendations are brought to stark relief with respect to employing business entries which have been extremely low for a number of years (see Figure 27).

Figure 27. Business Entries



Indeed, the data on business exits illustrated in Figure 28 reinforces our concerns – business entries (for enterprises with more than four staff) have been almost non-existent but exits in this category have been consistent albeit low (because we are working off a low base).

Figure 28. Business Exits



At the time of writing this report the most recent unincorporated business income data was based on 2018. This data places Walcha within or over the top quartile which is suggestive of a healthy economy. However, in all likelihood the data has been skewed significantly by large farming businesses and hence the caution we wrote of earlier – around distributive justice – remains salient. Indeed, it must be remembered that the impost on the business category of ratepayers is already well over twice the level of their farm business peers (on a cents in the dollar basis).

Table 7. Unincorporated Business Income, 2018

Council	Median Unincorporated Business Income	Mean Unincorporated Business Income
Walcha	12040	23727
Bogan	9186	19016
Bourke	10740	23912
Coonamble	6732	5186
Gilgandra	9549	12120
Hay	21795	44869
Murrumbidgee	13077	24783
Weddin	21537	38001
Dungog	2915	5033
Gwydir	8055	15098
Liverpool Plains	5338	12220
Tenterfield	2530	3551
Uralla	7727	18426
Walgett	6189	18399
Warrumbungle	5766	14994
Average	9545.1	18622.3
Standard Deviation	5561.6	11129.1
Median	8055.0	18399.0
Quartile 1	5977.5	12170.0
Quartile 3	11390.0	23819.5
Interquartile Range	5412.5	11649.5
Walcha	12040.0	23727.0

6. Econometric Analysis of Total Rate Capacity

Thus far we have looked at a large range of metrics which seem to suggest that the community at Walcha Council does have capacity to pay higher local government taxes. However, matters have been confounded somewhat by *prima facie* extant distributive injustice. In addition, single ratios can be skewed and also give rise to misleading conclusions when taken in isolation. Moreover, a relatively small peer group and truncated timeframe might further obscure matters.

It is therefore essential to conduct much more sophisticated empirical analysis that can include multiple inputs, for a larger cohort, over a longer time frame. Accordingly, we conducted a four-year fixed effects regression, which is world-best practice.

Regression analysis allows econometricians to determine the mean response of a dependent variable (in this case, the total tax take for a local government area) to changes in multiple independent variables (see Table 8 for the full list of variables employed). Moreover, fixed effects panel regression allows us to control for a myriad of time-invariant variables and thus mitigates any potential specification insufficiency.

The authors of this report are extremely experienced and well-published econometricians and thus end users should have absolute confidence in the robustness of the outputs of our regressions. The body of work underpinning the theory and practice of econometrics is voluminous and interested readers are referred to the seminal work of Kennedy (2003) should they require further technical exposition.

The final model specification that we employ in our analysis can be expressed as follows:

$$\mathbf{T}_{it} = \alpha_i + \beta_1 \mathbf{A}_{it} + \beta_2 \mathbf{I}_{it} + \mu_{it} \qquad t = 1..4$$

Where **T** is the total tax take (that is the sum of all categories of taxation) expected of a local government, **A** is the disaggregated assessment data, **I** is a vector of relevant income data for particular local government areas at specific times and μ is an idiosyncratic error term. The subscript *it* refers to the i^{th} council entity and the t^{th} year. Here we included all fifty-eight councils categorised as broadly similar under the extant federal government classification system. Log transformations were employed to counter skewness when econometric diagnostics tests revealed the need to do so. In addition, various specifications were tested, and the model was shown to be robust to alternate specification. We also conducted and satisfied all other relevant diagnostic tests. Table 8 provides the definition for each variable as well as summary data.

Table 8. Definitions and Means of Variables, 2018-2021

Variable	Definition	Similar Councils
Rates		
Rates	Total taxation (rate) take ($'000)	6,825.386
Assessments		
Residential (ln)	Number of residential assessments, logged	7.904
Farm (ln)	Number of farm assessments, logged	6.890
Business (ln)	Number of business assessments, logged	5.789
Income Controls		
Median employee income	Median employee income (lagged), divided by 1,000	42.596
Median unincorporated business income	Median unincorporated business income (lagged), divided by 1,000	11.749
Aged	Proportion of people on an aged pension	13.586
DSP	Proportion of people on a disability support pension	4.570
Newstart (ln)	Proportion of people on a Newstart allowance, logged	1.389
Carer (ln)	Proportion of people on a carers' pension, logged	0.383
Single (ln)	Proportion of people on a single parent pension, logged	0.415

In Table 9 we detail the coefficients and statistical significance for important regressors. This table is merely an interim step in producing the major output from this exercise (which is Table 10). A few points of interest are worthy of some comment though. First, it will be seen that there is a statistically significant positive association with number of residential assessments, *ceteris paribus*[17]. This is suggestive that the

[17] *Ceteris paribus* means holding all other things constant. It is extremely important to be cognisant of the fact that variables must be interpreted with reference to all other regressors specified.

relatively low ratio of residential assessments to farm assessments at Walcha may well depress the expected total tax take. Second, as expected total take is positive and statistically significant for employee income, *ceteris paribus* – that is, as incomes increase local governments are able to extract relatively higher taxes. Third, the explanatory power for this model is very high for a fixed effects specification (which are notorious for mathematical inefficiency). Thus, very high confidence can be placed in the predictive capacity of the model.

Table 9. Multiple Regression Results, 2018-21 inclusive.

	Extended Cohort
Number of residential assessments (ln)	3065.273+ (1576.636)
Number of farm assessments	-197.311 (781.753)
Number of business assessments (ln)	133.113 (516.845)
Median employee income	65.174* (26.989)
Median unincorporated income	3.349 (10.307)
Welfare receipts?	Yes**
n	232
Coefficient of Determination	0.4277

+p < 0.10, *p < 0.05, **p < 0.01. Standard errors in parentheses

Indeed, it is the ability to use this regression to predict the average total tax take that should be expected from a local government area with Walcha's specific characteristic that forms the centrepiece of this report. To do so we essentially inserted the particular characteristics for the various variables in specific years into the regression formula derived in the earlier step. This task was accomplished as an exercise in applied econometrics using STATA software.

In Table 10 we detail the difference between actual total tax take (as per the audited financial statements) and the average tax take predicted by the sophisticated econometric model. As can be seen in each of the four years, Walcha Council collected considerably less than what would be expected had it exerted merely average revenue effort. Moreover, we reiterate that Walcha is far from average in terms of its operating environment constraints and thus average revenue would likely be insufficient to achieve financial sustainability.

Table 10 Expected Mean Total Tax Take Predicted by the Fixed-Effects Regression, 2018-2021 Inclusive.

Council	Year	Total Tax Take Shortfall	Suggested Increase to Meet Mean Result
Walcha	2018	$149,631	4.54%
Walcha	2019	$329,810	9.73%
Walcha	2020	$476.211	13.72%
Walcha	2021	$557,126	15.55%
TOTAL Foregone Last Four Years		$1,512,778	

Notably, over $1.5 million in rate revenue has been foregone in the last four years alone. Moreover, in all likelihood, had we gone back further in the data we would also have found significant shortfalls in tax take (perhaps even higher than appear in Table 10).

Readers of this report will note that the quantum of the shortfall has been increasing at a fast rate in recent successive years (far exceeding relevant rates of inflation). This is not what one would ordinarily expect. The main reason for the higher shortfall in more recent years is that many of the local governments in the cohort have applied for and executed quite large special rate variations. By way of contrast, Walcha has only applied the rate cap during this period. The gap between the rate of increase accepted by Walcha, and the increases applied by its peers according to approved SRVs explains much of the divergence. Changes to income variables would likely account for the remainder of the significant increase to shortfall in successive years.

For the most recent financial year (2021) Walcha Council collected $557,126 or 15.55 percent *less* than would be expected of an average revenue effort given the particular characteristics of the community. However, it would be erroneous to think that merely increasing the rates by fifteen percent in the future would allow Walcha to recapture financial sustainability for a number of reasons. First, the compounding effect of many years of insufficient revenue effort must necessarily be recouped. Second, the fiscal predicament of Walcha is quite serious and thus requires considerable effort to mitigate. Third, some of the councils in the fifty-eight member cohort are not financially sustainable and also are not exerting sufficient revenue effort (which brings down the average and makes it likely to be a slight understatement of actual need). Fourth,

Walcha operates in a much more challenging environment than do many in the peer group[18].

Indeed, a comparison of the gap between the mean total tax take predicted by our model and the total tax take actually realised, is illuminating. A quarter of local governments in the cohort are currently collecting at least thirty seven percent greater taxes than the average predicted by our econometric exercise. The top decile of local governments are asking their ratepayers to pay almost forty-seven percent more than the average total tax take predicted by our model. Thus, many residents in NSW are currently paying far more than an average tax take given their particular socio-economic characteristics. Furthermore, it is clear from Walcha's financial sustainability predicament that residents there will also need to do likewise.

Indeed, it is imperative that the General Account be balanced as quickly as possible. Council continues to have negative unrestricted cash[19] and the recent boost to internally restricted cash is mainly due to prepayments of financial assistance grants (which likely won't continue indefinitely). The matter is therefore quite serious.

Accordingly, *it is recommended that Council apply for a permanent increase of at least 57.74 per cent in a cumulative sense. The first increase needs to be in the order of 36.5 percent. The authors suggest increases of 8 percent, and 7 percent for the two years thereafter[20].*

This would represent a significant increase above the average levels cited earlier but would still place residents just within the top quartile in a relative sense. Otherwise stated, around a quarter of the relevant local governments in the state currently ask their residents to pay a *greater* premium on the average total tax take (predicted by the model) than we suggest in our proposed SRV.

The authors sincerely regret the size of the special rate variation proposed in this report (please see the appendices for further details of the effect on average rates and notional general income respectively). However, the consequences of not taking prudent action now are significant and would likely prove far worse for the community. Financial sustainability has been poor and deteriorating for a long time and sadly the kind of urgent mitigation now required to remedy matters must inevitably result in some pain. Moreover, the hefty increase proposed for the first year of the SRV is critically important – we must make sure that there are sufficient cash flows available for Council to meet its obligations in 2023/24.

The recommendation that we have put forward was based on an intensive interrogation of the Long-Term Financial Plan (LTFP). Indeed, the authors of this present report considered each of the assumptions in the LTFP very carefully when deciding on their recommendation. Moreover, it is important to understand that our

[18] Please refer to our Efficiency Report – in particular our econometric investigation of the determinants of relative technical efficiency.

[19] This refers to savings of Council that are not restricted by law or have not been earmarked for particular important purposes.

[20] For full details of the effect of our proposed rate increase please see the recently revised Long Term Financial Plan (LTFP). Notably the authors thoroughly interrogated the LTFP and considered all assumptions carefully when arriving at their recommendation.

recommendation is not an ambit claim – *it is the absolute minimum that will provide Walcha Council with a safe path back to financial sustainability*. The recommended special rate variation assumes base case assumptions broadly in line with Reserve Bank of Australia forecasts and also that no more negative economic shocks will be felt by Council. However, most economists feel that there is, in fact, more downside risk with respect to the future. Therefore, the authors would be very uncomfortable with a lower special variation (and could not guarantee financial sustainability if a lower cumulative SRV did indeed eventuate). For these reasons the authors strongly encourage the community and IPART to consent to no less than the cumulative increase that has been proposed.

It should be noted that community engagement may well result in a change to the timing, size and duration of the annual rate increases.

We also strongly suggest that Walcha Council and the community step up its efforts to advocate for a fairer distribution of the important federal financial assistance grants as indicated in our Financial Sustainability report. The horizontal fiscal equalisation intent of the Act (1995) is clearly not being achieved as a result of both problems with the legislation and also empirically indefensible practice by Local Government Grant Commissions. Initial modelling by the authors, based on need factors alone, suggests that the community is currently receiving hundreds of thousands of dollars per year *less* than what they ought to receive. Getting a fairer distribution of grant money is thus imperative to fixing the significant financial sustainability challenges that the community faces.

It will also be necessary to carefully review all fees and charges at Walcha Council as soon as possible with a view to better achieving long run marginal cost recovery. In addition, it may be prudent to introduce new fees and charges to better accord with the nature of the goods provided and also alleviate pressure on the common tax pool.

6. Recommendations for The Special Rate Variation

It is absolutely imperative that Walcha Council applies for and receives a permanent SRV in the next IPART round. A permanent increase of 36.5 percent, followed by eight and seven percent respectively is the *minimum* necessary to set the Council on a reasonable path back to financial sustainability.

In addition, we strongly urge Council to have their General Manager examine distributive justice at Walcha in some detail. We acknowledge that this task may require twelve months or more and perhaps involve community consultation.

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Appendix 1 – Effect of Proposed Rate Increase on Average Rates Paid By Various Categories

Table 1. Impact on Average Farmland Rate of an s508A Permanent Special Variation of 36.5% 8% 7%

Proposed Rates	**Base Year**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Cumulative Increase**
Financial Year	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	
Farmland Category							
Average rate under assumed rate peg	4142.75	4246.32	4352.48	4461.29	4572.82	4687.14	**544.39**
Annual increase under rate peg (%)		2.50	2.50	2.50	2.50	2.50	**13.14**
Average rate after proposed SRV	4142.75	5654.85	6107.24	6534.75	6698.12	6865.57	**2722.82**
Annual increase with SRV (%)		36.50	8.00	7.00	2.50	2.50	**65.72**
Cumulative impact of SRV above Base year levels		1512.10	1964.49	2392.00	2555.37	2722.82	
Difference between SRV and rate peg only scenarios		1408.54	1754.77	2073.46	2125.30	2178.43	

Table 2. Impact on Average Residential Rate of a s508A Permanent Special Variation of 36.5% 8% 7%

Proposed Rates	**Base Year**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Cumulative Increase**
Financial Year	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	
Residential Category							
Average rate under assumed rate peg	526.83	540.00	553.50	567.34	581.52	596.06	69.23
Annual increase under rate peg (%)		2.50	2.50	2.50	2.50	2.50	13.14
Average rate after proposed SRV	526.83	719.12	776.65	831.02	851.79	873.09	346.26
Annual increase with SRV (%)		36.50	8.00	7.00	2.50	2.50	65.72
Cumulative impact of SRV above Base year levels		192.29	249.82	304.19	324.96	346.26	

Difference between SRV and rate peg only scenarios		179.12	223.15	263.68	270.27	277.03	

Table 3. Impact on Average Business Rate of a s508A Permanent Special Variation of 36.5% 8% 7%

Proposed Rates	**Base Year**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Cumulative Increase**
Financial Year	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	
Business Category							
Average rate under assumed rate peg	879.82	901.82	924.36	947.47	971.16	995.44	115.62
Annual increase under rate peg (%)		2.50	2.50	2.50	2.50	2.50	13.14
Average rate after proposed SRV	879.82	1200.95	1297.03	1387.82	1422.52	1458.08	578.26
Annual increase with SRV (%)		36.50	8.00	7.00	2.50	2.50	65.72
Cumulative impact of SRV above Base year levels		321.13	417.21	508.00	542.70	578.26	
Difference between SRV and rate peg only scenarios		299.14	372.67	440.35	451.36	462.65	

Appendix 2 – Effect of Proposed SRV on Notional General Income

Table 4. Impact on Total Rate Revenue of a s508A Permanent Special Variation of 36.5% 8% 7%

Proposed Rates	**Base Year**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Cumulative Increase**
Financial Year	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	
Baseline Scenario							
Total Notional Rates Income ($'000) under assumed rate peg (no SRV)	3697.00	3789.43	3884.16	3981.26	4080.80	4182.82	485.82
Annual Increase under rate peg (%)		2.50	2.50	2.50	2.50	2.50	13.14
Proposed SRV							
Total Notional Rate Income ($'000) after proposed SRV	3697.00	5046.41	5450.12	5831.63	5977.42	6126.85	2429.85
Annual Increase with SRV (%)		36.50	8.00	7.00	2.50	2.50	65.72
Cumulative impact of SRV above Base Year levels		1349.41	1753.12	2134.63	2280.42	2429.85	
Difference between SRV and rate peg only scenarios		1256.98	1565.96	1850.36	1896.62	1944.04	