

Walcha Council Financial Sustainability Report



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Walcha Financial Sustainability Review

Executive Summary

This Report paints a grim picture of financial sustainability at Walcha local government – a situation that requires urgent redress. Indeed, it makes clear that Council has not been financially sustainable for at least a decade.

It is important to understand that senior management and the Councillor group have all been working hard and effectively to improve matters over recent years. However, their task has been complicated by the challenging and deteriorating operating environment constraints.

In sum, it is abundantly clear that a Special Rate Variation (SRV) is well-overdue and cannot be avoided if Council is to have any hope of returning to a financially sustainable path.

1. Introduction

These reports have been produced with the intent of providing world-class comprehensive information regarding the financial situation of Walcha Council. We understand that some of our empirical analysis is quite imposing but believe that complexity is unavoidable if we are to provide decision-makers with the very best possible information. Our intended audiences for these reports are the Independent Pricing and Regulatory Tribunal (IPART) and Councillor body. Community members are certainly encouraged to read these reports but it might be noted that we will produce tailored products specifically for community engagement purposes: public information sessions, supplementary materials and explanatory videos.

We acknowledge that Council staff and Councillors have been working hard for some time to improve the financial sustainability of Walcha Council. Indeed, we are extremely impressed by the wide-ranging and prudent measures that have already been taken. However, it is clear that even more needs to be done to improve the financial sustainability situation in Walcha.

Financial sustainability can be defined as 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). Financial sustainability differs in important ways to the much narrower concept of liquidity (the capacity to pay bills when they fall due): it requires that current residents not only fund operational expenditure, but also their share of the consumption of long-lived assets. In this regard it is important to understand that a failure to fund needed infrastructure and maintenance establishes an implicit debt for the next generation (which is equivalent in an economic sense to explicit debt with a bank).

When local governments fail to become financially sustainable this casts a burden on the next generation and can also attract the attention of regulators and thus lead to disagreeable interventions. For instance, at present two New South Wales (NSW) local governments are in administration as a result of their failure to demonstrate financial sustainability. Administration means that the Councils have been suspended and that the residents no longer have a democratic voice in matters that affect their local government area – such as the setting of fees and charges, taxes (rates), sale of assets, or service levels.

A second kind of disagreeable intervention that is sometimes forced onto local communities that are unsustainable is amalgamation. In 2016 the NSW state government executed a program of forced amalgamations called *Fit for the Future*. This was largely guided by NSW Treasury (TCorp, 2013) evaluations of financial sustainability. Walcha was initially identified for amalgamation in response to the assessment by TCorp (2013, p.18) that it had ‘weak’ financial sustainability and a ‘negative’ outlook. To put this assessment into perspective it is important to note that Walcha received one of the lowest financial sustainability ratings provided by TCorp (2013): just fifteen percent of the then 152-member peer group were deemed to have an equivalent or worse financial sustainability position. Moreover, most of the local governments which received weak ratings were subsequently amalgamated.

Mainly for political reasons Walcha managed to avoid forced amalgamation in 2016. As part of its response to the amalgamation proposal the Council suggested that it would pursue efficiencies, eliminate wards, reduce the number of Councillors, and explore a ‘possible special rate variation’ (Walcha Council, 2016). Only some of these things have been actioned over the ensuing five years¹.

At the time of *Fit for the Future*, Walcha residents were surveyed by Council. A summary of results follows (Walcha Council, 2016):

- 84% of residents opposed amalgamation.
- 66% of residents were in favour of reducing the number of Councillors.
- 61% of residents were in favour of dismantling the system of wards.
- Only 43% of residents were in favour of paying increased rates ‘to assist Council improve its infrastructure’.

Unfortunately, it appears that some residents may have laboured under the misapprehension that paying additional rates was an option only necessary if improved infrastructure was desired. This is not correct. Our investigation of matters at the time reveals that a SRV was absolutely necessary back in 2016 to mitigate the negative outlook for the TCorp (2013) evaluation of weak financial sustainability. Moreover, delaying this necessary rate increases has compounded extant fiscal insufficiency and means that higher rises will now be necessary to rectify earlier neglect.

¹ For instance, the reduction to Councillor numbers has not yet occurred and the proposition that a SRV might be needed is only now being investigated in earnest. This is no criticism of the Councillors or staff – there have been many competing pressures on their time and some of the proposed actions were clearly path dependent.

It is important to recognise that the threat of amalgamation is still a live matter with current state politicians refusing to rule out amalgamations in the future. Moreover, regulators and the 'experts' that they engage cling to misconceptions regarding economies of scale and thus are predisposed to the amalgamation 'solution'.

Local governments across the state are experiencing acute fiscal distress as a result of recent global and national events. In particular, COVID-19 gave rise to a number of unplanned direct costs to local government such as compliance with health orders, significant changes to business practice, and the expense of additional sick leave. Furthermore, COVID-19 has also given rise to considerable indirect costs – most notably budget overruns associated with stimulus rollout, and high inflation. Inflation is particularly problematic because it reduces the real purchasing power of the revenue that Councils collect. Moreover, the Independent Pricing and Regulatory Tribunal (IPART) rate cap for this financial year was set at just 0.7% for Walcha, well below the current Consumer Price Index of 6.1%². Furthermore, local governments have been burdened by unhelpful regulatory decisions, along with cost-shifting by the NSW state government.

In addition, to these challenges faced by most local governments in the state Walcha Council has a unique set of problems referred to by economists as operating environment constraints. These include a small, ageing and declining population, a relatively large road network, little development interest, a significant area of state forest, and low population density. As will be demonstrate in this, and other reports, these operating environment constraints feature as deleterious determinants with respect to efficiency and capacity to pay taxation, fees and charges.

The present report examines scores of metrics in order to generate a comprehensive understanding of Walcha's financial sustainability and hence need for a special rate variation. The reports have been authored by Professor Joseph Drew (currently head of the UTS Australian Centre for Local Government), Professor Masato Miyazaki (an international expert from Japan), and Professor Ferreira (an expert from Portugal). The work thus draws on many decades of scholarship and recognised expertise as well as world's best empirical analysis (such as econometric and data envelopment analysis). All three scholars have been afforded unhindered access to Walcha Council's records and operated in a strictly independent manner. It is important to note that some of the matters raised in this report are investigated even more thoroughly in the Capacity to Pay, Efficiency, and Debt Capacity reports respectively. These subsequent reports have also informed the commentary provided herein.

Some of the empirical analysis in the aforementioned reports is based on ratios generated from audited financial data. In these instances, Walcha has been compared to a peer group of fourteen similar local government areas³. The peer group was

² Moreover, the lesser-known Producer Price Index (PPI) is much more relevant and currently sits at 5.6%. CPI refers to a basket of household goods and services whereas PPI refers to goods and services consumed by producers. Readers are encouraged to watch my videos on the YouTube channel 'Professor Joseph Drew' for more information on calculating inflation, the effects of inflation on local government, and the inflation outlook.

³ Identical Councils can never be found and it is possible that people might question precisely which peers should have been used. It is for this reason that the more sophisticated econometric and data envelopment

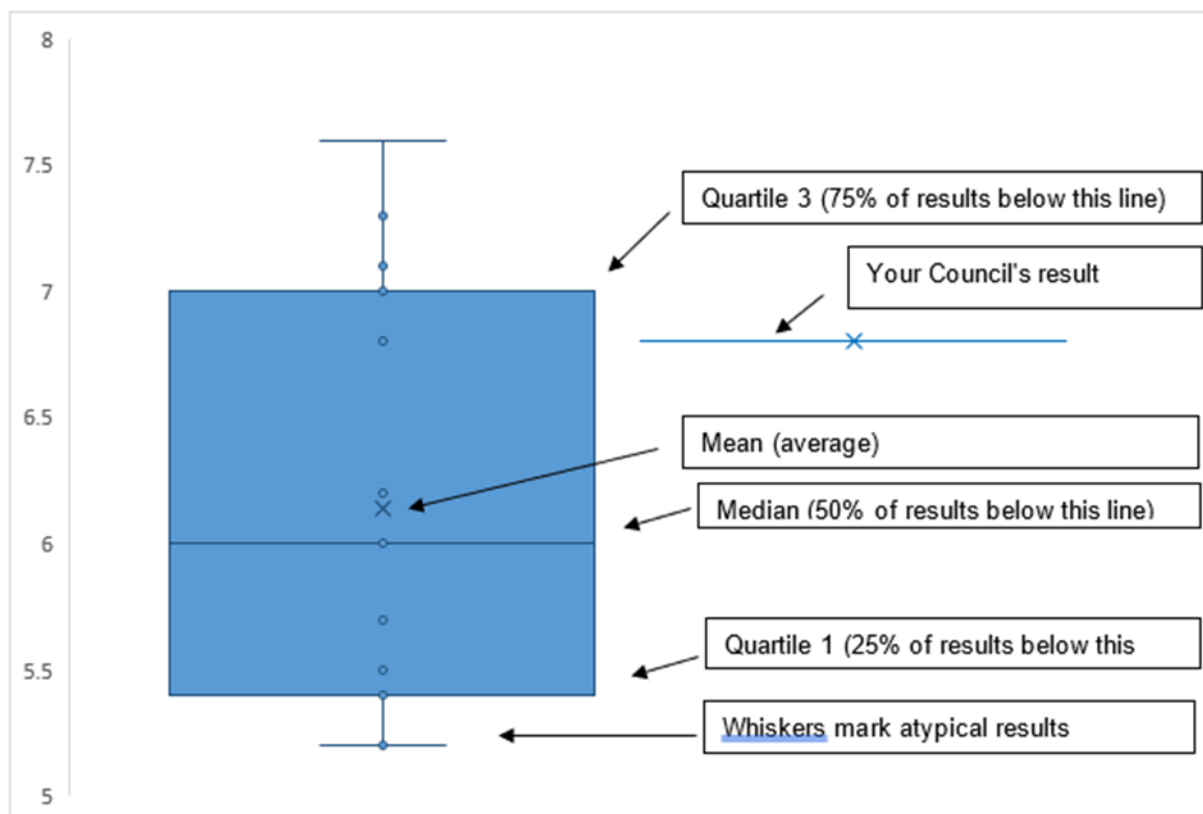
selected by examining the Office of Local Government classification schema and incorporating Council feedback into which communities were likely to be most similar to Walcha. The fourteen local governments used are detailed in Table 1 below:

Table 1. Peers Used in Comparisons

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

Comparative data is presented in box and whisker plots which are the best way to illustrate a particular council's performance relative to its peer group. Figure 1 explains how best to interpret such a plot.

Figure 1. Interpreting Box and Whisker Plots



Econometric analysis and data envelopment analysis (DEA) used in the other reports – and employed to support the commentary in this present work – is based on an expanded peer group of fifty-seven NSW local governments. The selection of this larger peer group was informed by the Australian Classification of Local Government

analyses – employing an expanded peer group of fifty-seven councils - is given the most weight in our review of Walcha's predicament.

schema and is necessary to ensure even more robust results. Sophisticated empirical analyses of the econometric and DEA kinds are far superior to ratio analysis and should be given most weight for decision-making purposes. Moreover, it is important to note that whilst comparisons provide useful context it is most helpful to try to focus on the performance of Walcha Council against itself over time.

The remainder of this report is divided as follows. In the next section we review several financial ratios comparing Walcha Council to both itself over time, and the fourteen-member peer group. We also draw on a comprehensive eleven-year database of financial and demographic data as well as the aforementioned sophisticated empirical analyses detailed in the other reports. We conclude with a summary of the Council's financial position as well as our recommendation regarding the need for a SRV.

2. Analysis

Some readers may be aware that the Office of Local Government (NSW local government's regulator) mandates the use of ten ratios for performance monitoring purposes⁴. Some of these ratios were used during Fit for the Future (FFTF), and it is important to be conscious that the scholarly literature has outlined significant flaws with both the design and benchmarks of these metrics (see, for example, Drew and Dollery, 2014a). Moreover, such a small number of ratios is an extreme case of synecdoche (the rhetorical device of taking a part to stand for a whole) and can't possibly accurately reflect the circumstances of Council (see Drew et al., 2018). Accordingly, in the work that follows, we augment the synecdochical and flawed performance monitoring regime in use for NSW with an additional suite of forty-plus metrics.

The operating ratio is one of the mandated metrics for NSW, and featured heavily during FFTF. It essentially takes the accounting surplus (less capital grants) and deflates this by operating revenue to allow for fair comparisons. The benchmark has changed several times in recent years and is currently set at 0.00% (break-even). A more reasonable benchmark is the previous guide of an average of break-even over three years because unexpected expenses (arising from say natural disasters), and fluctuations of revenue make consistent annual achievement difficult.

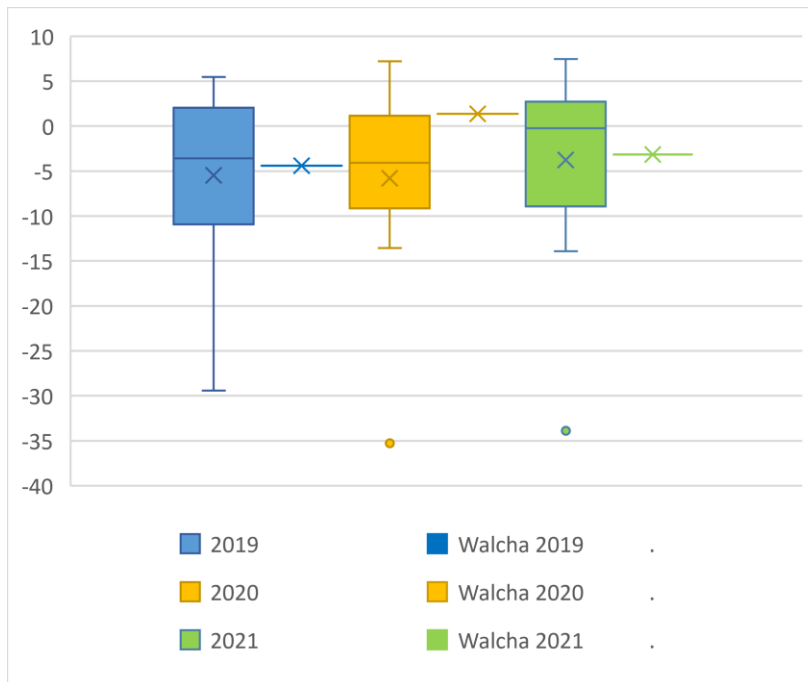
Walcha Council is a case in point, with extremely large misses (such as -38.52% in 2011 and -26.12% in 2013) only partly mitigated in a few years which were notable for some contributions by unusual accounting estimates (+14.34% in 2016, and +16.66% in 2017).

Figure 2 provides details for Walcha over the last three financial years. In only one year was a slim positive result (+1.37%) achieved⁵. This ratio thus clearly supports the view that matters are not sustainable at Walcha.

Figure 2. Operating Performance Ratio

⁴ These ratios are published in the audited financial statements.

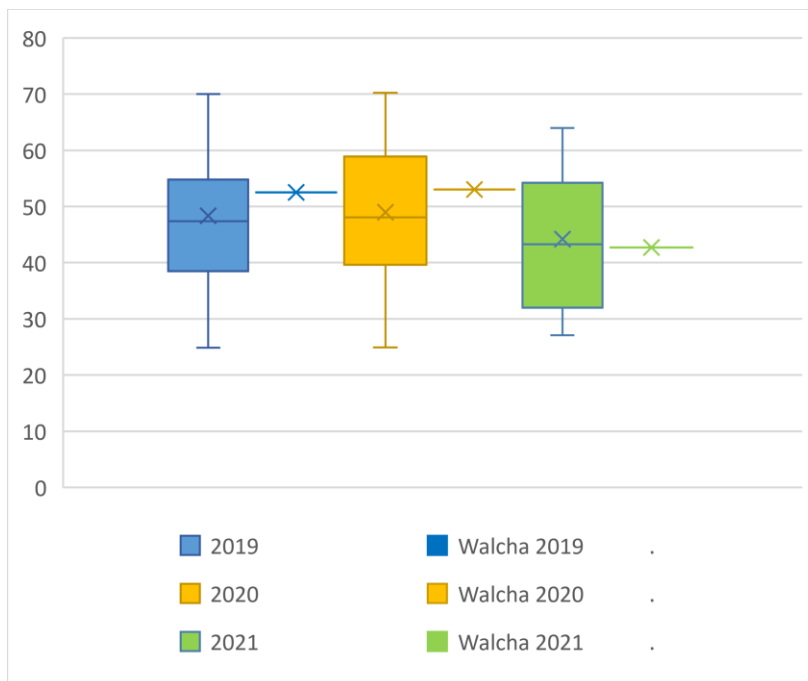
⁵ Like many accounting outcomes this was mostly due to timing of grants and payments.



The own-source ratio, on the other hand, is flawed *ab initio*. It entirely neglects the large corpus of scholarly literature on the need for horizontal fiscal equalisation grants. It also neglects the great variation in possible revenue streams for different councils and has dangerously encouraged some Councils to put their communities at risk by entering into business ventures. Indeed, the idea of having a single, apparently arbitrary, benchmark defies formal logic tests.

In Australia, the Commonwealth Government provides money to local governments principally for the purpose of achieving horizontal fiscal equalisation (HFE). HFE is defined in s6(3)(a) of the Act (1995) as ‘ensur[ing] that each local government body in a State is able to function, by reasonable effort, at a standard not lower than the average standard of other local governing bodies in the State’. This would mean that small rural councils, such as Walcha – burdened by large but essential road networks – ought to receive considerably more grants than, say, wealthy inner city local government areas. Large grants have an inverse association with own-source income. Hence, there would be something terribly wrong if Walcha Council did indeed reach the benchmark for this metric.

Figure 3. Own Source Ratio



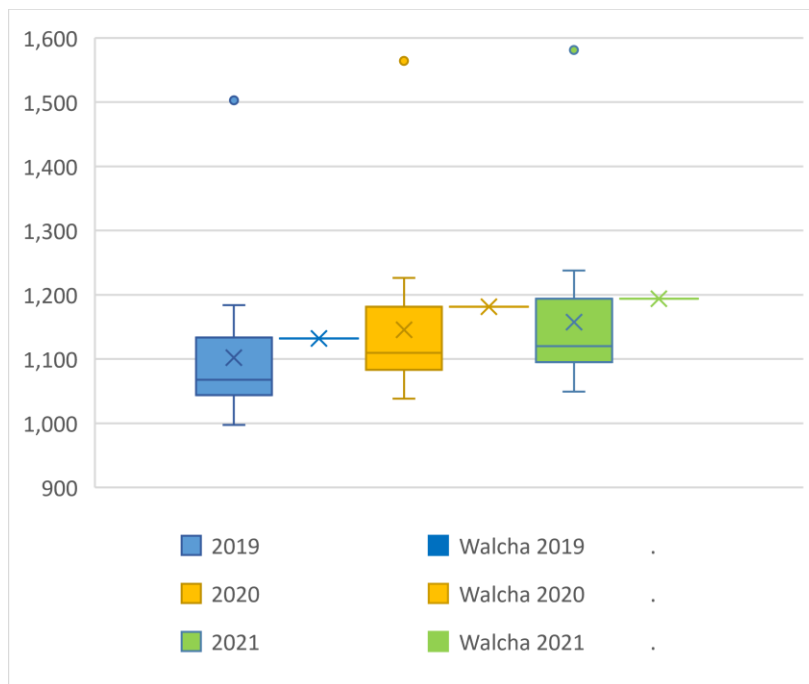
The Financial Assistance grants (FAGs) are split into two nominal components, despite this practice being at odds with sound grants scholarship. The first component is a road grant. Figure 4 plots the road grant on a per kilometre basis for Walcha Council and it's peer group for the last three years. On the face of things Walcha appears to be getting a fairly good result, but in this case the comparison with a small peer group (which are all being disadvantaged by chaotic and empirically indefensible practice) is quite deceiving.

For example, in the last allocation Walcha received \$981,243 (which equates to \$1,193 per km) in road grants. However, the City of Sydney received \$1,441,144 (\$4,803 per km) and North Sydney \$498,195 (\$3,483 per km). These latter results make the Walcha allocation seem acutely insufficient. Moreover, the incongruity in allocations testifies starkly to the inequity in current practice. Indeed, there are many more examples we could point to which show that the existing allocations disadvantage rural communities and fail to reflect consistent practice.

A failure to provide adequate road grants means that the community at Walcha is obliged to pay more taxes (rates) to fund public goods that often have non-local effects⁶. This is less than ideal in both a moral and economic sense.

⁶ Roads are essential for the movement of agricultural commodities, in particular. Sale of these commodities is an important component of National growth and federal tax receipts, yet Walcha residents are asked to pay a disproportionate share of the costs for this infrastructure that has significant spill-over effects.

Figure 4. Road Grant per Kilometre



Matters are slightly better with respect to the second category of payments which are supposed to compensate for economic disadvantage. As detailed in Figure 5, Walcha does receive less than the typical for the peer group, but this is broadly acceptable given the demographics of the other local government areas under analysis.

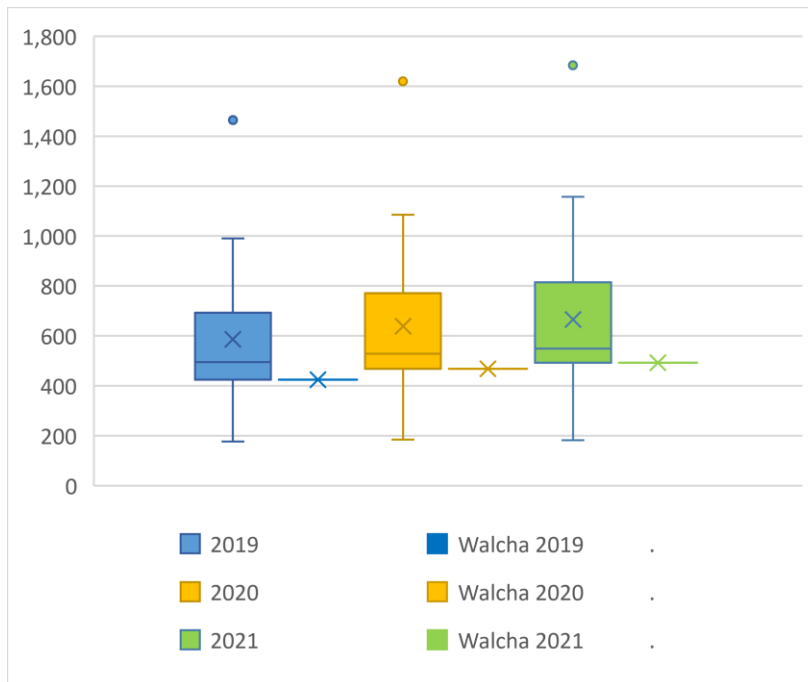
Moreover, all of the peer group receives considerably more money, on a per assessment basis, than do the inner-city peers that we referred to earlier⁷. However, the fact that the wealthiest people in the nation are receiving *any* financial assistance grant at all speaks to a broken system that can't possibly achieve the HFE aspirations of the enabling legislation⁸.

Notably, for both types of grants there are significant risks regarding future receipts. In particular, there is a reasonable chance that the Federal government faced with its own budget emergency may elect to freeze the indexation to FAGs like it did back in the 2014-15 budget announcements. Doing so would make Walcha's position more precarious, which is why it is critical that the Councillors at Walcha and other rural areas around the state step up their efforts for more morally and empirically defensible grant allocations.

Figure 5. General Component of Financial Assistance Grant per Person

⁷ North Sydney received a total of \$1.573 million, and the City of Sydney over \$5.165 million for the relevant allocation.

⁸ In s6(2)(b) of the Financial Assistance Act 1995 (CTH) it states that 'no local governing body in a State will be allocated an amount under section 9 in a year that is less than the amount that would be allocated to the body if 30% of the amount to which the State is entitled under that section in respect of the year were allocated among local governing bodies in the State on a per capita basis'. This misguided clause in the legislation has turned a HFE grant scheme into a vertical fiscal imbalance hybrid scheme and therefore means that our poorest communities cannot possibly receive a basic standard of services at a fair tax price.

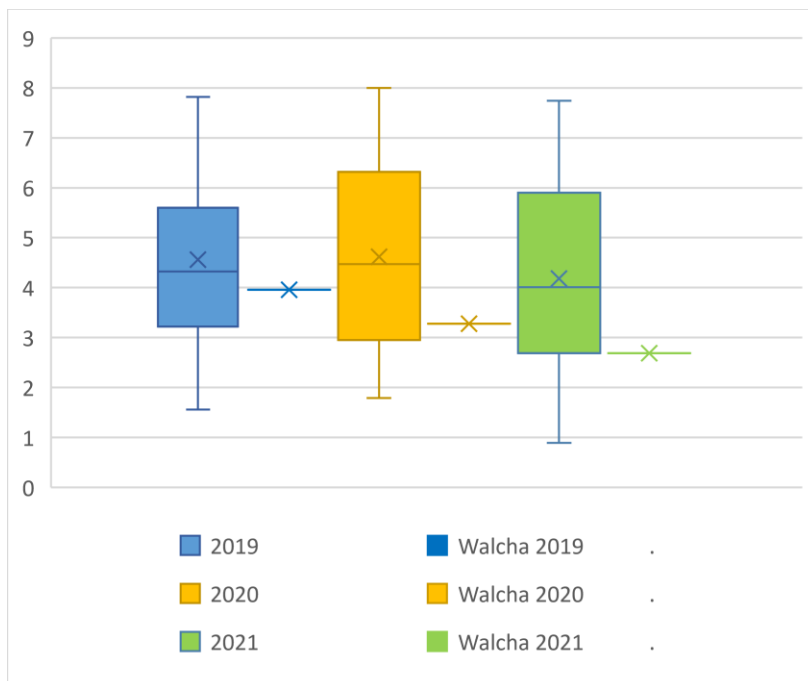


The unrestricted current ratio is a metric often used in the commercial sphere to gauge the liquidity of an entity. However, the benchmark apparently imported with little thought to the circumstances faced by local government is on-the-whole quite unhelpful⁹. Indeed, Councillors and community alike should take note that the mandated metrics as a suite are demonstrably unsuited to the purpose of measuring financial sustainability, as evidenced by recent ‘surprise’ local government financial failures.

Thus, whilst Walcha exceeds the arbitrary benchmark for this ratio it would be inadvisable to take any comfort from this outcome. Indeed, as demonstrated in Figure 6 the ratio has been trending down in recent years and is far lower than the peer group which is generally quite financially distressed. The unrestricted current ratio is thus a matter of concern that cannot be allowed to continue for much longer.

⁹ In particular, revenues in local government are particularly lumpy with most receipts occurring on a quarterly basis. A current ratio calculated at the end of the financial years is thus likely to give rise to serious misapprehensions.

Figure 6. Unrestricted Current Ratio

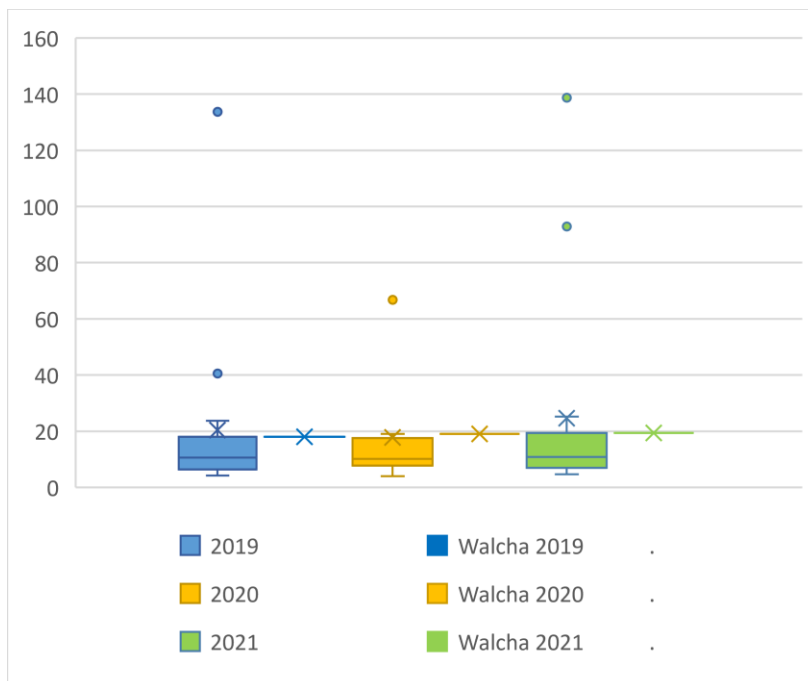


The debt service ratio is another metric imported from the corporate world, replete with an arbitrary and particularly unhelpful benchmark that few, if any, Councils fail to achieve.

Indeed, the logic behind the ratio is flawed when applied to local government because the denominator includes principal repayments. This means that a local government is penalised for aggressively paying down debt, which is sometimes the most prudent thing to do. Moreover, because debt in government is not associated with revenue generation, the whole metric ceases to make sense.

Like all ratios, the debt service metric only incorporates a few inputs which in this case categorically fail to capture the things that really predict debt capacity (see our sophisticated econometric work in the Debt Report).

Figure 7. Debt Service Ratio

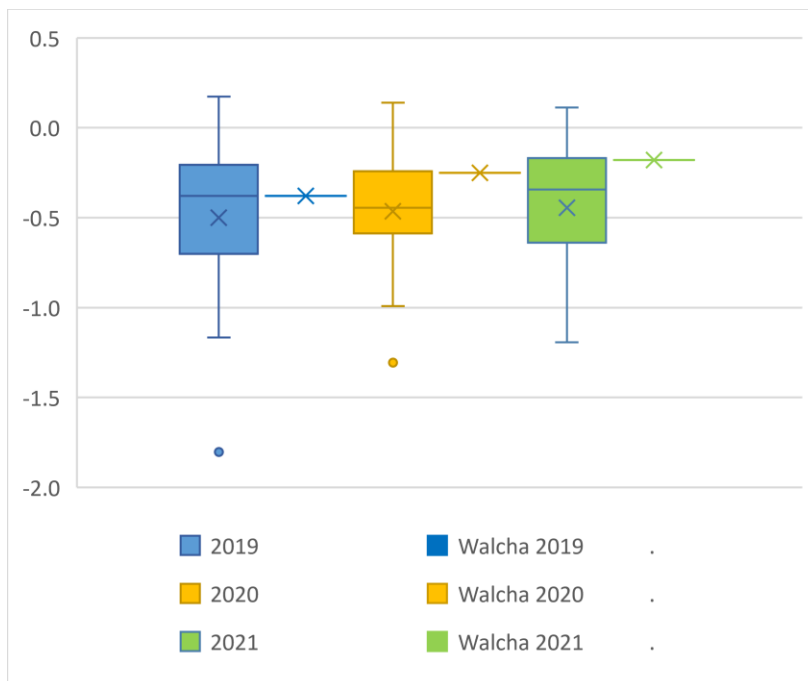


The nett financial liabilities ratio is a much better metric for estimating debt capacity which probably explains why it is in use in Queensland, Western Australia, and South Australia. The version of the nett financial liabilities ratio that we employ here sets the numerator as total liabilities less current assets, and the denominator as total revenue less capital grants. Thus, the numerator covers much more of a local government’s liabilities, such as staff entitlements and provisions (rather than just explicit loans). By expressing matters in terms of operating revenue a better guide can be had of capacity to repay (although the econometric approach that we employ in the Debt Report is far superior).

For the nett liabilities ratio, the preferred result is negative (because this means current assets exceed total liabilities), and the preferred direction of trend is downwards.

Walcha has a negative result which suggest capacity to take on additional debt for efficiency enhancing purchases (see Debt report). However, the upwards trend is disappointing and speaks to the general malaise being felt by the Council attempting to recapture financial sustainability in a clearly challenging operating environment.

Figure 8. Nett Financial Liabilities



Depreciation accruals have been a source of ongoing difficulties for all local governments in Australia since the practice was mandated for use a few decades ago. Depreciation is meant to record the consumption of long-lived assets over time. Otherwise stated the expense for building a road or purchasing a truck is not all recorded at the time of purchase but is instead allocated over the expected life of the durable asset (Drew, 2021).

Three key problems exist for depreciation at the government level. First, it is notoriously difficult to estimate the useful life of especially long-lived assets such as road foundations, buildings, and the like. If this useful life estimate is incorrect, then the depreciation expense each year is likely to be incorrect. Second, there is often no active market for the kinds of assets that a local government owns and without a market of this kind it becomes impossible to check the fair value¹⁰ of the asset. Third, a combination of conflated historical prices (that neglect the economic concept of time value in money) and changes to technology mean that the depreciation accrued is often not a reasonable reflection of the consumption of resources in present-day dollar terms.

Nevertheless, we need to have some way of recording what the present generation is consuming (for the purposes of estimating financial sustainability) and this accrual item is the best that we have for the moment. Depreciation typically accounts for around a quarter of expenditure for local governments in NSW and is thus a significant contributor to the operating result.

¹⁰ Fair value is the amount for which an asset could be exchanged in a transaction between knowledgeable willing parties. However, there are no willing parties to buy local roads, footpaths and the like. Without this reference point it is near-impossible to determine whether the historical cost less accumulated depreciation is a realistic figure.

Moreover, many of the metrics employed in NSW to measure financial sustainability impute depreciation in some way or another therefore making it essential that we take some stock of Walcha's accuracy in this area.

In Figure 9 we compare the depreciation rate of IPPE (infrastructure, property, plant and equipment), to that of the peer group. Depreciation rates ought to differ slightly between local government areas because of the different mix of assets, as well as different climatic and usage rates (which will affect consumption). However, it is notable that Walcha had the lowest rate of depreciation in 2019 for the peer group which probably created a better impression of financial sustainability than might have been warranted. Things have improved in more recent years, however a result in the bottom quartile (lowest twenty-five percent) suggests that further alterations are likely in the future (thus making the picture of financial sustainability even worse than it currently appears).

Indeed, looking back on historical data it is clear that depreciation accruals have not always been an accurate reflection of matters and inconsistent practice is therefore likely to have coloured the perception of decision-makers and community regarding financial sustainability. For instance, during the three years prior to 2014, total depreciation at Walcha was consistently recorded at approximately \$4.3 million. In 2014, this was significantly reduced down to \$2.6 million, reaching a low of just under \$2.3 million in 2016. As we noted in Figure 9, depreciation has been approaching more reasonable levels in recent years.

In Figures 10 through to 13 inclusive we review specific rates of depreciation for the major categories of assets within IPPE.

Figure 9. Total Depreciation of Infrastructure, Property, Plant and Equipment Deflated by Carrying Amount

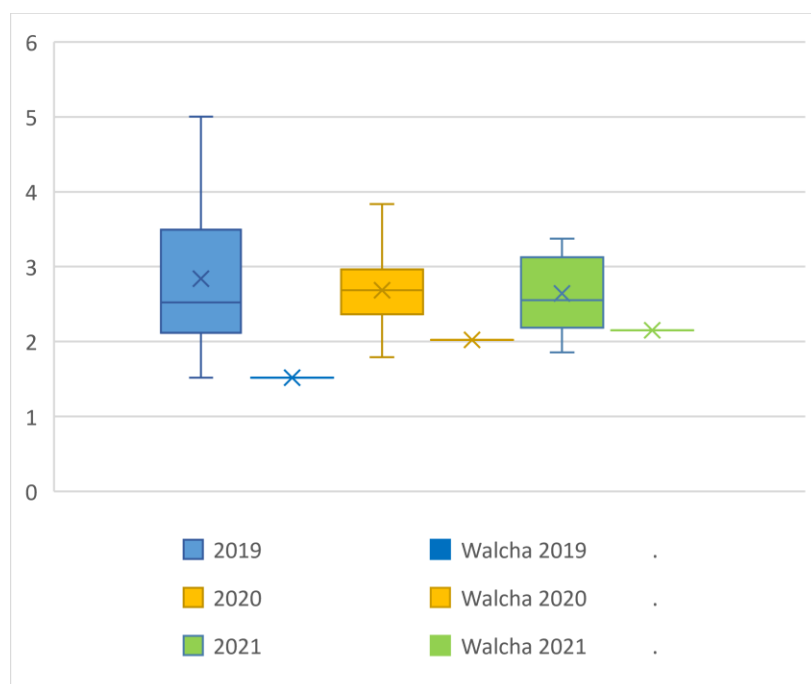
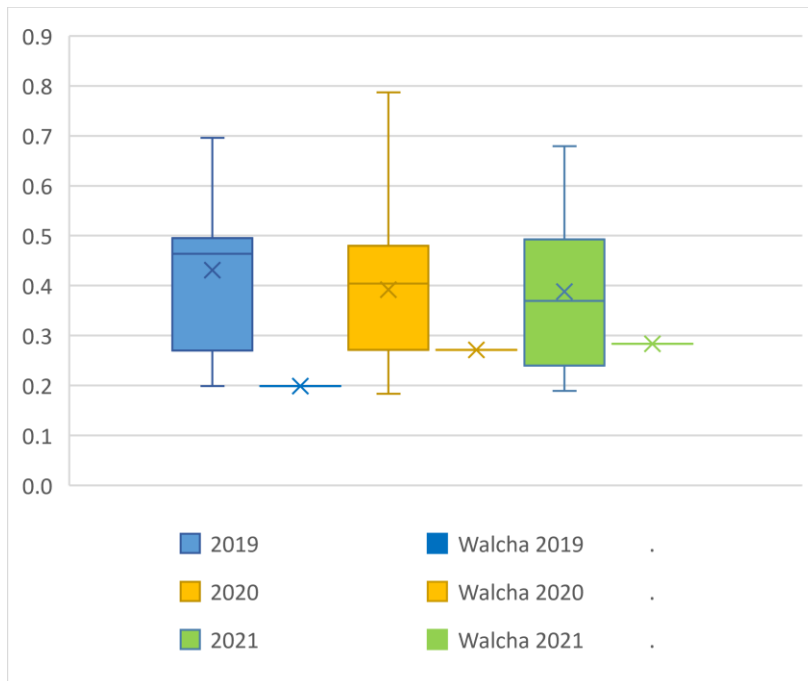


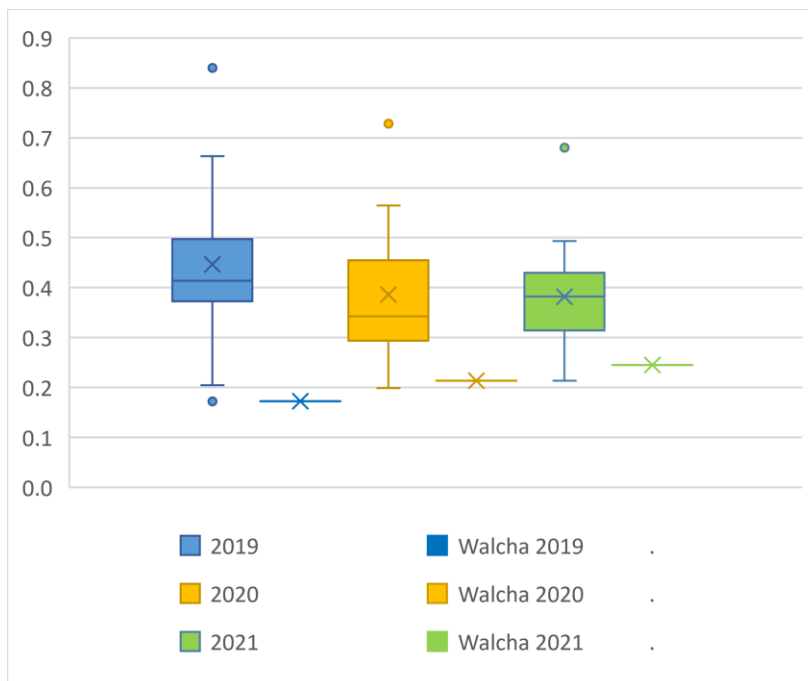
Figure 10 suggests that depreciation rates for plant and equipment may be more accurate than other classes of assets, although it still clearly warrants further attention.

Figure 10. Depreciation of Plant and Equipment Deflated by Carrying Amount



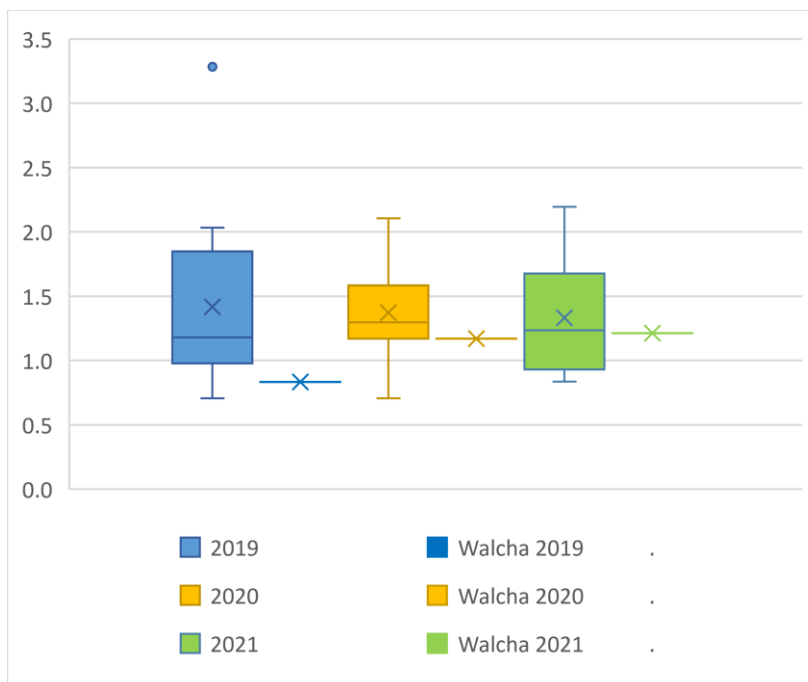
The relative rate of depreciation for buildings is well below typical results and warrants further investigation (notwithstanding the fact that different building materials are likely to have a significant effect on depreciation rates for this class of asset).

Figure 11. Depreciation of Buildings Deflated by Carrying Amount



Depreciation for roads, on the other hand, is pretty typical and therefore likely to be more reflective of the consumption of these durable assets. Nevertheless, climatic conditions (extremes of cold and high rainfall), when combined with high usage rates, by logging trucks and the like, do mean that further investigations might be prudent.

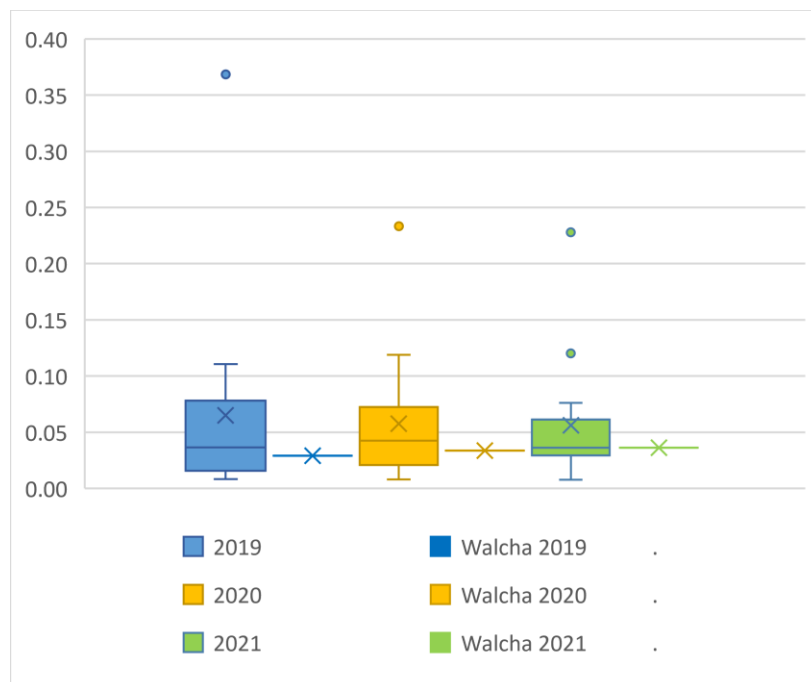
Figure 12. Depreciation of Roads, Bridges and Footpaths Deflated by Carrying Amount



In Figure 13 we plot data that suggests stormwater assets are probably being depreciated according to generally accepted parameters.

In sum, Council has clearly been doing some good work to improve the accuracy of depreciation rates in recent years however more attention is required in certain areas.

Figure 13. Depreciation of Stormwater Drainage Deflated by Carrying Amount



The nexus ratio is designed to measure how much of operational expenditure is covered by fees and charges. For non-public goods¹¹ and services it is essential that the fee or charge levied completely covers the cost of production (including overheads, asset maintenance, and ultimate replacement of capital-intensive equipment used in production). Often Councils are reticent to charge high fees for services provided however it must be acknowledged that when long run marginal costs¹² are not recovered then both financial sustainability and equity are likely to be eroded.

Equity is a particular matter of concern because when the full cost of providing a service is not recouped from the citizen-consumer, then it means that other ratepayers are implicitly subsidising consumption. When this occurs for items of a quasi-private nature – such as potable water or sewer services – then this is clearly inequitable because it means that people who can't even access a given service are being forced to fund consumption by others. In addition, the failure to charge the full cost of providing a service generally results in inefficient levels of consumption – that is, people will tend to demand too much (as well as too high quality) when they are not required to pay the full cost of consumption.

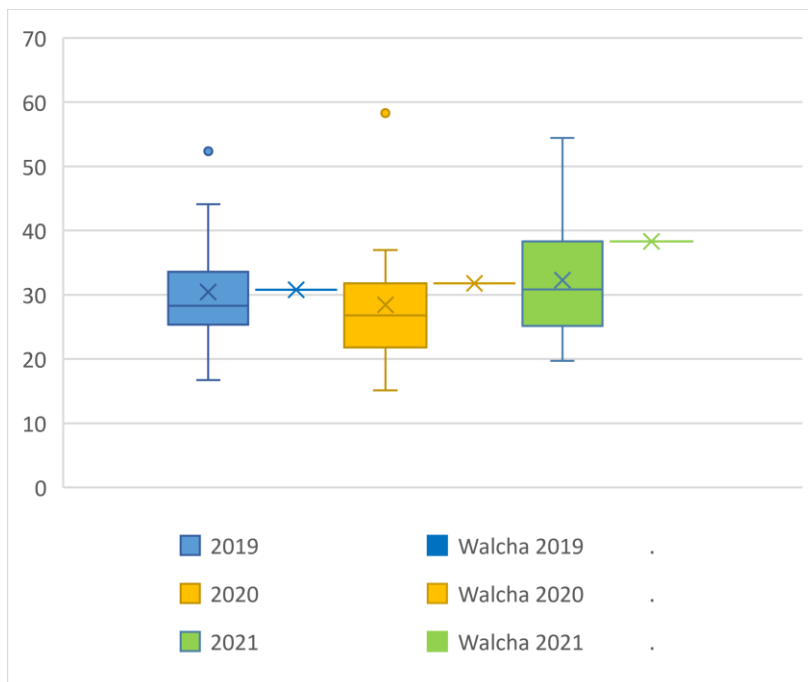
¹¹ Public goods are items that are non-rival (my consumption does not appreciably reduce your opportunity to consume) and non-excludable (it is impractical to stop me consuming the item in question). Public goods include things such as local roads, and street lighting. Quasi-private goods generally have the opposite qualities – that is, my use means that there is less for you to use, and I can exclude others from consuming the item. Quasi-private goods include things such as potable water.

¹² The long run marginal cost is the total expense of producing one more item when all overheads, maintenance and ultimate capital equipment replacement are accounted for.

The matter of striking an appropriate nexus is further complicated by merit goods – goods and services that government have decided ought to be consumed in greater volumes because of some sort of perceived virtue (Drew, 2020). Merit goods include things such as swimming pools, libraries and the like. In these instances, ratepayers are being deliberately required to subsidise the consumption of the good in question. However, it is critical that the subsidy is set at the correct level (which can be determined by experimentation), and also that the level of subsidy is clearly communicated to both the obligatory donor as well as the recipient (to send clear price signals). Drew (2021) describes the process of carefully setting subsidies in his recent book *Saving Local Government*.

As it turns out, Figure 14 suggests that Walcha has a comparatively high nexus rate which probably means that there are relatively few opportunities to charge more appropriate fees for goods and services of a quasi-private nature. Nevertheless, given the fiscal plight of the Council it is important that more attention is paid to long-run marginal cost pricing and the setting (and communication) of subsidies – matters that we will discuss at further length in our Efficiency report.

Figure 14. Nexus



The capacity to pay additional rates and fees is a key concern for the Independent Pricing and Regulatory Tribunal (IPART). Generally commercial consultants produce a number of ratios to try to prove capacity. However, ratios of this kind can be very misleading as the following graphs will illustrate (hence more sophisticated econometric analysis of the type produced in the Capacity to Pay Report is required).

In Figure 15 we plot total rates, fees and annual charges, on a per assessment basis, for Walcha and the peer group. On the face of things, it appears that residents of Walcha are paying at the level commensurate with the top quartile (twenty-five percent) of the cohort. However, this impression is misleading because averages are

considerably skewed by outliers¹³ (unusually high or low results). Indeed, skewing is a big problem with the ‘averages’ approach adopted by regulators, especially because the effect is generally ignored by commercial consultants (the other major problem is that Walcha isn’t an average council in terms of operating environment and thus an average revenue profile would be unlikely to result in financial sustainability).

For the case of Walcha, the problem mainly arises because of the large ratio of substantial farms relative to a small residential and business district. Because farming is a land intensive business – and also given the land tax regime that operates in NSW – having a relatively high ratio of farms will skew the overall result to the right (that is, make the average payment per assessment look far higher than what is truly typical).

Nevertheless, one useful thing can be discerned from Figure 15 – relatively consistent increases in fees and charges that occurred between 2019 and 2020. This suggests that Council is likely to be following the practice of most NSW local governments in increasing fees and charges by CPI for most years. This practice is not financially sustainable and should be changed according to the process outlined by Drew (2021) in *Saving Local Government*¹⁴.

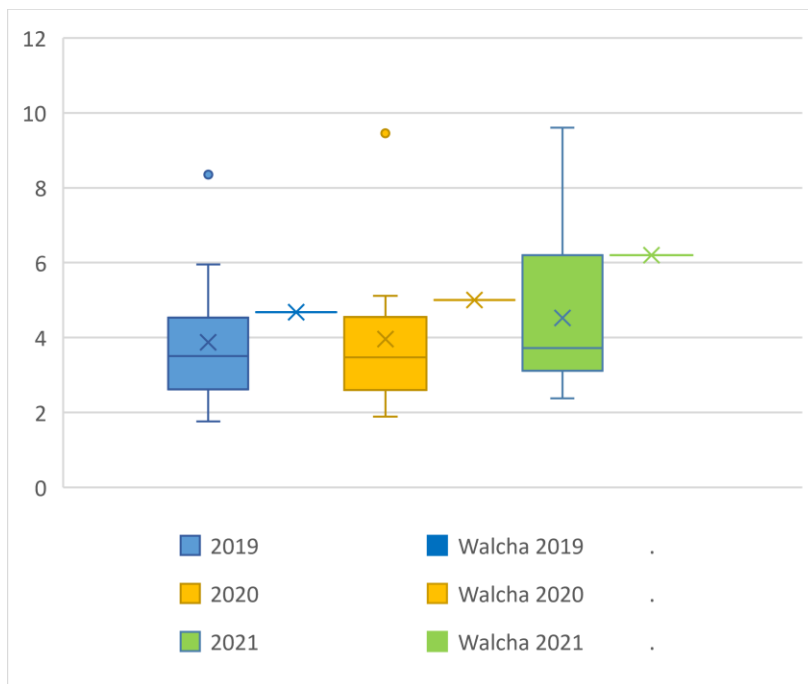
¹³ To understand why averages can be misleading consider the set of numbers:

1, 2, 3, 3, 4, 107

Here we see that there is a large outlier (107). The effect of this outlier is to skew the average to the right (the mean here is 20 which is hardly indicative of the typical result).

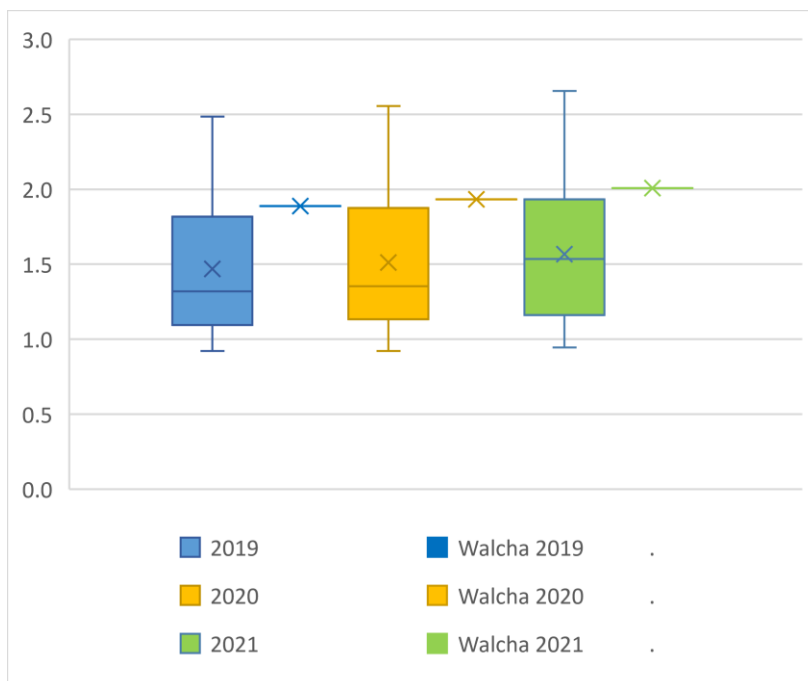
¹⁴ Essentially, all non-regulated fees and charges should be carefully priced according to the long run marginal cost (less a carefully justified subsidy in the rare circumstances where it is appropriate) described earlier, on a rotation basis during each political term. That is, around a quarter of the fees and charges should be scheduled for careful examination each year. Between careful examinations the appropriate Producer Price Index (PPI) should generally be used. For full details see Drew (2021).

Figure 15. Rates, Fees and Annual Charges per Assessment (\$'000)



A similar skewing of the data occurs for Figure 16 which focuses on only the rates component of revenues.

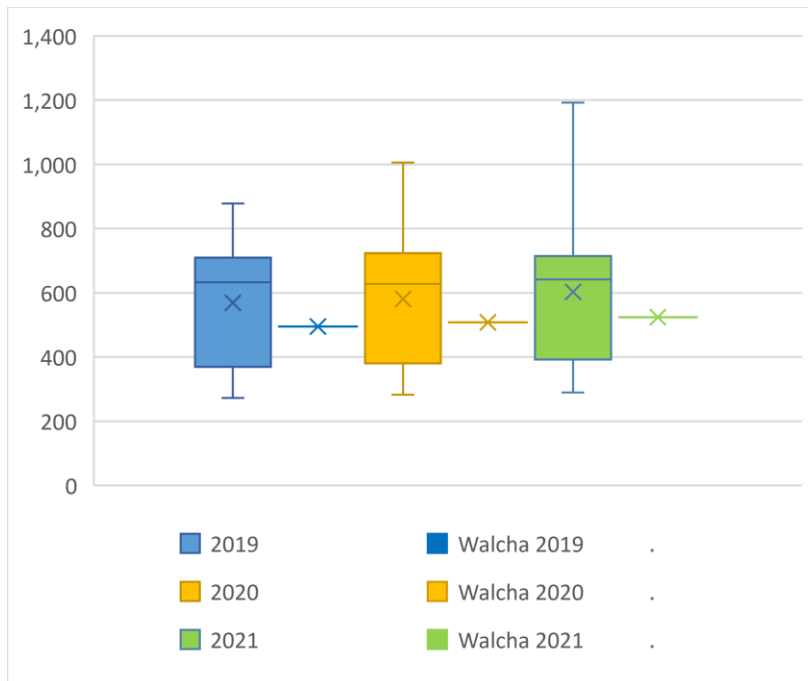
Figure 16. Total Rates per Property Assessment (\$'000)



When we disaggregate the overall rate data by category we quickly confirm the skewing hypothesis outlined earlier. Residential rates are, in fact, well below typical levels at Walcha, whether measured by either the mean (where Walcha is 12% lower) or the median (whereby Walcha is 21% lower). There is clearly capacity to pay higher rates even when examined by this relatively rudimentary method (more sophisticated

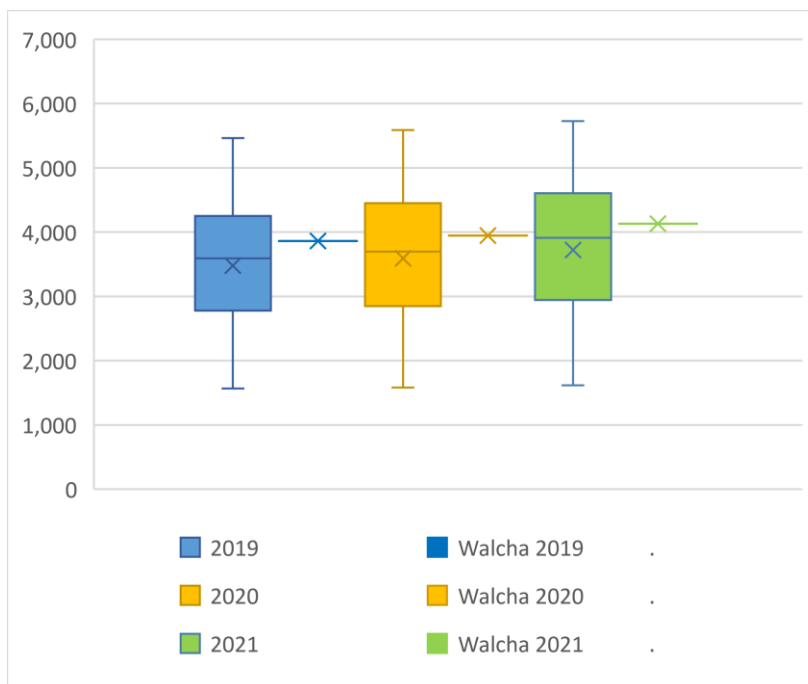
econometric evidence that quantifies precise capacity is presented in our Capacity to Pay Report).

Figure 17. Residential Rates per Assessment (\$)



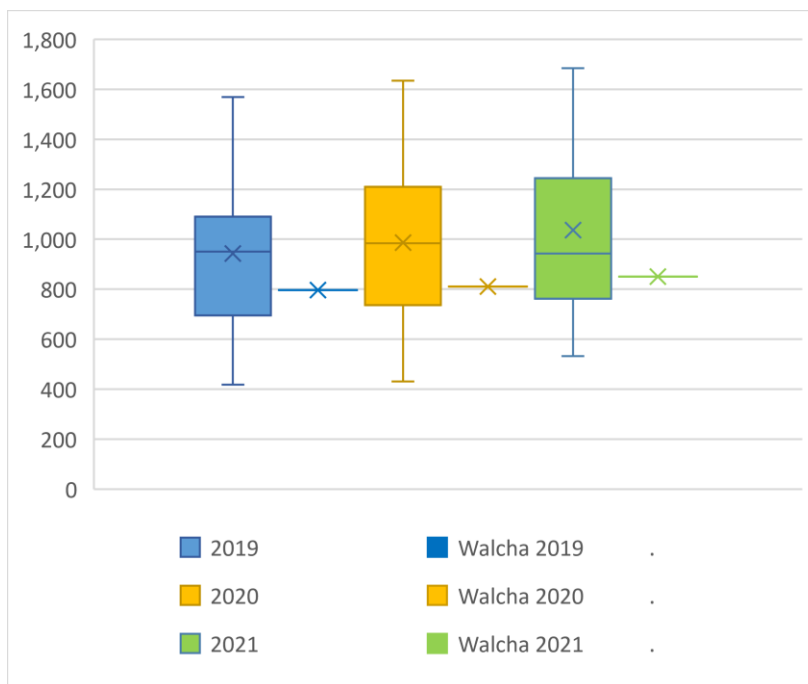
Farm rates are about typical for the peer group, although as we will demonstrate in the Capacity to Pay Report this metric is skewed by some very extreme outliers (unusually large farming operations that arithmetically pull the average up and thus create doubt regarding the typical nature of burdens).

Figure 18. Farm Rates per Assessment (\$)



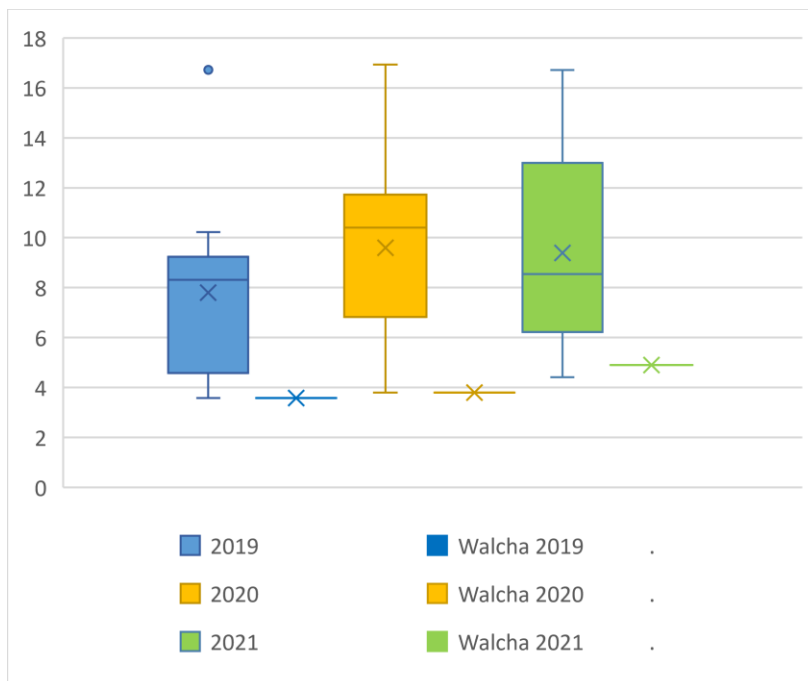
For business rates it appears that Walcha may be paying lower than the peer group. However, once again, the overall result is subject to skewing. Walcha is notable for not having any major retail chains such as Woolworths, large industrial complexes, or large truck-stop style service stations. This means 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, there is no skewing to the right (upside) at Walcha, but this kind of distortion does indeed occur for other councils in the peer group such as Gilgandra. The overall effect of this skewing is to cast doubt on any conclusion that might be made regarding business rates based on this metric alone (see the Capacity to Pay Report for more information).

Figure 19. Business Rates per Assessment (\$)



In Figure 20 we plot the rates and charges outstanding for Walcha and the peer group. As can be seen, the result for Walcha is regularly the lowest in the peer group which suggests that there are relatively few ratepayers in the local government area struggling to meet imposts. This result is a reflection of the efficiency and professionalism of Walcha Council staff, the strong community spirit in the area, as well as generally lower than average burdens placed on residents. The result, once again, is suggestive of additional capacity to pay, although levels of outstanding liabilities should be closely monitored in the event that a special rate variation is applied for and approved.

Figure 20. Rates and Charges Outstanding



Scholarly evidence has demonstrated a close relationship between budget accuracy and efficiency (see, for example, McQuestin et al., 2020). That is, higher budget accuracy is statistically associated with higher technical efficiency¹⁵. It is thus important for all local government decision-makers to reflect on past budget accuracy as well as what might be done to improve matters in the future.

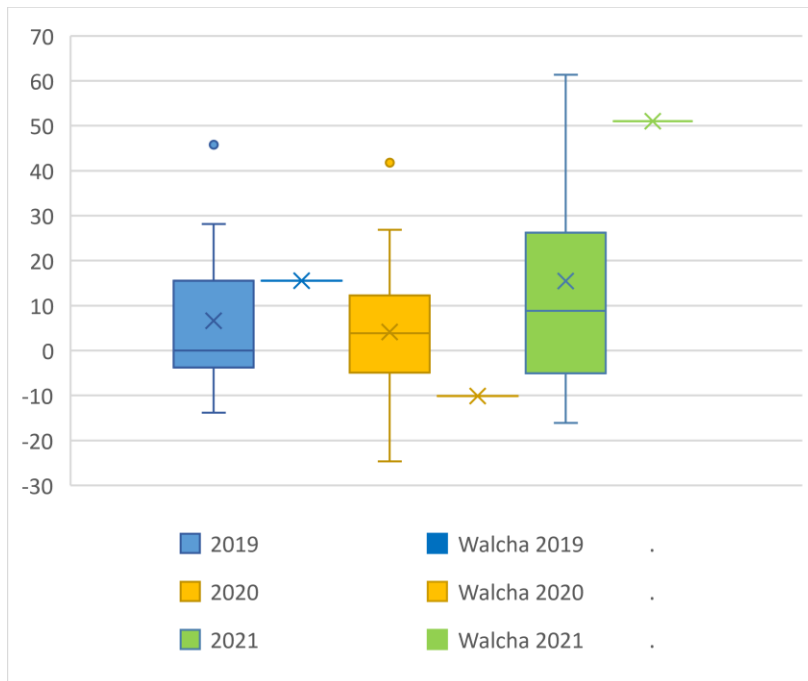
Figure 21 illustrates budget accuracy at Walcha which has been rather poor (frequently in the top or bottom quartile). Most of the inaccuracy relating to revenue was positive (and hence favourable) and probably reflects large flows of capital grants in recent years. Nevertheless, it warrants further investigation given that the scholarly literature demonstrates that each one percent of revenue inaccuracy is associated with a reduction to technical efficiency in the order of 0.11% (McQuestin et al., 2020).

To improve matters, it is important that all deviations greater than five percent are vigorously investigated (the ten percent threshold of the Office of Local Government is insufficient given the high response rate between accuracy and efficiency). Moreover, the reasons for deviations should be recorded in a dedicated log each year which ought to be reviewed just prior to striking the next budget (so that similar mistakes are not made again). Indeed, it is particularly important in a small rural council to keep detailed records of the reasons for budget deviations given that institutional knowledge generally resides in just a few staff who might retire or move to a different local government area. It is also important that the assumptions and estimates that contribute to each budget are accompanied by detailed reasoning from the Director involved in providing data. Only when assumptions are specified clearly can they be

¹⁵ Technical efficiency is one of three kinds of economic efficiency (see the Efficiency Report for further details). Technical efficiency measures the success of an entity with respect to converting inputs (staff and money) into outputs (the things that local governments do which can be proxied by number of disaggregated assessments, and length of sealed and unsealed roads respectively).

tested for uniformity and validity. Councillors ought to ask for good reasons to support the various assumptions put before them at budget time.

Figure 21. Deviation from Budgeted Revenue



The association between *expenditure* inaccuracy and technical efficiency is much stronger, whereby each one percent deviation from budget is associated with a 0.61 percent decrease to technical efficiency (McQuestin et al., 2020). It is therefore critical that similar efforts to those outlined for revenue are exerted with respect to this component.

Expenditure inaccuracy at Walcha is far too high, as illustrated by Figure 22. Moreover, the inaccuracy is positive and hence unfavourable to the operating result. It appears that project over-runs are the main culprit and senior management have advised that they have put in measures to rectify matters. This must be done effectively as part of the financial sustainability mitigation, and we encourage decision-makers to also incorporate the suggestions from research that we outlined in earlier paragraphs regarding logging of reasons for deviations and making it a requirement that all Directors specify their assumptions when contributing to the budget inputs.

Figure 22. Deviation from Budgeted Expenditure

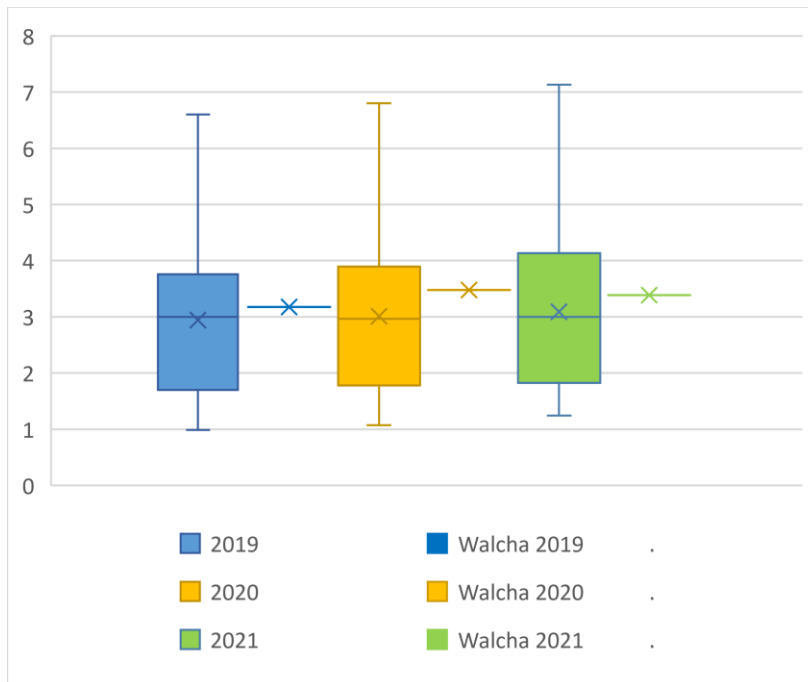


IPART have a particular concern for efficiency as part of their assessment process for special rate variations. Furthermore, the community has a right to expect high levels of technical efficiency reflective of the particular operational environment of Council. Accordingly, in the Efficiency Report we conduct a number of data envelopment analyses (DEA) which is the most sophisticated method currently available to scholars for analysing this attribute of local government.

For this present report, the two figures that follow focus on the staff expenditure at Walcha relative to the peer group. Staff expenditure typically accounts for over a third of total operating expenditure and tends to attract most community attention (by way of contrast depreciation, that we discussed earlier, generally goes unnoticed).

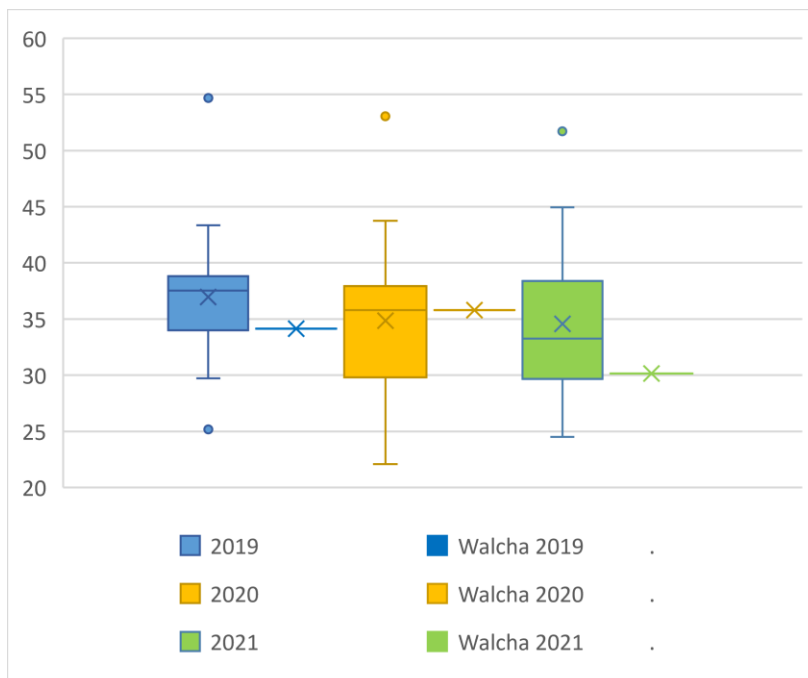
In Figure 23 we present staff expenditure on a per assessment basis for Walcha and the fourteen-member peer group. As can be seen, Walcha's result is slightly above typical as measured by both the mean and median. This is in fact a very good result, given the size of Council, and testifies to impressive cost control, staff productivity, and stewardship. The reason why the result is particularly pleasing is that Walcha has a population well below the average for the cohort. It is usually difficult for very small Councils like Walcha to contain staff costs because certain management positions – General Managers, Directors of Finance and Engineering – are required irrespective of size (and thus increase the average cost of staff).

Figure 23. Staff Expenditure per Assessment



Similarly, the proportion of expenditure on staff is relatively good, despite the unusually high contract costs incurred by Council because of plant and equipment gaps (see the Efficiency and Debt reports respectively).

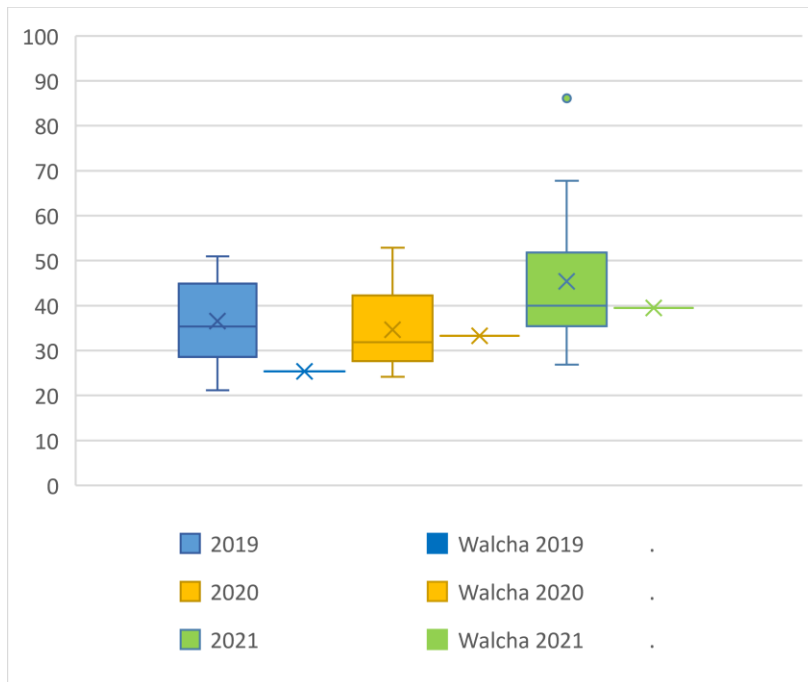
Figure 24. Proportion of Expenditure on Staff



Cash flows are particularly salient to both liquidity and financial sustainability. Generally, local governments in Australia are characterised by high positive operating cash flows, large and lumpy negative investment cash flows, and close-to-zero financing cash flows.

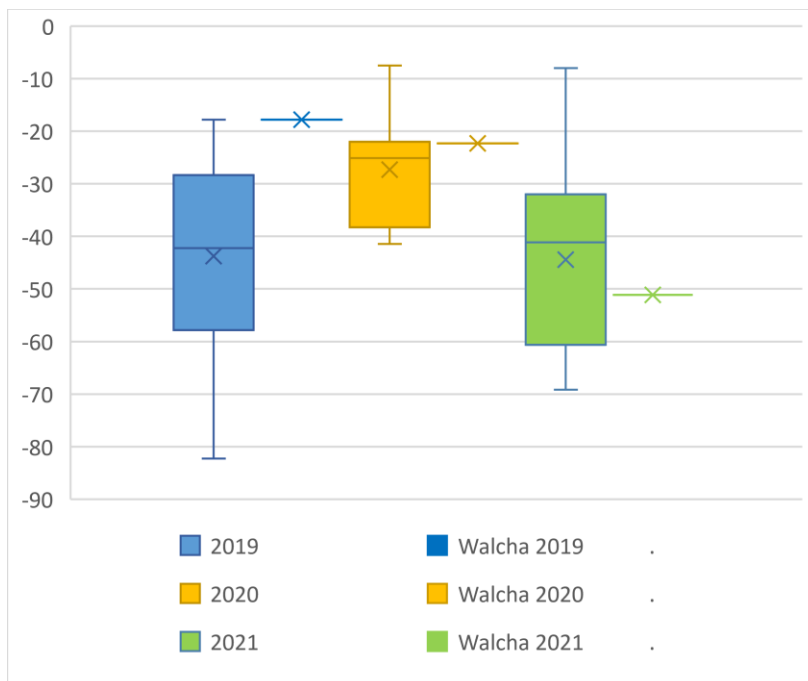
In Figure 25 we plot the operating cash flows for the peer group over the last three years. In a relative sense, matters appear satisfactory, however, it is important to be mindful that many in the peer group are financially distressed. Moreover, the biggest threat to financial sustainability for most rural councils is the inability to invest appropriately in assets.

Figure 25. Operating Cash Flows (deflated by revenue)



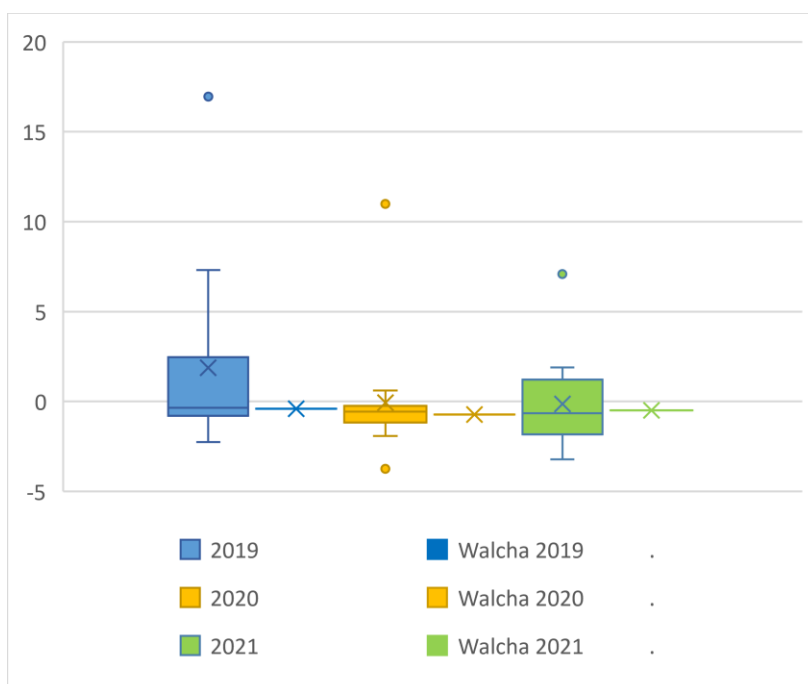
Accordingly, in Figure 26 we present the outcomes for investing cash flows for Walcha and its' peer group over the last three financial years. It appears that Walcha has been under-investing in a relative sense for most of this time (with the exception of 2021). Chronic under-investment results in the accumulation of implicit debts that the next generation will be burdened by (critical investments neglected in the present will ultimately have to be caught up on at some time in the future).

Figure 26. Investing Cash Flows (Deflated by Revenue)



Cash flows from financing activities have been typical of the peer group in a relative sense. However, it should be noted that most rural councils are debt adverse (by no means a bad thing). Thus, the result is suggestive of greater debt capacity (see the Debt Report).

Figure 27. Financing Cash Flows (Deflated by Revenue)

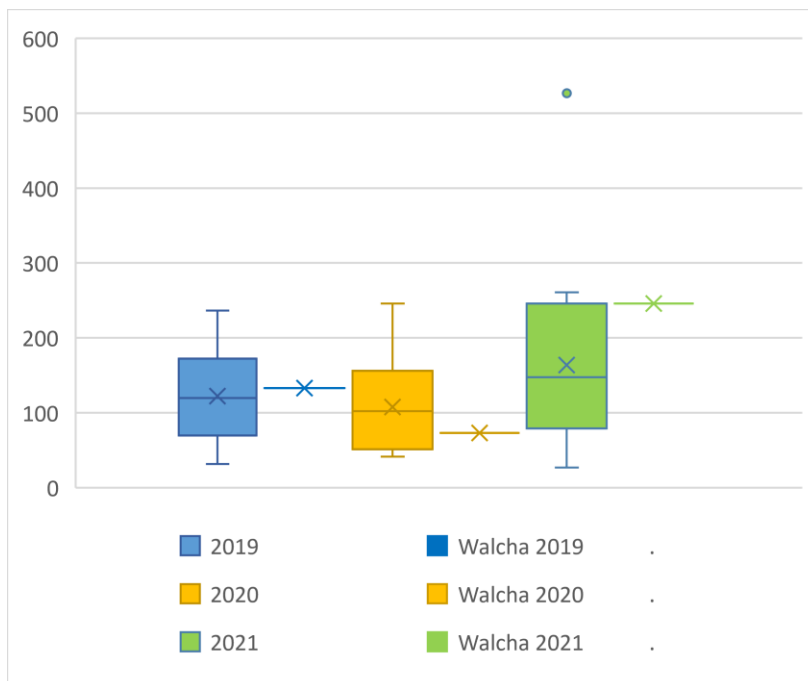


A good deal of caution should be exercised in relation to the interpretation of the next three mandated infrastructure ratios (see, for example, Drew 2017; Drew 2020; Drew and Grant 2017). The principal reason for urging caution is that the ratios make use of

some rather subjective data inputs in addition to depreciation accrual data that is often not reliable. Nevertheless, because adequate infrastructure is a major component of financial sustainability it behoves us to pay at least some attention to these metrics.

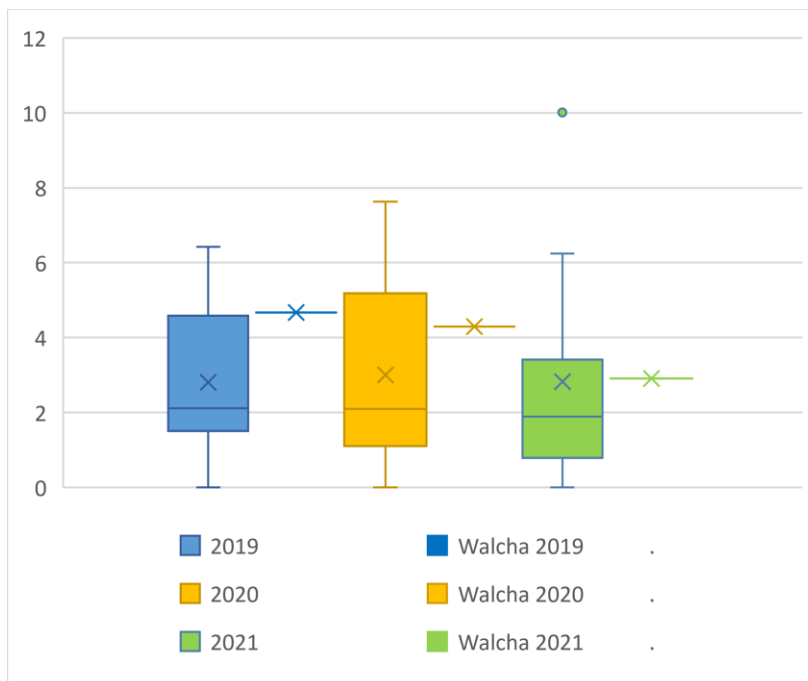
The buildings and infrastructure ratio divides asset renewal data by the annual expense of depreciation accruals. Given our comments about depreciation accrual practice at Walcha it is likely that the ratio presents a better picture of affairs than might be warranted. Moreover, in 2021 many local governments made the most of greater grant opportunities to try to catch up on backlogs. On the whole, apparent achievement of the benchmark for this ratio in most years could be misleading and should not be taken as a sign of financial sustainability.

Figure 28. Buildings and Infrastructure Renewal Ratio



The infrastructure backlog ratio takes a subjective estimate of the cost to bring assets to a satisfactory standard and divides this by total infrastructure. It is critical that satisfactory standard is carefully negotiated and documented with the assistance of the community (see Drew 2021). Despite uncertainty surrounding the numerator, Walcha has not been able to meet the benchmark in any of the last three years (for this ratio a lower result is preferred). Moreover, the result is far worse than the typical outcome at the peer group. It is thus likely that Walcha Council has been accruing large implicit debts for future generations of ratepayers. Doing so is clearly not financially sustainable.

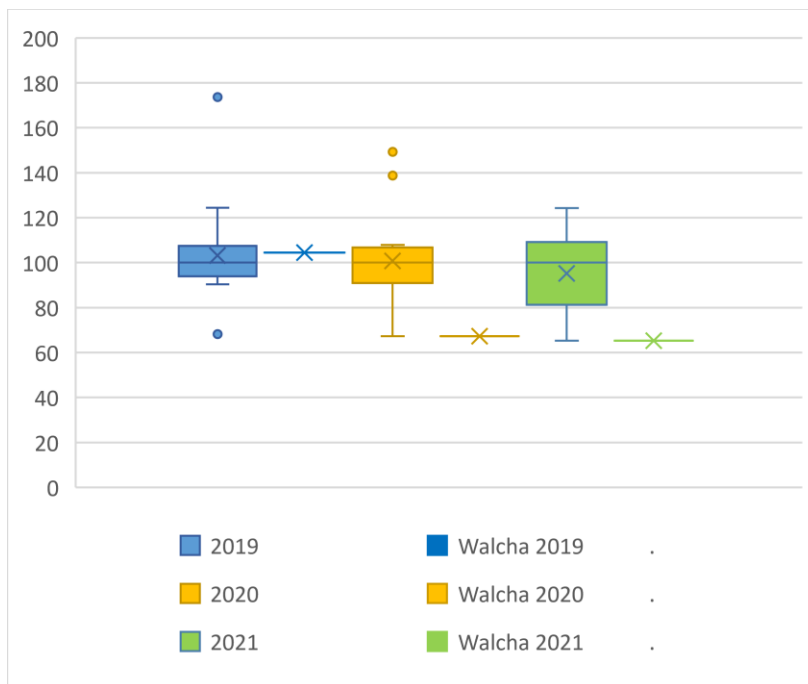
Figure 29. Infrastructure Backlog Ratio



The asset maintenance ratio divides actual asset maintenance by an estimate of required asset maintenance. Once again, the metric is subject to considerable distortion. It is clear from the data over the last two years that the chronic fiscal distress experienced by Walcha Council over many years is now being translated into sub-optimal maintenance activity (the lowest in a distressed peer group). This situation simply is not tenable in a financial sustainability sense¹⁶.

¹⁶ Council has been taking prudent and courageous measures to mitigate the situation and indeed this investigation into the possibility of a special rate variation is part of their acknowledgement of the seriousness of matters.

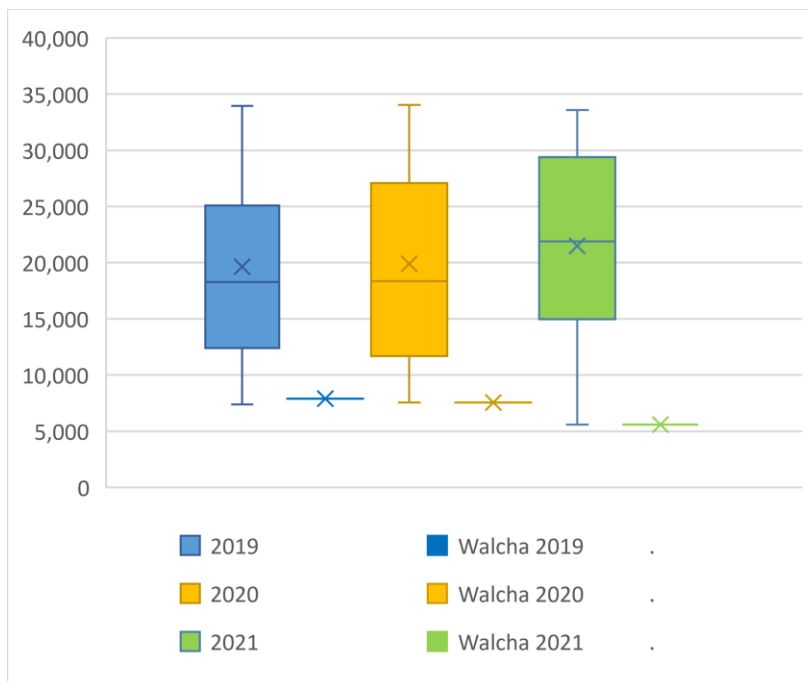
Figure 30. Asset Maintenance Ratio



Having sufficient cash to pay bills when they fall due is the definition of liquidity. In turn, liquidity is a component (but by no means the major part of) financial sustainability. In the past emphasis has been placed on liquidity, rather than financial sustainability at Council. However, even liquidity now seems to be at concerning levels.

In Figure 31 we plot total cash and equivalents for Walcha and the peer group for the last three years. In each and every year, Walcha had the lowest cash position for a peer group that is generally quite distressed in a fiscal sense. Moreover, in a high inflation environment the real purchasing power of this scant reserve is rapidly decreasing. The low cash position at Walcha is therefore a serious problem that is likely to gain the attention of regulators in the near future.

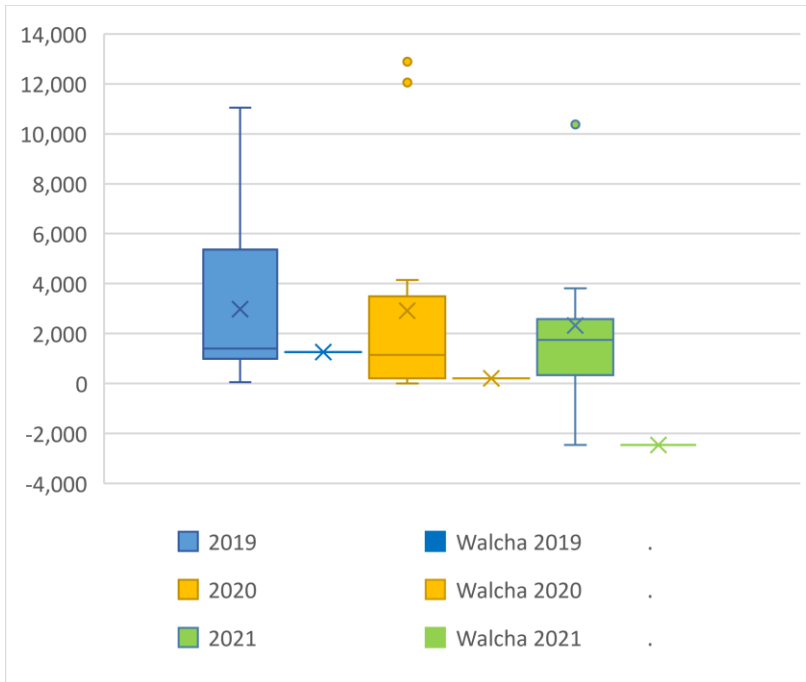
Figure 31. Total Cash, Cash Equivalents and Investments (\$000)



Cash for Council is categorised according to the level of restriction. Unrestricted cash can be used for any purpose and is the principal means of meeting operating deficits. As Figure 32 demonstrates, unrestricted cash last year was negative (offset in part by some larger-than-normal receivables). This situation simply cannot be allowed to persist – especially given projected deficit budgets.

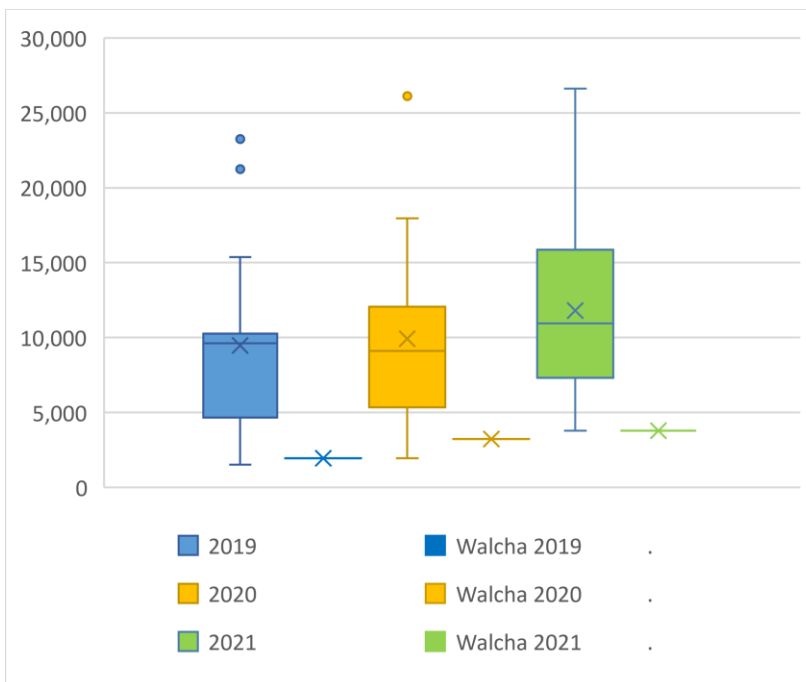
In view of the serious predicament facing Council, it would be prudent to: (i) suspend new discretionary expenditure, (ii) thoroughly review non-regulated prices as outlined earlier, (iii) apply for a significant SRV, and (iv) carefully review projects to ensure that they stay within budget.

Figure 32. Total Unrestricted Cash, Cash Equivalents and Investments (\$000)



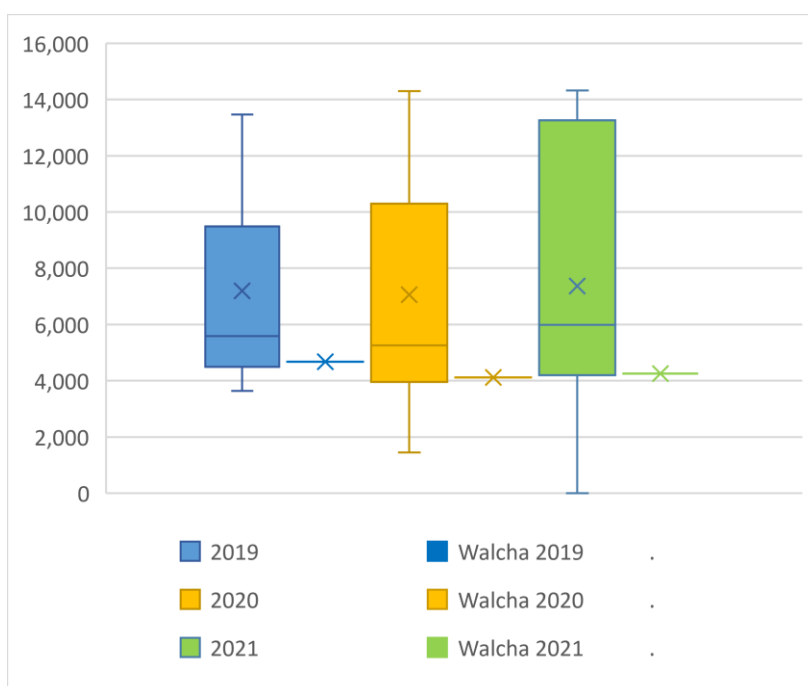
Externally restricted cash can only be used for the purposes that it was accumulated – mostly for the water and sewer businesses as well as developer contributions. As will be noted from Figure 33 Walcha has the lowest externally restricted cash in the peer group mainly as a result of it's chronically distressed water and sewer businesses. Council has heeded our advice to significantly increase water and sewer fees this year, although it may be necessary to do even more work in future years.

Figure 33. Total Externally Restricted Cash, Cash Equivalents and Investments (\$000)



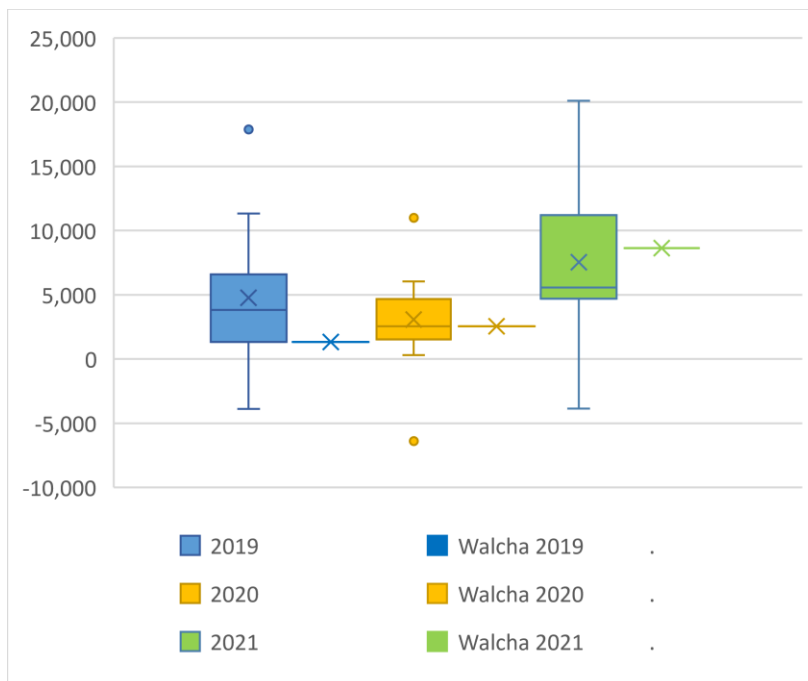
Internally restricted cash is what has been put aside by Council for important purposes such as employee leave entitlements, remediation works, and plant replacement. This money should not be used to fund deficits and doing so would clearly significantly damage financial sustainability. However, it might prove reasonable to borrow from the internal reserves in order to facilitate the purchase of efficiency improving plant and equipment. Such borrowings would need to be quarantined and managed prudently (see the Debt Report). Internal reserves at Walcha are stable but relatively low by the standards of a fiscally distressed peer group. There is thus clearly a pressing need to increase revenues so that surplus budgets can be engineered with a view to repairing chronically low reserves over time.

Figure 34. Total Internally Restricted Cash, Cash Equivalents and Investments (\$'000)



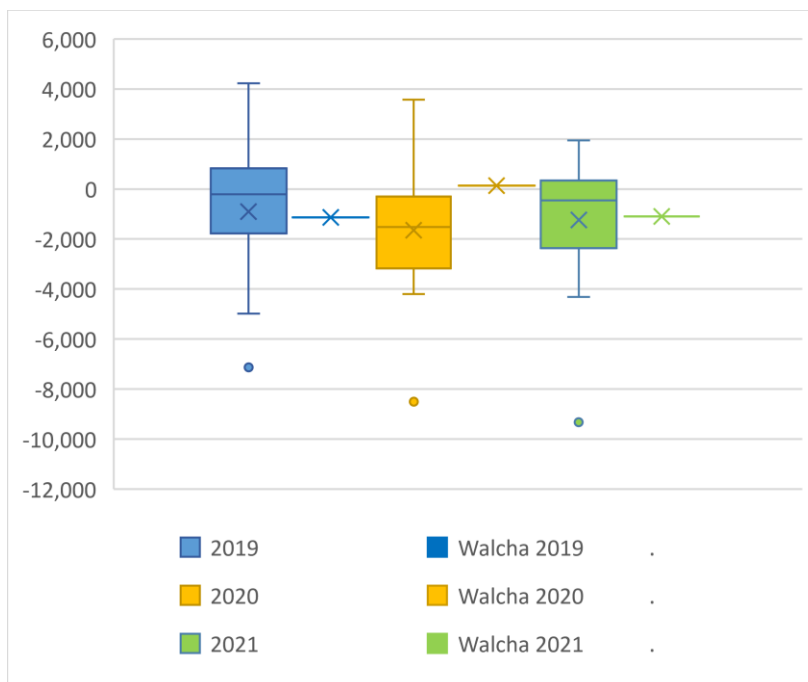
In Figure 35 we plot the operating result including capital grants. Walcha was below average in 2019 and 2020, which is a concern given that (i) the comparison is against a rather fiscally distressed cohort, and (ii) results include substantial capital grants that must be spent on the purpose for which they were provided. Notably, in 2021 Walcha's operating result was above average, but this result included over \$9.7 million in capital grants, well over three times what is generally expected.

Figure 35. Nett Operating Result (\$000)



Excluding capital grants, results were around average for two of the years, and above average for 2020. We reiterate the importance of being mindful that the comparison is against a rather fiscally distressed peer group. Indeed, for all three years the peer group average was stubbornly negative, and this is clearly not financially sustainable. Thus, no comfort should be taken by Walcha's average outcomes.

Figure 36. Nett Operating Result Without Capital Grants (\$000)

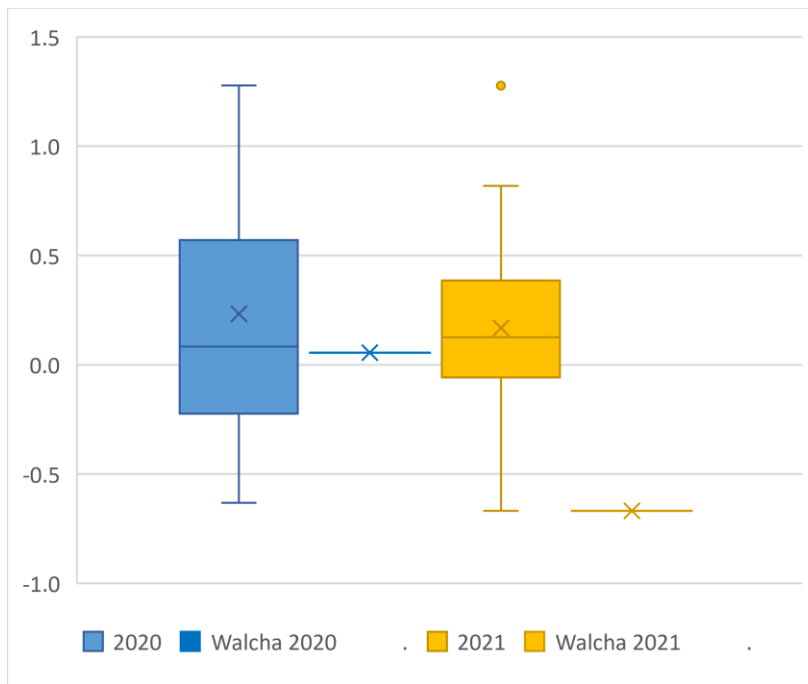


Unfortunately, there has been little growth in the number of assessments for Walcha Council. It has been opined by some in the grey literature that growth might result in

higher levels of financial sustainability (although forthcoming research by Miyazaki, Drew and Kortt casts some doubt on this assumption).

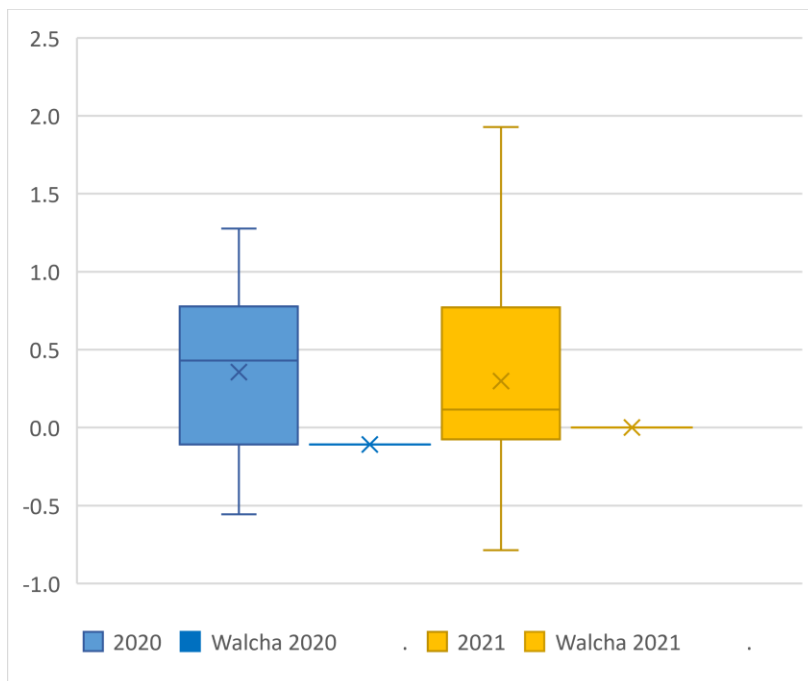
The putative association between growth and sustainability might indeed be the case for in-built development (sub-divisions and the like) which should be prioritised in growth plans (greenfield developments certainly do not enhance sustainability). However, there is probably little prospect of meaningful growth in the future and the matter is therefore a rather moot point.

Figure 37. Growth in Number of Assessments



Our earlier comments are particularly relevant to the question of residential development as illustrated in Figure 38.

Figure 38. Growth in Number of Residential Assessments



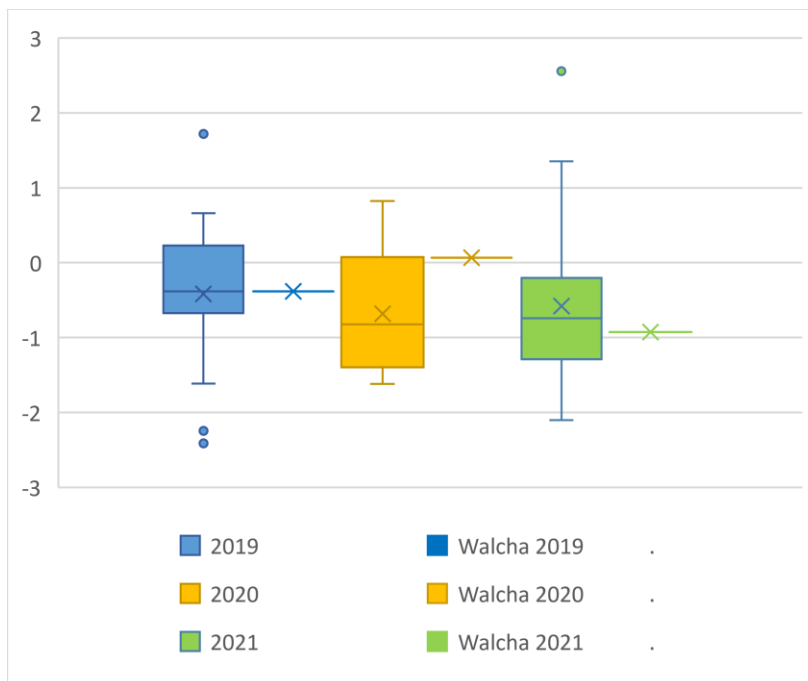
Unfortunately, the same applies to business growth in Walcha which seems to be rather depressed (and thus is an argument against placing too much burden on this category of ratepayer).

Figure 39. Growth in Number of Business Assessments



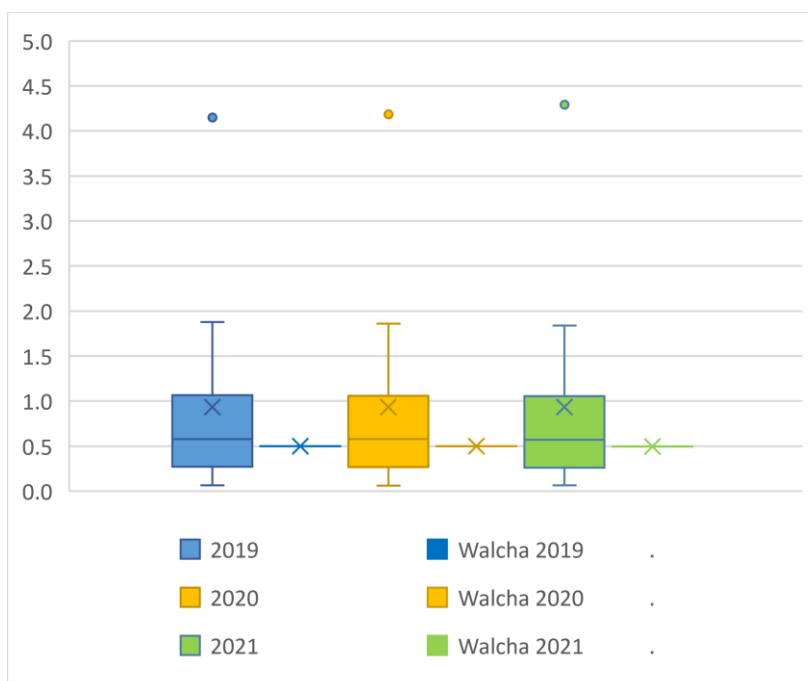
Population growth at Walcha Council is also rather depressed and therefore offers little hope of a growth-induced recovery to financial sustainability.

Figure 40. Population Growth



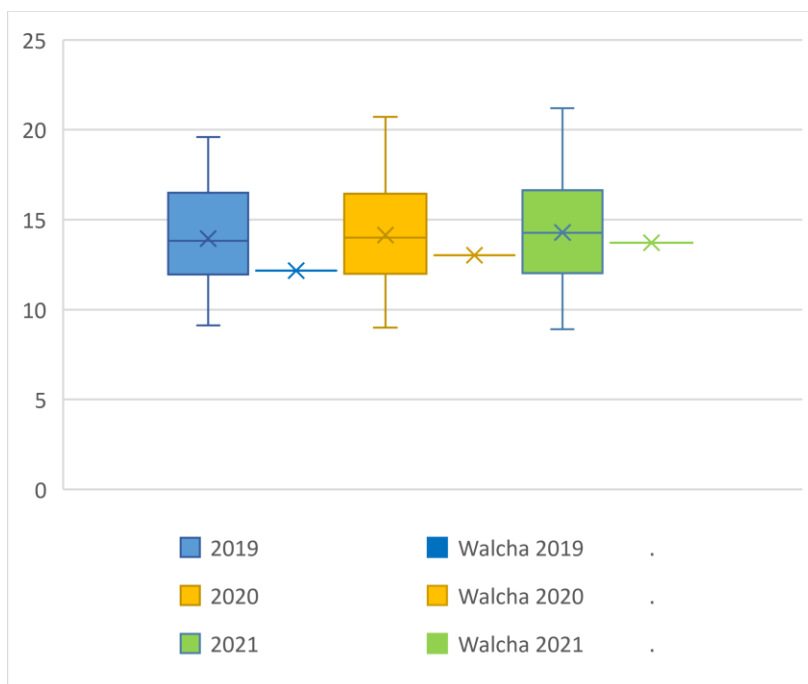
Furthermore, population density is well below average for the peer group according to the Australian Bureau of Statistics (ABS, 2022) data. This is problematic because it means that Walcha is almost certainly operating with diseconomies of density. Otherwise stated, it costs relatively more for Walcha to provide services to people because of the large distances between residences. It should be noted that the entire peer group is characterised by low population density which is a significant factor in their disadvantageous operating environments, and hence a real obstacle to achieving financial sustainability.

Figure 41. Population Density



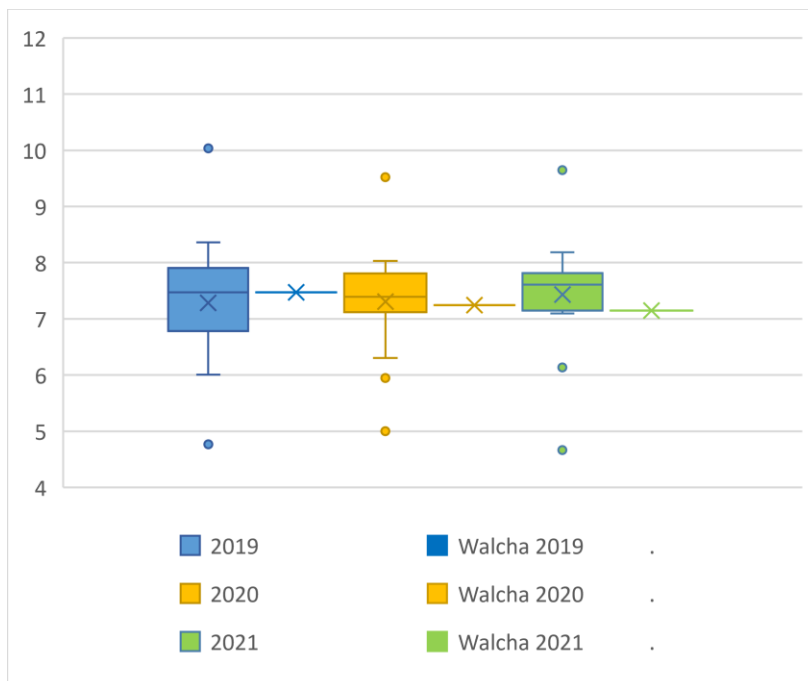
One of the other obstacles to achieving financial sustainability is the ageing population at Walcha. The proportion of aged pensioners is only just approaching the average for the peer group however it should be noted that: (i) it has been trending steadily up over recent years, and (ii) the peer group 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.

Figure 42. Aged Pension



Moreover, Figure 43 demonstrates that there is a large cohort of people in Walcha that will soon find themselves in receipt of the Aged Pension. This looming demographic challenge is particularly problematic for the peer group (just 5.6 percent of people in the state are aged between sixty and sixty-four; ABS, 2022).

Figure 43. Percentage of Population Aged 60-64



We also examined the proportion of people in receipt of other important welfare benefits such as the Disability Pension, Newstart Allowance and Jobstart (unemployment benefit), as well as the Single Parent Pension. In all of these areas (Figures 44-46 inclusive) Walcha records favourable data that clearly reinforces the message of additional capacity to pay at least average levels of rates (local government taxation).

Figure 44. Disability Support Pension

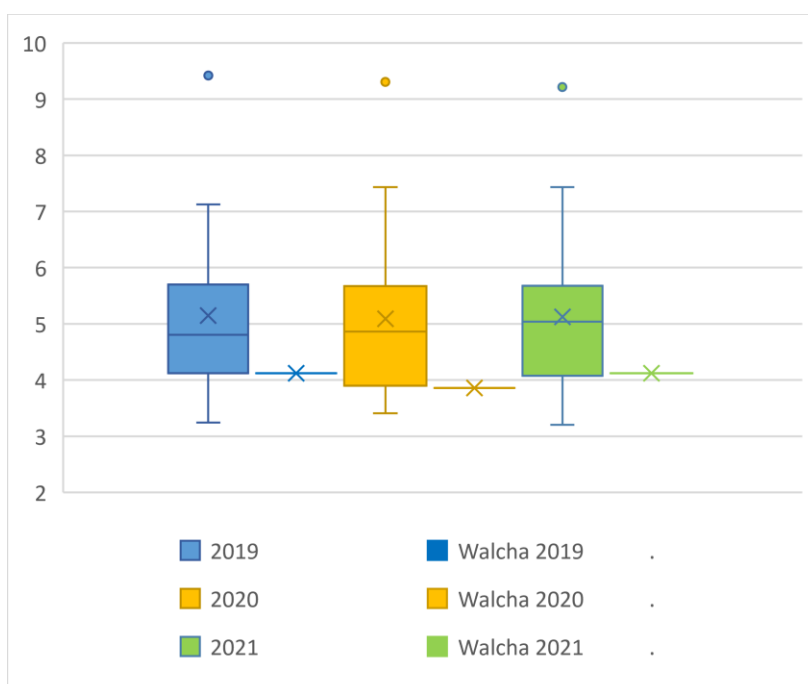


Figure 45. Newstart Allowance/ Jobseeker

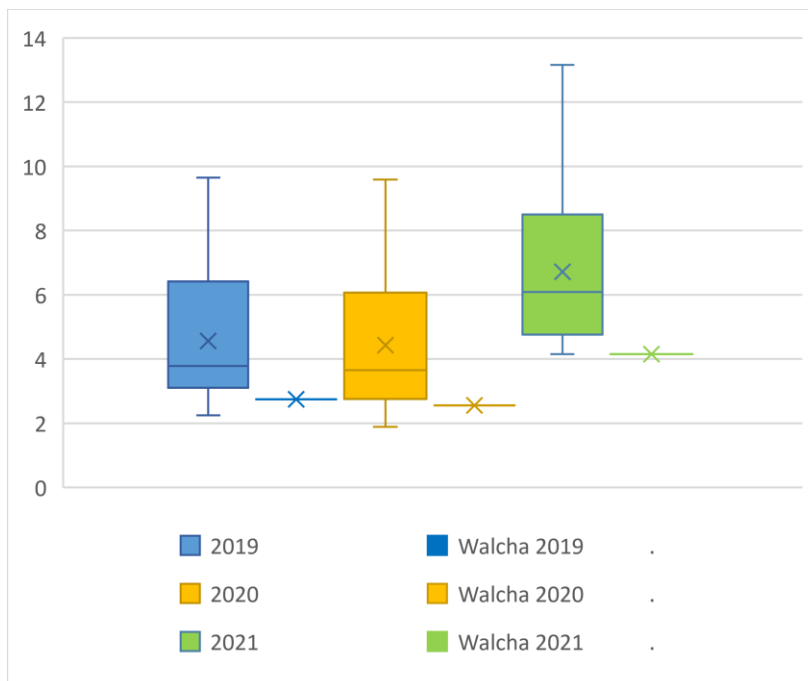
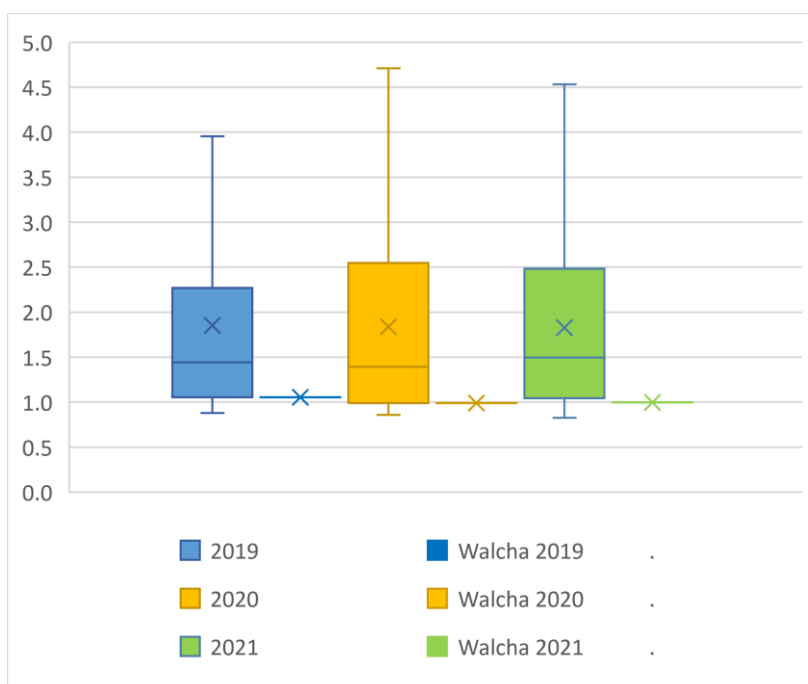


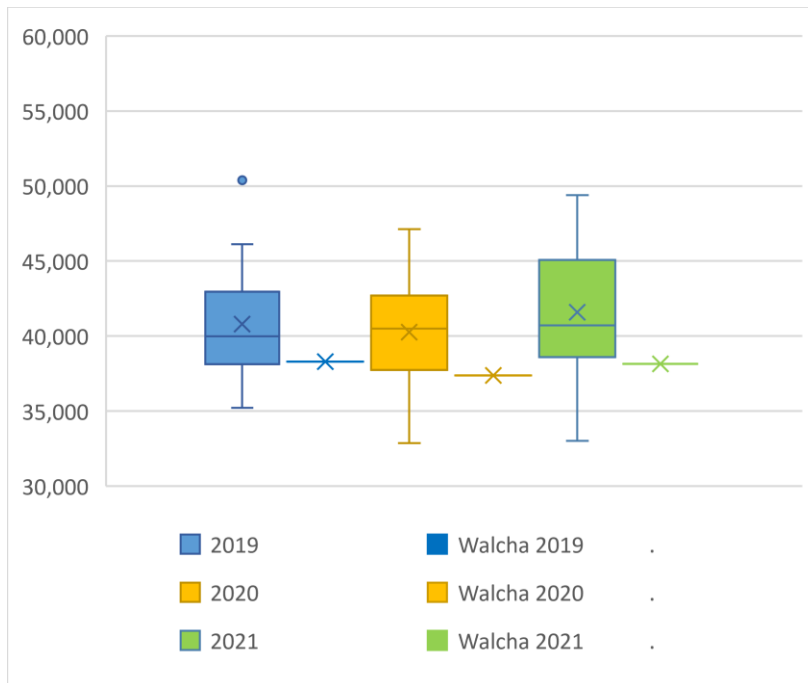
Figure 46. Single Parent Pension



In Figure 47 we plot median employee income to try to further gauge capacity to pay for Walcha residents. The result is in the bottom quartile with respect to the peer group. However, a single rudimentary statistic of this kind cannot be considered definitive. For instance, as will be shown in the Capacity to Pay Report, equivalised household income is actually rather elevated at Walcha (in a relative sense) because of the greater propensity for two-income households. Thus, for now, we should only note that

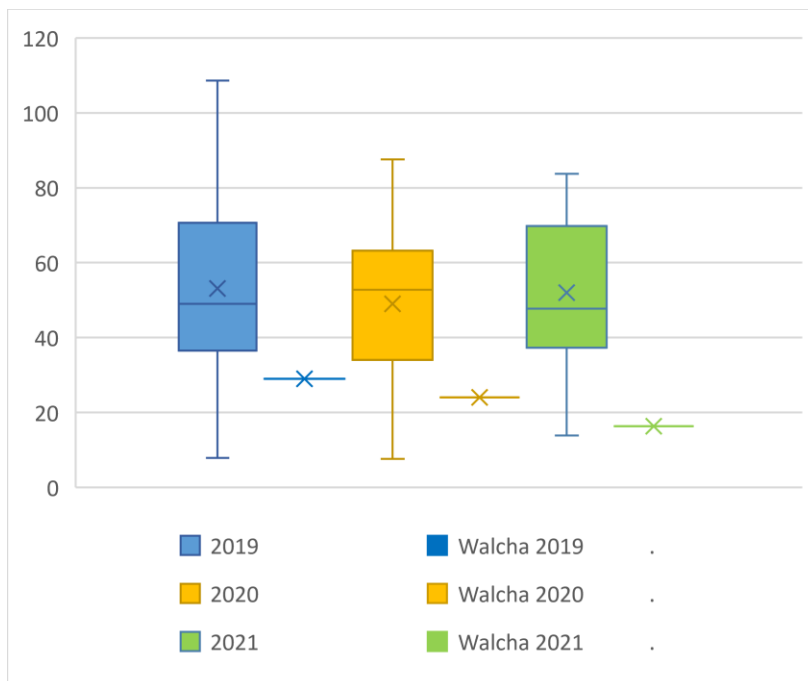
the matter of capacity to pay requires further investigation and much more sophisticated analysis (such as the econometric work that we do in the report under reference).

Figure 47. Median Employee Income



The next metric that we will review is the cash expense cover ratio (re-expressed in weeks). The benchmark for this ratio has likely been set far too high (at 12 weeks) by regulators, thus most Councils throughout the state exceed the apparently arbitrary measure. Moreover, the numerator includes all cash – whether restricted or not – and therefore does not reflect real liquidity. Nevertheless, the graph does make clear a few important matters that underline the urgency of Walcha Council’s fiscal predicament. First, the result has been trending downwards for at least three years. Second, the result for Walcha is relatively poor even when measured against a distressed peer group.

Figure 48. Cash Expense Cover Ratio (Weeks)



Long Term Financial Plans (LTFP)

Financial sustainability is a long-run concept therefore it is imperative to understand the current LTFP projections and also the proposed outcomes should a special rate variation take place. LTFP are conducted over a ten-year horizon which most people agree is probably far too long to be accurate¹⁷. Nevertheless, the exercise of examining the position aimed for by the Council over the next decade can provide important insights into financial sustainability objectives.

There are many factors that can easily undermine the projections made in a ten-year financial plan. For instance, the occurrence of natural disasters can both increase expenditure and disrupt revenues. Furthermore, the allocation of financial assistance grants in New South Wales has been described in the scholarly literature as chaotic and empirically indefensible, and is thus not generally amenable to accurate prediction (see Drew and Dollery, 2014). Indeed, freezes to grants have occurred in the recent past and are by no means outside of the realm of possibilities in the near future. In addition, macro-economic shocks such as COVID, and the inflation that followed, are largely unpredictable. Shocks of this kind can significantly affect wage expenses because most unions start from a bargaining position of mitigating the effects of CPI inflation. Given that employee expenses typically account for around a third of expenditure the recent doubling of CPI inflation might thus have significant implications for financial sustainability. Inflation also has implications for the cost of materials and contracts purchased by local governments. This can be particularly troublesome given

¹⁷ Indeed, unpublished research by Drew during Fit For the Future suggests that there is little correspondence between planned and actual outcomes five years out from the LTFP. Moreover, most LTFP were considerably more optimistic in their projections than actual events suggest was warranted.

that local government is energy and material intensive – precisely the areas of spending where elevated inflation is currently hitting¹⁸.

Indeed, difficulty in predicting inflation has caused problems for local governments around the country, not to mention the Reserve Bank of Australia (RBA, which is responsible for maintaining price stability). For instance, a speech made by Philip Lowe on the 16th of November 2021 confidentially declared that elevated inflation would be ‘transitory’. In December 2021 the same RBA declared that underlying CPI would sit at two-and-a-half percent for 2023. However, the latest statement on Monetary Policy Decision predicted inflation to peak at just over seven-and-three-quarters percent for 2022. Clearly if the nation’s central bank can’t accurately predict inflation it makes the job of producing an accurate LTFP nigh on impossible.

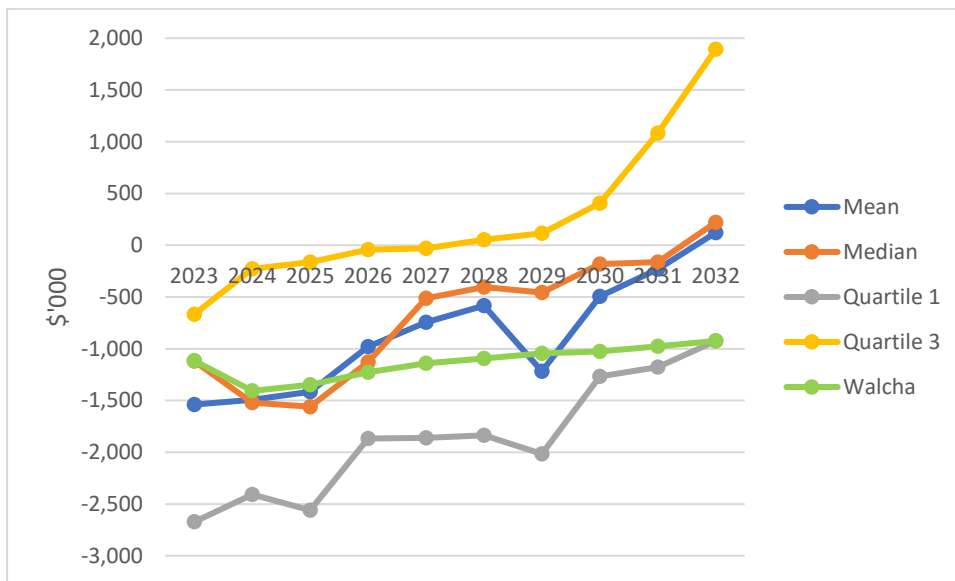
Indeed, there is a good chance that the RBA is deliberately under-estimating inflation in order to avoid consumer and business expectations becoming ‘un-anchored’ and hence precipitating an inflation spiral. In fact, the authors of this report are agreed that inflation will likely peak considerably higher and remain stickier for longer.

Moreover, uncertainties abound in relation to the matter of inflation. Supply-side shocks continue to dominate and are generally resistant to central bank interventions. China persists with its zero-COVID policy, international relations continue to deteriorate, and the war in Ukraine shows no signs of abating. In addition, leading indicators for inflation (such as the Producer Price Index) are at record highs in many places around the globe – for example, the industrial powerhouse of Germany recently recorded its highest PPI on record (37.20%). Thus, the environment that we have is hardly conducive to accurate budget forecasting.

Given the potential for lumpy and large capital grants to confound matters it is most useful to examine the nett operating result excluding capital grants. Indeed, this is the regulator’s preferred metric. In Figure 49 we plot Walcha’s current projected operating result against the peer group. For most of the period of analysis it is clear that without a SRV (and the other interventions suggested and under-way) that Walcha would find itself performing at a level below the mean and median compared to a peer group that is generally quite fiscally distressed (notably many in the peer group used rather heroic assumptions in their LTFP, some of which have already been proved redundant by recent events). Moreover, it is clear that many in the peer group are counting on SRVs, especially in the outer years (hence the sharp jumps upwards for various curves). Notwithstanding these observations it appears that most of the peer group will *not* be financially sustainable over the coming decade without significant additional interventions (including SRVs). For Councils such as Walcha Council, which has negligible cash reserves, this is simply not a viable option (hence Council’s decision to commission this present work and pursue a SRV).

¹⁸ The civil engineering producer price index for the June quarter was 9.0%.

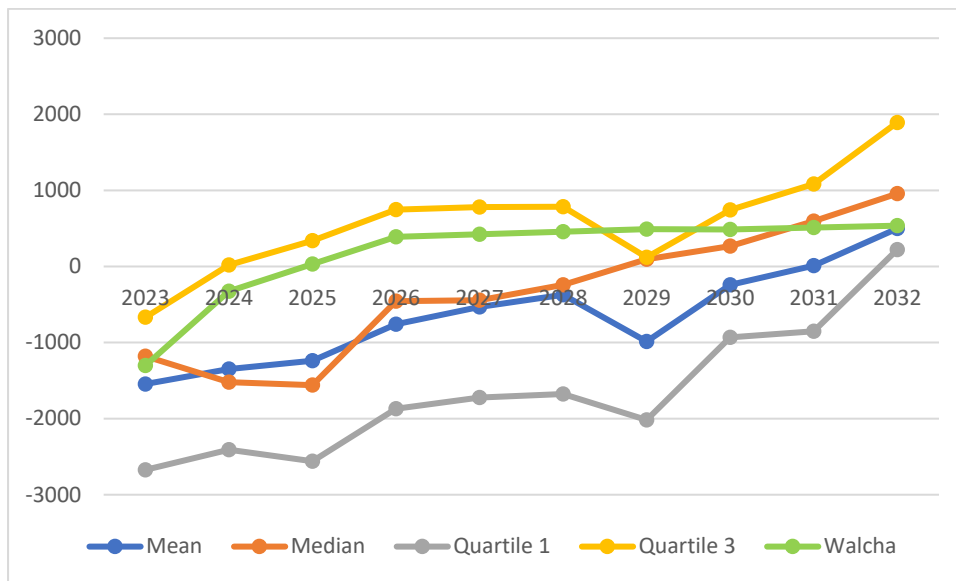
Figure 49. Consolidated Long Term Financial Plan – Nett Operating Result Excluding Capital Grants



In Figure 50 we present the LTFP, excluding capital grants, after making adjustments¹⁹ to the plan received from Council and also adding in a substantial proposed SRV. The objective of our proposed SRV is to return the General Account to balance as quickly as practical and thus alleviate pressure on cash reserves that are already in a serious state. Doing so, should produce a modest surplus for the consolidate fund and thus allow Council to slowly build back up to an appropriate level of cash reserves. Notably this objective is not as ambitious as the authors would like, however it was felt that higher rate increases simply could not be absorbed by the community at this time (please see the Capacity to Pay Report for precise details of the proposed SRV). All we have been able to do is propose a long and slow path back to an acceptable level of financial sustainability, contingent on no further adverse unplanned shocks occurring to budgets.

¹⁹ We changed some of the assumptions to better accord with our professional opinion regarding macro-economic conditions. Notably, even our adjusted assumptions are more optimistic than what we actually expect to transpire (however, we thought it prudent not to deviate materially from central bank projections).

Figure 50. Long Term Financial Plan After Adjustments and Also Proposed Special Rate Variation (Excludes Capital Grants)



Conclusion

To make good decisions people need to have access to a comprehensive set of metrics. This Financial Sustainability Report presents fifty metrics which generally paint a grim picture of financial sustainability at Walcha. The prospects for future sustainability are also less than certain. Indeed, in the three supplementary reports we present more metrics as well as sophisticated modelling to confirm matters.

The overall conclusion of the three international professors involved in assessing Walcha’s financial sustainability is that Council is not sustainable. Moreover, it is clear that Walcha has not been sustainable for many years.

A large part of the problem is Walcha’s extremely challenging operating environment. Low population density, an ageing population, and few growth prospects – when combined with extensive forestry reserves – means that average revenue is unlikely to ever be a sufficient foundation for a financially sustainable council. In all likelihood, the community will need to pay above average rates, fees and charges to mitigate a difficult operating environment and also reverse many years of unsustainable finances.

There is thus a definite need for a special rate variation which should not be delayed.

In the Capacity to Pay Report that follows we present additional metrics that allow us to better understand the incomes available to Walcha residents for paying rates. We also employ econometrics to precisely calculate the average total rate take that should be captured given Walcha’s particular socio-economic characteristics and thereafter set out our recommendations for a SRV. Following this, the Efficiency report quantifies tax efficiency, as well as relative technical efficiency by employing the most sophisticated and precise mathematic modelling techniques available to scholars. We also present some recommendations for further improving efficiency. In the final report

(the Debt Capacity Report), we review the option of debt in accordance with Office of Local Government (OLG) guidelines for SRVs.

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