Randwick City Council
a sense of community

WAVERLEY
COUNCIL

Attachment 2.4

Waverley Council – Technical Assistance FFTF

Grant Thornton, Mar 2015.

Grant Thornton
An instinct for growth™

Waverley Council
Technical Assistance FFTF

Review of Fit for the Future Financial Benchmarks

March 2015

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Glossary

ABS	Australian Bureau of Statistics
BIAR	Building Infrastructure Asset Renewal Ratio (average 3 years)
IB	Infrastructure Backlog Ratio (Final year of period)
FFTF	Fit For The Future
FY12.....FY20	Financial year ended 30 June 2012…..ended 30 June 2020
GPO	General Post Office
GRP	Gross Regional Product
GS	Greater Sydney
LGA	Local Government Area
NSW	New South Wales
OLG	Office of Local Government
OP	Operational Performance (average 3 years)
OSR	Own Source Revenue (average 3 years)
ROEPC	Real Operating Expenditure Per Capita (trend over 5 years)
WWRB	Waverley, Woollahra, Randwick, Botany Bay
WR	Waverley, Randwick
WWR	Waverley, Woollahra Randwick
WW	Waverley and Woollahra

Contents

Section 1 Executive summary

Introduction and background

Overview

Introduction and Background

- The Independent Local Government Review Panel (ILGRP)'s report on Revitalising Local Government published in October 2013 has signalled the commencement of a new direction for reinvigorating Local Government within NSW. This new direction places greater emphasis on:
  - Financial Sustainability;
  - Structural Reform;
  - Enhancing Strategic Capacity;
  - Increasing Resource Sharing; and
  - Strengthening of Revenue Bases.
- Grant Thornton was engaged by Waverley Council to determine whether there are sufficient benefits of amalgamation options. This included an independent assessment of Council's current and forecast performance against the Fit for the Future financial benchmarks for a series of amalgamation options, as well as an analysis of scale and capacity requirements and the effect of each option on current infrastructure backlogs.
- A financial model based on the Self Assessment Tool developed by NSW Office of Local Government has been developed by Grant Thornton as part of the engagement. The Model allows for specific financial and operational information from publicly available data such as Long Term Financial and Strategic Asset Management Plans and Financial Statements to be utilised and subsequently generate outputs for Fit for the Future financial benchmarks. These outputs were generated across the FY12-FY14 and also across FY15-FY17 and FY18-FY20.
- 7 Key Financial Ratio outputs were generated from the Model that have been used to assess the appropriateness of each amalgamation option. These include:
  - Operating Performance (OP);
  - Own Source Revenue (OSR);
  - Building and Infrastructure Renewal (BIAR);
  - Infrastructure Backlog (IB);
  - Asset Maintenance (AM);
  - Debit Service (DS); and
  - Return on Operating Performance per Capita (ROEPC).
- Further information on these key ratios is provided in the Background (Section 2) of this report.

Analysis

Overview (cont.)	**Analysis** Six amalgamation options were assessed by Grant Thornton: • Option 1: Waverley Status Quo; • Option 2: Greater Sydney Option per ILGRP report; • Option 3: Waverley, Woollahra and Randwick; • Option 4: Waverley and Woollahra; • Option 5: Waverley and Randwick; and • Option 6: Waverley, Woollahra, Randwick and Botany.
Current performance analysis against FFTF benchmarks	Key high-level results from the assessment of the above amalgamation options on a current (FY12-FY14) basis include: • Option 1 meets only 2 out of the 7 ratio benchmarks; • Option 2 (preferred per the ILGRP report) meets 4 out of the 7 ratio benchmarks along with Option 4; • Options 3 and 6 meet 5 out of the 7 ratio benchmarks; and • Option 5 meets 6 out of the 7 ratio benchmarks. • It should also be noted that Randwick Council as a stand-alone Council passes 6 out of the 7 ratio benchmarks, failing only the DS ratio (which penalises Randwick for having no debt on its balance sheet). For example, Randwick would clear all 7 ratios at the current time if the DS ratio would be passed had Randwick $1 of debt. Randwick, therefore, is the strongest Council as per the analysis of the financial information attained for this sole purpose and in the majority of metrics would be accretive to any merger partner. This is, for example, the key driver for Option 5 meeting 6 out of the 7 ratio benchmarks.
Forecast performance analysis against FFTF benchmarks	Key high-level results from the assessment of the above amalgamation options on a forecast (FY15-FY17 and FY18-FY20) basis include: • No option meets all 7 criteria in either the FY15-FY17, nor FY18-FY20 models. This is because all Council combinations fail BIAR in the forecast period, driven by Waverley's 63.00% average, which pulls all combination ratios down. • Option 1 meets 5 out of the 7 ratio benchmarks in FY15-FY17; improving to 6 out of 7 in FY18-FY20. Waverley as a stand alone option only fails on BIAR and is due to Waverley's forecast 63.00% average (and therefore it may not be able to reach the required benchmark easily into the future). • Option 2 (preferred per the ILGRP report) meets 5 out of the 7 ratio benchmarks in FY15-FY17 and increases to 6 out of the 7 in FY18-FY20. If this option is pursued Waverley should seek to understand in more detail the asset management policies of Botany Bay and City of Sydney. • The remaining options all meet 6 out of the 7 ratio benchmarks in FY18-FY20, although Option 4 builds from only 4 out of the 7 in FY15-FY17. Further analysis in this document indicates the strengths and weaknesses of each Option, although Randwick continues to build on a strong set of current results.

Analysis

Forecast performance analysis against FFTF benchmarks (cont.)	• We note that clearly against a benchmark of absolute scale, any combination with City of Sydney (GS only) benefits from the addition of that large population. However, the four Council Option 6 could be argued an alternative option as it would then become the same scale as City of Sydney and would arguably be composed of a different set of focussed residential services, with the 'business' facing City council alongside. However, set in the context of the scale of those councils that have been prescribed a preferred option not to merge, such as Blue Mountains and Hawkesbury, options such as WR, with a forecast population of 226,400 by FY20 are alternatives and broadly consistent with the ILGRP report on scale. • Also, as the Council combinations consolidate, it is worth noting that each becomes more reliant on more forecast assumptions and an understanding of the basis of these, especially where ratios trend downwards or are close to the benchmarks is encouraged. Scale and capacity is discussed in more detail below. • On this note, Grant Thornton has sought advice in relation to forecasts from those Councils who have engaged in discussion. This has not constituted an audit of forecasts and as such the data input is reliant on the judgement of each individual Council. Waverley therefore may seek to understand in more detail the assumptions used in key parts of the forecast that relate to this Model and whether these are sustainable as presented. • For example, the asset ratios applied to combinations with Randwick appear to fall in FY18-FY20 but this is only due to the IB backlog for Randwick being cleared sooner than other Councils (and a subsequent reduction in AM from >100% to 100%) and not a reflection on underlying weakness. IB is discussed further below.
Current Infrastructure backlog analysis	• Of the 6 options analysed on a current (FY12-FY14) basis, 2 fail the to meet the IB target, with both W and WW marginal failures at 2.04% and 2.62%. • Into the forecast period, Waverley and Randwick forecast to make commitments to reduce the IB to effectively nil by FY20, thereby strengthening the WR combination further from this perspective (0.65% FY15-FY17 and 0.02% FY18-FY20). • Woollahra has also forecast strong improvement in IB, reducing its radio from 6.58% in FY12-FY14 to c.2% in FY15-FY17 and FY18-FY20, which improves its potential as a merger partner.
Scale and Capacity analysis	• Grant Thornton has assumed the GS option meets scale and capacity requirements (as envisaged by the OLG, set out in Section 2 of this report), although it is not explicit as to how these are measured (as some metropolitan councils have not been suggested to merge and are <100k population). • For this reason, our analysis has also tried to measure scale and capacity on a current basis concentrating on two key operational ratios that focus on income and expenditure (OP and ROEPC). Both of these ratios address the requirement to 'promote Sydney's ongoing development' and 'social and economic links between councils' because these are the drivers of value for each Council option. In addition, to summarise against population, we have looked at absolute population sizes of Council options versus the GS option to FY20. • Results show that the GS option has mixed results for such measures of scale and capacity (per ROEPC and OP) but not as an absolute population size, both against the status quo, or the other 4 options for Waverley. • It is clear all other options, including even the four council option (WWRB) fall short of absolute population size (WWRB forecast population 333,380 in FY20, against 555,560 for GS). However, as discussed above except WW at c.133k reach c.200k population, which is in line with the scale of some councils the OLG has a preference not to merge and therefore could be seen as broadly consistent with the ILGRP's recommended option.

Analysis

Scale and Capacity analysis (cont.)	• Finally, because the City of Sydney and Botany Bay are only included together in the GS option, all other options struggle to match the envisaged bringing together of key infrastructure assets and international icons for the aim of Sydney's ongoing development as a global city.
Next steps for Waverley	• Grant Thornton has conducted this analysis based only upon the financial data that has been made available during the course of the review as per the limitation of the scope of this work. • Further operational analysis may be required to understand the impact of amalgamation on the key drivers of the financial data utilised in this report, for example the effect on resident and business rates and also what the potential synergies, cost savings or cultural impacts would be, rather than just the amalgamation of financial data. • Forecast data is based on publicly available information which the majority of Councils have willingly clarified where needed. The data, however, has not been verified or audited and any steps to clarify and improve the quality of information and understanding would be beneficial for Waverley in understanding the potential risks or upsides inherent in the ratios moving forward. This step might be best taken as a part of consideration of a potential merger proposal for a particular chosen combination.

Section 2 Background

Introduction

Introduction to FFTF

- On the 10th September 2014 Premier Mike Baird (MP) launched the NSW Government's ambitious agenda to modernise and reform the Local Government system. Titled 'Fit for the Future', the multifaceted reform program outlined a requirement for the NSW Government and Local Councils to work in partnership to ensure a sustainable system of Local Government that can meet the needs of future communities.
- As part of the reform process, the Independent Local Government Review Panel (ILGRP) was tasked with developing options for a stronger and more effective system of Local Government.
- Their final report, 'Revitalising Local Government' proposed the amalgamation of a number of Councils, including the potential amalgamation of Waverley Council with Botany Bay, Randwick, City of Sydney, Waverley and Woollahra Councils or the combination of all Councils as a Joint Organisation.
- The requirements for meeting scale and capacity were outlined as being particularly important for prospective amalgamating Councils under a Greater Sydney option by the ILGRP report. These requirements centred on close economic and social links, high-level strategic capacity for promoting Sydney's ongoing development, a projected 2031 population of 669,400, a stronger ratings base and combining key infrastructure and icons under a single Council. However, it is important to note that how scale and capacity is to be measured is open to interpretation, as is discussed in the report.
- In response to the ILGRP's report, Waverley resolved that it does 'not support amalgamation with any other Council unless it can be demonstrated that there are sufficient benefits of a preferred amalgamation to Waverley and that this is supported by the Waverley community'.
- In order for the Council to determine whether there are sufficient benefits of a preferred amalgamation, it appointed Grant Thornton to assess a number of potential options.

Introduction

Background to Councils subject to FFTF analysis

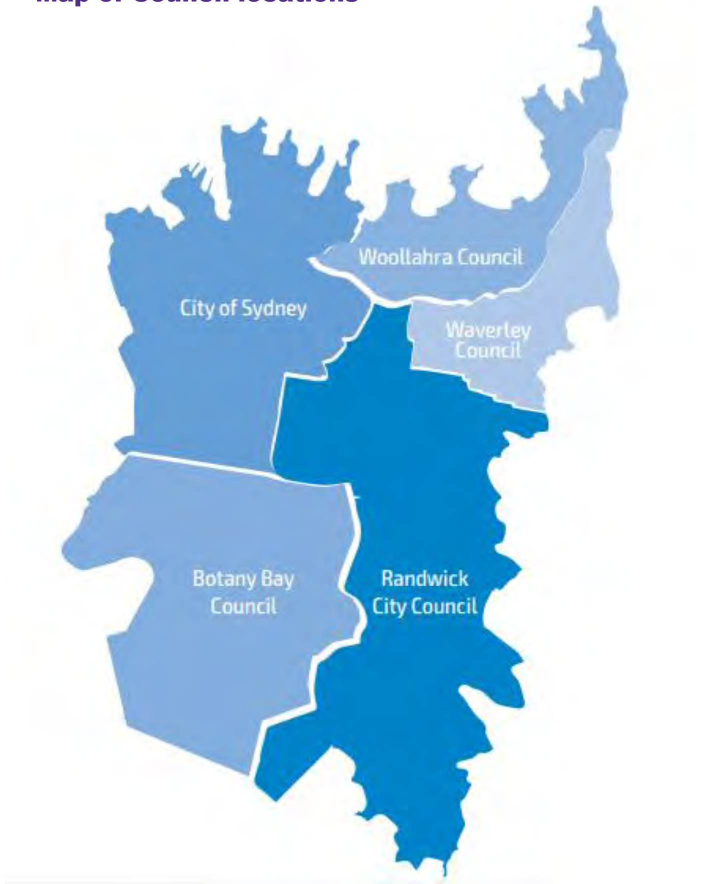
Council	Description
Waverley Council ("Waverley")	The Waverley Local Government Area is located in the inner-eastern suburbs of Sydney about 7km east of the Sydney General Post Office (GPO). It includes the suburbs of Bondi, Bondi Beach, Bondi Junction, Bronte, Dover Heights, North Bondi, Queens Park, Rose Bay (part), Tamarama, Vaucluse (part) and Waverley. The area encompasses approximately 9 km². With a population of 69,800 (2013) Waverley's largest industries are Retail and Tourism. There were 633 residential buildings approved to be built in the financial year 2013-2014.
Woollahra Municipal Council ("Woollahra")	Woollahra's 2013 population was 57,080 (2013) and is located on Sydney Harbour's southern shore about 5km from the Sydney GPO. The Woollahra Municipal Council area includes the suburbs of Bellevue Hill, Darling Point, Double Bay, Edgecliff, Paddington (part), Point Piper, Rose Bay (part), Vaucluse (part), Watsons Bay and Woollahra. The area encompasses approximately 12km². The largest industry in Woollahra is Health Care and Social Assistance. 359 building approvals were issued by Woollahra Municipal Council in 2013.
Council of the City of Botany Bay ("Botany Bay")	The City of Botany Bay is located in the inner south-eastern suburbs of Sydney, about 7 kilometres south of the Sydney GPO with a population of 43,020 (2013). The largest industries in Botany are Transport, Postal and Warehousing. 633 building approvals were issued by the City of Botany Bay to be built in the financial year 2013-2014. The City of Botany Bay includes the suburbs of Banksmeadow, Botany, Daceyville, Eastgardens, Eastlakes, Hillsdale, Mascot (part), Matraville (part), Pagewood and Rosebery (part).
Randwick City Council ("Randwick")	Randwick City includes the suburbs of Centennial Park (part), Chifley, Clovelly, Coogee, Kensington, Kingsford, La Perouse, Little Bay, Malabar, Maroubra, Matraville, Port Botany, Phillip Bay, Randwick and South Coogee. Randwick City's largest industries are Health Care and Social Assistance. Randwick City has a population of 142,310 and an area that encompasses approximately 36 km². Randwick City Council issued 466 building approvals in 2013.
Council of the City of Sydney ("City of Sydney")	The City of Sydney includes the suburbs of Alexandria, Annandale (part), Barangaroo, Beaconsfield, Camperdown (part), Centennial Park (part), Chippendale, Darlinghurst, Darlington, Dawes Point, Elizabeth Bay, Erskineville, Eveleigh, Forest Lodge, Glebe, Haymarket, Millers Point, Moore Park, Newtown (part), Paddington (part), Potts Point, Pyrmont, Redfern, Rosebery (part), Rushcutters Bay, St Peters (part), Surry Hills, Sydney, The Rocks, Ultimo, Waterloo, Woolloomooloo and Zetland. The area encompasses 27km². City of Sydney issued 2,377 building approvals to be built in the financial year 2013-2014.

Statistics and location

Statistical background to each Council

Column heading	Waverley	Woollahra	Botany Bay	Randwick	City of Sydney
Population (2013/14)	70,350	57,470	43,780	143,380	197,670
Population (2019/20)	73,490	59,960	47,010	152,920	222,220
TCorp Assessment - Current financial sustainability	Moderate	Moderate	Moderate	Sound	Strong
TCorp Assessment - Financial sustainability outlook	Positive	Positive	Neutral	Positive	Positive
OLG – Infrastructure Management assessment	Strong	Strong	Moderate	Very Strong	Strong
Land Size (km2)	9.2	12.3	21.7	36.3	26.7
Average residential rates	$1,058	$1,118	$689	$1,075	$654
Residential rates	$30M	$27M	$10M	$52M	$59M
Business rates	$12M	$5M	$16M	$13M	$199M
Debt	$3M	$6M	$0	$0	$0
Infrastructure backlog	$12M	$5M	$11M	$7M	$67M

Map of Council locations



Sources Population data sourced from Estimated Resident Population, Local Government Areas, New South Wales - Released 3.4.2014.
Forecast population data sourced from New South Wales State and Local Government Area Population Projections: 2014 Final and extrapolated for years that no data is shown.]

FFTF - Analytical ratios

Introduction to the analytical ratios

- ***Operating Performance Ratio***
  - How a Council generates revenue and allocates expenditure
  - Reflects Council capacity to meet expenditure requirements
  - Ongoing operating deficits are unsustainable and do not allow Councils to maintain or increase their assets or services
  - Benchmark ratio of greater than or equal to break-even over a 3-year period

$$\frac{\textit{Total continuing operating revenue (exc. capital grants and contributions) less operating expenses}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

- ***Own Source Revenue Ratio***
  - Measures the degree of reliance on external funding sources through fiscal flexibility and robustness
  - Greater own source revenue results in greater financial flexibility, independence and ability to absorb shocks
  - Benchmark for own source revenue is 60% of total operating revenue over a 3-year period

$$\frac{\textit{Total continuing operating revenue less all grants and contributions}}{\textit{Total continuing operating revenue inclusive of capital grants and contributions}}$$

- ***Building and Infrastructure Asset Renewal Ratio***
  - Represents the replacement or refurbishment of existing assets to an equivalent capacity, as opposed to the purchase of new assets or refurbishment of existing assets that increase capacity
  - Compares the portion spent on infrastructure renewals to asset deterioration
  - Benchmark of 100% over a 3-year period
  - Below 100%, asset deterioration is greater than renewal, resulting in infrastructure degradation
  - The ratio assumes a consistent treatment of depreciable items between each Council's financial statements, but composition of asset bases and treatment of each asset class by each Council may affect this ratio.

$$\frac{\textit{Asset renewals (building and infrastructure)}}{\textit{Depreciation, amortisation and impairment (building and infrastructure)}}$$

- ***Infrastructure Backlog Ratio***
  - Compares the portion of maintenance backlog to the total value of infrastructure assets
  - Level of asset renewal required to maintain or improve service delivery
  - High ratios indicate poor infrastructure management
  - Persistently high ratios lead to increased pressure on maintaining service delivery and difficulty in financing future infrastructure
  - Benchmark ratio of less than 2%

$$\frac{\textit{Estimated cost to bring assets to a satisfactory condition}}{\textit{Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets}}$$

FFTF - Analytical ratios

Introduction to the analytical ratios

- ***Asset Management Ratio***
  - Compares actual to required expenditure on asset maintenance
  - Measures rate of asset renewal or degradation to assist in capital works planning
  - Benchmark of 100% over a 3-year period
  - Below 100%, required maintenance is not met and backlog pressures increase

$$\frac{\textit{Actual asset maintenance}}{\textit{Required asset maintenance}}$$

- ***Debt Service Ratio***
  - Indicates the degree of prudent and active debt management and acts as a proxy for a Council's strategic capacity
  - Prudent debt management smooths funding costs and promotes intergenerational equity
  - Inadequate debt usage may result in higher present Council rates
  - Ratio requirement of greater than 0 and less than or equal to 20%. It should be noted that a council with no debt is penalised as this ratio requires some debt repayments to be made. Grant Thornton has acknowledged this fact but analysed the ratios as the OLG has provided.

$$\frac{\textit{Cost of debt service (interest expense \& principal repayments)}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

- ***Real Operating Expenditure Per Capita***
  - Measures Council's ability to create efficiency from population growth by achieving economies of scale
  - Conversely, it also reflects Council's ability to maintain efficiency in response to a decline in population
  - Given a constant service level, a fall in real expenditure per capita indicates efficiency improvements
  - Councils are assessed on the magnitude and direction of change in the ratio outcome
  - Assessment conducted over a 5-year period
  - It should be noted that the requirement to lower the real operating expenditure per capita should be assessed in the context of the spend. For example, Waverley's strong public reputation for provision of 'softer services' is well known and given as a good example of its ability to deliver to its ratepayers. The ratio makes no adjustment for the type of spend.

$$\frac{\textit{Real Operating Expenditure (deflated by CPI)}}{\textit{Population}}$$

The Financial Model

Introduction to the Financial Model

- Grant Thornton has utilised the Self Assessment Tool developed by the NSW Office of Local Government which has been primarily designed to assist Councils in the submission of their proposal which would outline how they intend to adhere to the Fit for the Future guidance that has been produced. An original version of the Self Assessment Tool ("SAT") can be found at the FFTF website.
- The SAT initially permits a Council to input specific financial and operational data for the three years FY12 to FY14 in order to understand their position in relation to the seven assessments of scale and capacity (the "ratios").
- Grant Thornton has developed the SAT into a broader financial model ("Financial Model") in order to allow Waverley Council to amalgamate the data input for various Councils and start to compare the ratios of the five potential Council combinations (plus the current status quo) that have been suggested as strategic future options by Waverley Council to Grant Thornton (which are reflected in the scope of this engagement).
- In development of the Financial Model, Grant Thornton has not sought to undertake an audit of the SAT but has agreed with Waverley Council that it would be used as a starting point for any financial modelling.
- In order to ensure the accuracy of the data being input into the Model, Grant Thornton had conversations with relevant parties at various councils and has also formulated a variety of assumptions.
- As part of scope of the review, Grant Thornton adapted the Financial Model to provide two further sets of results for the periods FY15-FY17 and FY18-FY20. Data for the forecast Models is not as widely available and therefore some significant assumptions had to be made.
- There has been an assumption that each option is a straight amalgamation. We have insufficient data to analyse rate increases/decreases and increased/decreased value to rate-payers and this is also outside the scope of this report.

Assumptions in the Financial Model

Assumptions for the FY12 –FY14 Financial Model:

- Data required to be provided by Councils has been subject to some regulatory change over the analysed period. Where raw input data from FY12 and FY13 financial statements do not match the FY14 data recorded for those particular years, the result shown in the FY14 has been used. E.g. the BIAR ratio for Randwick in FY12 is shown to be 88.82% in the FY12 financial statements but in FY14 is represented as 89.84% in line with the new definition of 'infrastructure' to include open spaces. It has been assumed that every council's FY14 financial statements retrospectively reflect any changes in regulation such as this.
- Where the FY14 financial statements show retrospective changes to historic ratios, the raw data that informs the change is not often supplied. As the Financial Model requires inputs to be fed in rather than just results, Grant Thornton has assumed input figures that would reflect the results presented and that could reasonably be assumed to be the correct raw data based on other information available.

Assumptions for the FY15–FY17 and FY18-FY20 Financial Models:

- Inflation (a metric that directly affects the ROEPC ratio) has been assumed at 3% from FY15 and through the forecast period to FY20 in line with relevant discussions.
- Long term forecast data is not available for every line item required to populate the Self Assessment Tool as raw forecast data available (the Long Term Financial Plan, Strategic Asset Management Schedules, or Asset Management Plans for Buildings) is not required to be as detailed as the Financial Statements. We are aware that Randwick is seeking to produce more detailed forecast data but that this is not yet available. As such we have specifically assumed the following in relation to each ratio:

The Financial Model

Table of detailed assumptions

FFTF Ratio	Assumption detail
Operating Performance	• As per Current Financial Model except: – Data sourced from latest LTFP publicly available for all Councils and through various discussions with Waverley, Woollahra and Randwick. – Grants for Capital Purposes not available for Botany Bay into the projected period. We have applied the average percentage (c.18%) of grant to income of the three years to FY14 for Botany Bay's Capital Grant to FY20. – Any data utilised relating to net gain or loss from disposal of assets, net gain or loss from share in joint ventures, fair value adjustments of related investments and reversal of IPPE revaluation decrements has been added if available but assumed to be immaterial if not available.
Own Source Revenue	• As per Operating Performance except: – Data sourced from latest LTFP publicly available for all Councils and through various discussions with Waverley, Woollahra and Randwick. – Grants for Capital Purposes not available for Botany Bay into the projected period. We have applied the average percentage (c.10%) of grant to income of the three years to FY14 for Botany Bay's Capital Grant to FY20.
Building and Infrastructure Renewal	– Randwick provides the output data on the same basis as the Current Financial Model and therefore Grant Thornton has assumed input figures that would reflect the results presented (Source: LT Financial Plan, no date, p35) – Woollahra has provided forecast financial information after discussions with the Council with reference to the LTFP, LTFP cash flow schedules not available publicly and Corporate and Works Committee document (published December 2014). – City of Sydney, Waverley and Botany Bay have no publicly available information in relation to this ratio for the forecast period. Grant Thornton has assumed that the most favourable result of the average from FY12 to FY14 or the FY14 ratio is to be applied to FY20 in light of no further data.
Infrastructure Backlog	– Randwick has provided a Buildings Asset Management Plan (dated March 2010) that shows a sustainability ratio of 1.00x for the period March 2010 to FY20. Grant Thornton has assumed by FY20 there is no infrastructure backlog for Randwick as this ratio covers this off. Therefore the backlog from FY14 is assumed to be wound down evenly over the period. – Waverley has provided information through the Council in relation to IB ratio for FY17 and FY20 that was not publicly available – Woollahra has provided forecast financial information after discussions with the Council with reference to the LTFP, LTFP cash flow schedules not available publicly and Corporate and Works Committee document (published December 2014). – There is no consistent publicly available information in relation to this ratio for the forecast period for City of Sydney and Botany Bay. Grant Thornton has assumed that FY14 ratios will be maintained into the forecast period in light of no further information on the ratio.

The Financial Model

Table of detailed assumptions (cont.)

FFTF Ratio	Assumption detail
Asset Maintenance	• There is no consistent publicly available information in relation to this ratio for the forecast period. – Waverley has an average ratio of 99.6% for the Current Financial Model. Grant Thornton has assumed Waverley can maintain its assets >100% for the period to FY20 on this basis. – Randwick has an average ratio of 111.8% for the Current Financial Model and has trended upwards year on year. Grant Thornton has assumed Randwick can maintain its assets >100% for the period to FY20 on this basis. – Woollahra has provided forecast financial information after discussions with the Council with reference to the LTFP, LTFP cash flow schedules not available publicly and Corporate and Works Committee document (published December 2014). – City of Sydney has an average ratio of 89% but trended to 95% in FY14, its highest in the period. Grant Thornton has assumed 95% for the period to FY20 on this basis. – Botany Bay has an average ratio of 130% for the Current Financial Model but FY14 trended down to 81.3%. Grant Thornton has assumed 90% for the period to FY20 to reflect this instability.
Debt Service	– Waverley provides debt service data in its Long term Financial Plan 4, no date, p5. Randwick also provides forecast data in their Long Term Financial Plans as sourced above. City Of Sydney's Long Term Financial Plan assumes no debt in the period to FY20 (Source: LT Financial Plan, 2011, p36). – Woollahra has provided forecast financial information after discussions with the Council with reference to the LTFP, LTFP cash flow schedules not available publicly and Corporate and Works Committee document (published December 2014). – Botany Bay has no publicly available information in relation to this ratio for the forecast period. Grant Thornton has assumed Botany Bay does not intend to take on further debt in light of its current debt free status (and having read nothing to indicate the desire to leverage).
Return on Operating Performance per Capita	• As per Operating Performance except: – The population data has been extrapolated from an external source (Source: Population Projections: 2014 Final / NSW Government Planning and Environment). Data here was only available for 2016 and 2020 and therefore Grant Thornton has assumed mid-range values by spreading the difference between start value and final value between the range required. – FY15 is assumed as a start point for the FY15-FY17 Model – i.e. the actual ROEPC may not be comparable to FY14 because deflation has not been indexed back to the current day. Likewise, FY18 is assumed as a start point for the Model from FY18 to FY20. This assumption is reasonable because a) each Model seeks to look at trends rather than absolute numbers and b) no data has been made available to accurately discount the value of future income and expenditure back to the present day It can be assumed if the same discount rate was used for all Councils, then the results would still be proportional.

Section 3 Current Analysis FY12-FY14

Current analysis - Option 1 - Waverley status quo:

Background

- Grant Thornton has assessed Waverley Council's current performance against the Fit for the Future benchmarks as Option 1 – Retention of Status Quo. The table below shows the ratio results over a 3 year average.

FY12-FY14

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	(3.13%)	87.19%	50.77%	2.62%	99.63%	1.45%	UP	2
2	Greater Sydney option per ILGRP report	2.24%	85.13%	77.95%	1.83%	99.61%	0.35%	UP	4
3	Waverley, Woollahra and Randwick	(0.52%)	88.75%	80.81%	1.32%	112.66%	1.00%	DOWN	5
4	Waverley and Woollahra	(3.27%)	88.62%	59.00%	2.04%	100.54%	1.72%	DOWN	4
5	Waverley and Randwick	0.40%	88.13%	82.54%	1.30%	115.84%	0.66%	DOWN	6
6	Waverley, Woollahra, Randwick and Botany	(0.84%)	85.88%	78.66%	1.78%	114.70%	0.85%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Key to tables

- Please note that
  - all data shown in **red** in the tables on this and subsequent pages **fails to meet the benchmark standard** as suggested by the OLG and illustrated at the foot of the tables.
  - all data in **green** in the tables on this and subsequent pages **meets the benchmark standard** as suggested by the OLG and illustrated at the foot of the tables.

Analysis

- OP ratio average is -3.13%, which does not meet the FFTF benchmark of >0%. The OP ratio increased, however, from -8.38% in FY12 to 0.09% in FY14 (which as a standalone figure would satisfy the test). The positive trend in the ratio has been primarily driven by a greater than proportional increase in total income from continuing operations against total expenses from continuing operations. The increase in total income has been driven by increases in rates and annual charges. If the ratio can be sustained at current levels then Waverley would set to achieve the FFTF benchmark in the forecast period.
- OSR ratio slightly decreased from 88.13% in FY12 to 86.29% in FY14. Despite a slight negative trend, the ratio exceeds the benchmark of >60% comfortably.
- BIAR ratio average is 50.77% which does not meet the FFTF benchmark of 100%. It should be noted that this ratio increased from 25.35% in FY12 to 63.44% in FY14. The reason for such a low result in FY12 is that an expenditure of $8.8m allocated to increase the capacity/performance of existing assets is not taken into account. If this had been included the average ratio would have risen to c.73% but would still have been significantly short of the benchmark.
- IB ratio for FY14 is 2.62%, in excess of the 2% FFTF benchmark. The ratio suggests that Waverley will need to invest further resource into unwinding this backlog which may impact on other ratios into the future, for example its Asset Management commitments.
- AM ratio average is 99.63%, which does not meet the FFTF benchmark of >100% (albeit immaterially). The ratio increased significantly from 83.06% in FY12, to 117.48% in FY14 mainly due to spending on maintenance of public roads in FY13 and buildings in FY14. It is expected that this ratio would be passed with FY15 data as the requirement to reach 100% over the rolling three years from FY13 to FY15 would be attained only with an 80% result. Further positive asset maintenance should also reduce the IB ratio over time.

Current analysis - Option 1 - Waverley status quo:

Analysis (cont.)

- DS ratio average is 1.45%, well between the FFTF benchmark of >0% to 20%. Waverley's debt service ratio has been stable throughout the period.
- ROEPC has increased from 1.32 in FY10 to 1.35 in FY14. This does not meet the FFTF benchmark which advocates a decreasing trend.
- A comparison against the GS option with respect to OP shows that Waverley does not match GS for capacity on this basis. Also, in absolute terms, Waverley's income in FY14 is only $123 million in comparison to GS' $1 bn.
- A comparison against the GS option with respect to ROEPC shows that Waverley exhibits the same increasing trend in this ratio. However, it has increased less rapidly, and therefore could be supported as having a greater ability to gain economies of scale with the data available although crucially synergies and costs of amalgamation have not been analysed in the scope of this work.

Waverley only meets 2 of the 7 ratios set by the FFTF program at the current time.

However, if Waverley continues with current trends, there is a probability that both OP and AM ratios would be in a position to pass the respective tests in the near future.

An improvement in OP is demonstrated by the Greater Sydney option highlighting a lack of scale for Waverley, whilst the ROEPC ratio remains under the benchmark for both.

Based upon current data, Waverley as a stand-alone council does not fulfil the FFTF requirements and amalgamation options may provide a better option to pass the criteria.

Current analysis - Option 2 - Greater Sydney (per ILGRP report) (GS):

Background

- The recommendation from the ILGRP has been to consider the amalgamation all five existing councils to form a Greater Sydney council composed of Waverley, Woollahra, Randwick, Botany Bay and the City of Sydney Council – Option 2.
- The ILGRP report refers specifically to scale and capacity as key metrics to be assessed by councils when merging. Grant Thornton has assessed this to mean the 7 ratios as discussed, but also taken the GS option (as a favoured option by Government) as a comparison for key metrics on income, expenditure and population (to further detail into scale and capacity). The table below shows the ratio results over a 3 year average.

FY12-FY14

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	(3.13%)	87.19%	50.77%	2.62%	99.63%	1.45%	UP	2
2	Greater Sydney option per ILGRP	2.24%	85.13%	77.95%	1.83%	99.61%	0.35%	UP	4
3	Waverley, Woollahra and Randwick	(0.52%)	88.75%	80.81%	1.32%	112.66%	1.00%	DOWN	5
4	Waverley and Woollahra	(3.27%)	88.62%	59.00%	2.04%	100.54%	1.72%	DOWN	4
5	Waverley and Randwick	0.40%	88.13%	82.54%	1.30%	115.84%	0.66%	DOWN	6
6	Waverley, Woollahra, Randwick and Botany	(0.84%)	85.88%	78.66%	1.78%	114.70%	0.85%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Analysis

- OP ratio average is 2.24%, which meets the FFTF benchmark of >0% . However, the ratio fell 5.40% in FY12 to 1.35% in FY13 and 0.18% in FY14. The sharp decline is primarily driven by the relatively poor OP ratios of the individual councils of Waverley, Woollahra and Botany Bay, (despite Waverley and Botany Bay managing to increase their OP ratio into positive figures into FY14). Woollahra's OP ratio has been negative for the last three years. Waverley would need to consider the risks of a decreasing trend in this ratio against the absolute number being ahead of the benchmark compared to it as a stand alone.
- OSR ratio average exceeds the FFTF requirement of >60% with a result of 85.13%. All five councils exhibited current statistics that exceeded the benchmark, with Botany Bay's average of c.70% being the lowest current total, but still in a comfortable position.
- BIAR ratio has increased from 74.0% in FY12 to 85.2% in FY14. This does not meet the FFTF benchmark of 100% despite the upward trend. The upward trend is driven by all councils except Greater Sydney improving their ratio over the past three years. Randwick is the stand-out contributing council with an average BIAR of 111.8% that has peaked at 122.6% in FY14. The rising trend, which mirrors Waverley's as a stand alone, illustrates a general cross-council consensus to ensure renewal of existing assets, but also means that further investment would be required.
- IB ratio is 1.83% for FY14 which meets the FFTF benchmark of <2% (albeit only slightly). Botany Bay (and to a lesser extent Waverley) are significant contributors to the ratio being close to failure with their respective ratios of 6.93% and 2.62%, for FY14.
- AM ratio average is 99.61%, which does not meet the FFTF requirement of >100% (albeit immaterially). Waverley (99.63%) and City of Sydney (87.9%) are the least well placed councils in relation to this ratio but it is the latter that brings GS's average down. For this ratio, Waverley would not be improved with a combination with City of Sydney.

Current analysis - Option 2 - Greater Sydney (per ILGRP report)(GS):

Analysis (cont.)

- DS ratio average is 0.35%, which meets the benchmark recommended by FFTF. Only Waverley (1.45%) and Woollahra (2.12%) have debt items on their balance sheets and as such are the only councils that contribute to this figure being above 0%.
- ROEPC has increased from 1.38 in FY10 to 1.47 in FY14. This does not meet the FFTF benchmark which advocates a decreasing trend. The ratio increase here is primarily driven by the City of Sydney who has seen an increase from 1.99 to 2.23 during the period. City of Sydney has experienced strong increases in total expenses from continuing operations (by c.24% between FY10 and FY14) with population only increasing by 6.8%.

GS only meets 4 of the 7 ratios set by the FFTF program at the current time.

Significantly for Waverley, this combination would enhance its OP, BIAR, IB and AM ratios, despite only still passing the benchmark in three of those.

The increase in ROEPC indicates operational inefficiency and may have a negative impact on the level of service provided to the community (although more analysis would need to be provided here).

The GS option represents a possible option, because despite not fulfilling as many ratio benchmarks as other options presented, it exhibits greater absolute scale and capacity qualities and it improves Waverley from a statistical perspective. Also, by including Botany Bay and City of Sydney (the only option to do this) it brings together 'key infrastructure' and 'international icons' which may allow Sydney's ongoing development as a 'premier global city'.

Current analysis - Option 3 - Waverley, Woollahra and Randwick (WWR):

Background

- Grant Thornton has assessed a combination of Waverley, Woollahra and Randwick's current performance against the Fit for the Future benchmarks as Option 3. The table below shows the ratio results over a 3 year average.

FY12-FY14

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	(3.13%)	87.19%	50.77%	2.62%	99.63%	1.45%	UP	2
2	Greater Sydney option per ILGRP report	2.24%	85.13%	77.95%	1.83%	99.61%	0.35%	UP	4
3	**Waverley, Woollahra and Randwick**	(0.52%)	88.75%	80.81%	1.32%	112.66%	1.00%	DOWN	5
4	Waverley and Woollahra	(3.27%)	88.62%	59.00%	2.04%	100.54%	1.72%	DOWN	4
5	Waverley and Randwick	0.40%	88.13%	82.54%	1.30%	115.84%	0.66%	DOWN	6
6	Waverley, Woollahra, Randwick and Botany	(0.84%)	85.88%	78.66%	1.78%	114.70%	0.85%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Analysis

- OP ratio average is -0.52%, which does not meet the FFTF benchmark of >0%. When looking in further detail, the ratio has improved over the period, from -2.45% in FY12 to 0.2% in FY13 and 0.52% in FY14. This WWR combination is negatively affected by Waverley's results of -8.38% and -1.92% in FY12 and FY13 which could be argued do not represent the current operational state of the council. Woollahra's negative ratios of -3.71% and -4% in the same period also negatively impact on the overall ratio. Conversely, Randwick's positive average result of 3.3% is responsible for bringing the WWR option's ratio close to break even.
- OSR ratio average is 88.75% which has been stable for the period of analysis and is easily in excess of the FFTF requirement of >60%. It should be noted, however, that all five councils exhibit a strong OSR ratio relative to the 60% benchmark, hence the positive response to all combinations.
- BIAR ratio average is 80.81%, which is below the FFTF benchmark of 100%, this is an improvement on Waverley's ratio by c.59%. Waverley and Woollahra's BIAR ratios (50.77% and 74.16%) which despite increasing over the past three years, are below FFTF benchmark considerably and Randwick's positive addition of 111.8% does not lift the result to a high enough level to be acceptable at this point.
- The IB ratio is 1.32% which meets the FFTF benchmark of <2%. The ratio here is significantly influenced ratio by Woollahra's strong improvement in its adjusted FY14 Schedule 7 to 1% from an average 6% in FY12 and FY13.
- AM ratio average is 112.7%, which meets the FFTF requirement of >100%. Waverley's AM ratio average is improved by this combination by c.12% but Woollahra's 95.42% result limits any further gains for Waverley. Randwick lifts WWR's average ratio result with its average of 139.5%.
- DS ratio average is 1.0%. Again, only Waverley (1.45%) and Woollahra (2.12%) have debt items on their balance sheets and as such are the only councils that contribute to this figure being above 0%, although Randwick (with no debt) is arguably as financially stable and effective.

Current analysis - Option 3 - Waverley, Woollahra and Randwick (WWR):

Analysis (cont.)

- ROEPC has decreased from 0.99 in FY10 to 0.98 in FY14 and is therefore in line with the FFTF benchmark. This would need to be monitored going forward, however, as the trend has been punctuated by occasional increases.
- A comparison against the GS option with respect to OP shows that WWR does not match GS' 2.24%, nor even pass the benchmark. Even combining the total income from WWR is only $319m against over $1bn for GS, therefore making it less easy to argue the benefits of potential economies of scale.
- A comparison against the GS option with respect to ROEPC shows that WWR has a decreasing trend and meets the benchmark whilst the Greater Sydney Option fails the benchmark at this time. This could potentially indicate this combination is more efficient than a large GS council.

A merger for Waverley with Woollahra and Randwick only does not appear to be the most favourable option, although it meets 5 of the 7 required ratios at the current time.

Most significantly, the BIAR ratio is currently far from the FFTF benchmark at 80.81% and although it does still improve Waverley's current situation it is questionable how easily this could be effected to be over 100% on this combination

The ratios measure well against GS and WWR's critical mass of c.270,000 population for FY14 measures well against some metropolitan Councils who have been advised not to merge.

The real driver of this combination is Randwick, and a Waverley, Randwick combination is assessed later in this section.

Current analysis - Option 4 - Waverley and Woollahra (WW):

Background

- Grant Thornton has assessed a combination of Waverley and Woollahra's current performance against the Fit for the Future benchmarks as Option 4. The table below shows the ratio results over a 3 year average.

FY12-FY14

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	(3.13%)	87.19%	50.77%	2.62%	99.63%	1.45%	UP	2
2	Greater Sydney option per ILGRP report	2.24%	85.13%	77.95%	1.83%	99.61%	0.35%	UP	4
3	Waverley, Woollahra and Randwick	(0.52%)	88.75%	80.81%	1.32%	112.66%	1.00%	DOWN	5
4	**Waverley and Woollahra**	(3.27%)	88.62%	59.00%	2.04%	100.54%	1.72%	DOWN	4
5	Waverley and Randwick	0.40%	88.13%	82.54%	1.30%	115.84%	0.66%	DOWN	6
6	Waverley, Woollahra, Randwick and Botany	(0.84%)	85.88%	78.66%	1.78%	114.70%	0.85%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Analysis

- OP ratio average is -3.27% which does not meet the FFTF benchmark of >0%. Woollahra has a poor OP ratio, at -3.71% in FY2012, -4% in FY2013 and -2.78% in FY2014, which, completely negates Waverley's positive trend. Woollahra's poor operational ratio in FY13 can be partially explained by revenues being inflated by a fair value adjustment to investments of c.$1.9m, however in 2014 there was a favourable counter-adjustment to investment properties of $1.9m, otherwise the ratio would have been expected to be even lower. Woollahra appears to be the weakest council in respect of OP and as such a poor partner for Waverley.
- OSR ratio average is 88.62%. The two councils combined exhibited excellent stability ranging only between 88.9% in FY12 and 88.4% in FY13.
- Despite increasing from 36.04% in FY12 to 72.78% in FY14, the 3-year average BIAR ratio average for the WW option is only 59%, well below the required level by FFTF of >100%. Woollahra has a strong positive trend to the ratio, reaching 89.6% in FY14, but poor results in FY12 and FY13 mean it can only improve Waverley's standalone average by c.9%.
- The IB ratio is 2.04% which does not meet the FFTF benchmark of <2% (albeit immaterially). Woollahra's average of 1% in FY14 significantly pulls the combination upwards as Waverley is at 2.62%. It is worth noting, however, that this rise to 1% comes from a basis of 6% on FY12 and 5% in FY13 and therefore it might be prudent to inquire about the sustainability of the result provided in the adjusted FY14 figures by Woollahra.
- The AM ratio average is 100.54%, satisfying the FFTF benchmark (albeit immaterially). Encouragingly the ratio trend is increasing, from 91.14% in FY12 to 109.79% in FY14. Woollahra's AM ratio decreased from 105.2% in FY12 to 95.4% in FY14, indicating that despite it being accretive to Waverley and improving he status quo by 0.9%, the trend indicates FY15 may bring a more negative result.

Current analysis - Option 4 - Waverley and Woollahra (WW):

Analysis (cont.)

- Waverley and Woollahra are the only two Councils with debt balances and because both exhibit manageable quantities of debt, the ratio is passed by Waverley and as a WW combination. DS ratio average for WW is 1.72%, has been stable and meets the FFTF requirement.
- ROEPC is a decreasing trend for this combination, in line with the FFTF framework. It is important to note that FY14 showed an increase to 1.25 and would need to be monitored going forward as any further increase would unfavourably alter the result of the ratio. A WW combination would also cut Waverley's real operating expenditure per capita.
- A comparison against the GS option with respect to OP shows that the WW option significantly does not meet the OP benchmark at -3.27%, however, the Greater Sydney option easily meets the benchmark at 2.24%. Waverley and Woollahra also have an income some $800m less than GS in FY14.
- A comparison against the GS option with respect to ROEPC shows that the WW option has a decreasing trend and meets the benchmark and, although this could be subject to change if unmonitored because the data is not smoothly distributed.

The weakest option for Waverley from a purely FFTF perspective, despite reaching 4 of the 7 ratio thresholds set by FFTF.

Most significantly, Woollahra's poor OP and BIAR ratios significantly disadvantage the ability to argue this combination provides scale and capacity and despite an improved BIAR ratio, it is not close to the degree of change required to elevate Waverley's poor BIAR ratio to the threshold .

Scale would also be a problem with this option and although efficiency currently compares favourably against GS, the benefit of a population that can grow from all five councils may alter this ratio over time more in favour of GS.

In addition, the AM ratio is passed, but with a negative trend for Waverley compared to status quo.

Current analysis - Option 5 - Waverley and Randwick (WR):

Background

- Grant Thornton has assessed a combination of Waverley and Randwick's current performance against the Fit for the Future benchmarks as Option 5. The table below shows the ratio results over a 3 year average.

FY12-FY14

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	(3.13%)	87.19%	50.77%	2.62%	99.63%	1.45%	UP	2
2	Greater Sydney option per ILGRP report	2.24%	85.13%	77.95%	1.83%	99.61%	0.35%	UP	4
3	Waverley, Woollahra and Randwick	(0.52%)	88.75%	80.81%	1.32%	112.66%	1.00%	DOWN	5
4	Waverley and Woollahra	(3.27%)	88.62%	59.00%	2.04%	100.54%	1.72%	DOWN	4
5	**Waverley and Randwick**	0.40%	88.13%	82.54%	1.30%	115.84%	0.66%	DOWN	6
6	Waverley, Woollahra, Randwick and Botany	(0.84%)	85.88%	78.66%	1.78%	114.70%	0.85%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Analysis

- OP ratio average is 0.40%, which meets the FFTF benchmark of >0%. The ratio increased from -2.07% in FY12 to 1.54% in FY14, driven by both Waverley's increase from -8.38% in FY12 to 0.09% in FY14, as well as Randwick's consistent strong performance, averaging 3.34%. Despite not being as strong as the GS option, WR is the only other combination that meets the FFTF benchmark at this stage and is the only (including GS) that exhibits an upward trend in this ratio, which is important to consider looking forward to the future.
- OSR ratio average is 88.13%, again exceeding the FFTF benchmark result of >60%. Despite Waverley as a stand-alone council exceeding the benchmark, a combination with Randwick would strengthen Waverley by c.1%.
- BIAR ratio average is 82.54% for WR, again below the required level by FFTF of >100%. However, the ratio has been significantly increasing from 54.96% in FY12 to 90.47% in FY13 and 96.64% in FY14. This improvement is driven by both council's improvements although Waverley's absolute % average is still only 50.77% as stand-alone. Randwick has achieved >100% for both years FY13 and FY14, reaching 122.6% in FY14 and whilst WR fails, Waverley is significantly enhanced by the combination.
- The IB ratio is 1.30% which meets the FFTF benchmark of <2%. Waverley's 2.62% ratio is positively influenced by Randwick's ratio of 0.69%. Randwick also is confident of erasing any remaining infrastructure backlog in the future per its strategic long term plan, which will only enhance the output of this ratio for whoever is in combination.
- DS ratio average for WW is 0.66% and meets the FFTF requirement. Randwick does not have any debt and therefore fails the benchmark, but, when combined with Waverley, it passes by 0.66% due to Waverley's leveraged position.

Current analysis - Option 5 - Waverley and Randwick (WR):

Analysis (cont.)

- ROEPC for WR increases from FY10 from 0.94 to 0.95 in FY14. However, because WR experienced an increase to 0.96 in FY11, the overall trend over the years is shown to be negative and thus passes the FFTF requirement. It is Waverley's status quo position that is again the negative potential in the ratio as it experienced the strong uptick in FY14.
- A comparison against the GS option with respect to OP shows that the WR option meets the OP benchmark at 0.4%, however, this is easily surpassed by the Greater Sydney option which records an OP ratio of 2.24%. Randwick can also only contribute another $134m of income (FY14) so a $257m council would be only a quarter of the size of GS and any potential synergies that may be discussed may be out of reach.
- Comparing ROEPC against the GS option is favourable, but again the two councils are significantly smaller in terms of population growth potential, which would ultimately reduce the GS ROEPC over time.

The strongest option for Waverley from a purely FFTF perspective, reaching 6 of the 7 ratio thresholds and failing on only a single option (BIAR – that all other combinations currently fail on).

Looking specifically at the OP and ROEPC scale and capacity comparisons against the GS option shows that the WR amalgamation meets the OP and ROEPC benchmarks on both accounts, whilst the Greater Sydney Option does not meet the ROEPC benchmark.

Randwick itself as a stand-alone council would pass 6 of the 7 and fail on the questionable DS ratio (unless it added $1 of debt) and therefore is a strongly attractive option as part of any combination, but more so when it is not diluted by any other council.

Current analysis - Option 6 - Waverley, Woollahra, Randwick and Botany Bay (WWRB):

Background

- Grant Thornton has assessed a combination of Waverley, Woollahra, Randwick and Botany Bay's current performance against the Fit for the Future benchmarks as Option 6. The table below shows the ratio results over a 3 year average

FY12-FY14

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	(3.13%)	87.19%	50.77%	2.62%	99.63%	1.45%	UP	2
2	Greater Sydney option per ILGRP report	2.24%	85.13%	77.95%	1.83%	99.61%	0.35%	UP	4
3	Waverley, Woollahra and Randwick	(0.52%)	88.75%	80.81%	1.32%	112.66%	1.00%	DOWN	5
4	Waverley and Woollahra	(3.27%)	88.62%	59.00%	2.04%	100.54%	1.72%	DOWN	4
5	Waverley and Randwick	0.40%	88.13%	82.54%	1.30%	115.84%	0.66%	DOWN	6
6	**Waverley, Woollahra, Randwick and Botany**	(0.84%)	85.88%	78.66%	1.78%	114.70%	0.85%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Analysis

- OP ratio average -0.8% which does not meets the FFTF benchmark of >0%. Whilst the ratio has been increasing from -3.69% in FY12 to 0.26% in FY13 and 0.6% in FY14, Woollahra and Botany Bay contribute negatively (alongside Waverley) to this ratio with their negative 3-year average OP ratios of -3.48% and -2.68% respectively. Botany Bay has been increasing its OP ratio from a very poor –11.02% in FY12 to 1.06% in FY14 and on this basis looks a strong partner once the FY12 result can be dropped from the rolling average. Botany Bay's improvement in FY13 and FY14 was due to increasing total income from continuing operations via a substantial increase of grants and contributions provided for capital purposes so it would be prudent to assess whether this is sustainable into the future.
- OSR ratio average is 85.88%. The ratio has been stable over the past three financial years and exceeds the FFTF benchmark of >60%. Botany Bay is the primary driver of the decrease to Waverley's current ratio, driven by its fall from 77% in FY12 to 67% in FY14. An explanation for this could be an increasing reliance on the amount of grants and contributions provided for capital purposes received by Botany Bay over the period relative to its own organic revenue growth. Whilst the WWRB combination passes the benchmark the negative trend of Botany should be considered.
- BIAR ratio average is 78.66% which does not meet the FFTF benchmark. This ratio has been increasing from 51.97% in FY12 to 92.59% in FY14 indicating the four councils are all responding to the potential problems of a lack of investment in assets. Even with Botany Bay's low average ratio of 61%, Waverley still benefits from a combination.
- The IB ratio is 1.78% which marginally meets the FFTF benchmark of <2%. The ratio is driven upwards by the discussed Botany Bay ratio which reaches 6.93%. However, Botany Bay has managed to control this ratio in FY14 to an extent after recording 27% in FY12 and 13% in FY13.

Current analysis - Option 6 - Waverley, Woollahra, Randwick and Botany Bay (WWRB):

Analysis (cont.)

- AM ratio average is 114.17%, which passes the threshold. The ratio in FY12 was c.98.83%, but increased to 138.54% in FY13 and maintained above the benchmark of >100% when sliding to 110.95% in FY14. Botany Bay's average AM ratio fell from 177.67% in FY2013 to 81.32% in FY2014. The lack of visibility over the data from Botany Bay ensures difficulty in explanation for these last variations.
- DS ratio average has been very stable at 0.85%. As discussed, only Waverley and Woollahra have debt balances (which have been stable).
- ROEPC for WWRB has decreased year on year from FY12, from 1.02 to 0.99 in FY13 and fits the required trend for the FFTF benchmark. This would need to be monitored going forward as there was a spike from FY11 to FY12.
- A comparison against the GS option with respect to OP shows that the WWRB option does not out-perform GS. However, it contributes income in FY14 of $409m, which is the largest excluding City of Sydney that is likely to benefit from increased business contributions.
- A comparison against the GS option with respect to ROEPC is favourable again and also this option has a favourable weighting of potential population growth.

An option that satisfies 5 of the 7 criteria ratios, but appears less well placed at the current time compared with its closest rivals, GS and WWR.

In terms of scale and capacity, this four-council amalgamation has more potential to drive economies of scale through larger pools of assets and larger population. Whilst it is significantly smaller from a revenue perspective still than GS, it fulfils the desire by OLG to bring infrastructure assets together.

In order for WWRB to be effective for Waverley, more understanding will be required about Botany Bay and its role in a number of the ratios of the combined group. For example, the low BIAR and high IB ratios for Botany are unfavourable, but Botany potentially holds major growth assets that could be exlpored outside of the scope of this report.

Section 4 Forecast Analysis FY15-FY17 and FY18-FY20

Forecast analysis - Option 1- Waverley status quo:

FY15-FY17

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	**Waverley**	1.11%	92.08%	63.00%	1.31%	80.85%	1.61%	DOWN	5
2	Greater Sydney option per ILGRP report	2.11%	88.79%	90.24%	1.65%	96.77%	1.06%	DOWN	5
3	Waverley, Woollahra and Randwick	1.59%	92.60%	98.73%	0.84%	99.62%	2.94%	DOWN	5
4	Waverley and Woollahra	0.35%	92.89%	89.50%	1.62%	94.09%	4.94%	UP	4
5	Waverley and Randwick	2.37%	92.13%	90.10%	0.54%	95.76%	0.74%	DOWN	5
6	Waverley, Woollahra, Randwick and Botany	2.77%	88.73%	92.80%	1.29%	97.21%	2.46%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

FY18-FY20

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	**Waverley**	3.02%	93.03%	63.00%	0.00%	103.00%	1.18%	DOWN	6
2	Greater Sydney option per ILGRP report	2.89%	90.75%	87.31%	1.40%	102.83%	0.98%	DOWN	6
3	Waverley, Woollahra and Randwick	3.01%	93.14%	93.85%	0.27%	109.72%	2.66%	DOWN	6
4	Waverley and Woollahra	2.85%	93.70%	82.00%	0.62%	105.00%	4.45%	DOWN	6
5	Waverley and Randwick	3.14%	92.64%	90.28%	0.02%	111.08%	0.54%	DOWN	6
6	Waverley, Woollahra, Randwick and Botany	3.95%	89.22%	89.14%	0.73%	104.79%	2.24%	DOWN	6
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Background

- Grant Thornton has assessed Option 1 on a forecast basis against two three-year periods, from FY15 to FY17 and FY18 to FY20.

Analysis

- OP ratio average is 1.11% in FY15-FY17, which meets the FFTF benchmark of >0%, increasing to an average 3.02% for FY18 to FY20. The OP ratio increase across both periods is driven by forecast expenses only increasing $0.78 for every $1 of forecast income across the combined forecast period. If Waverley is confident of the growth rate and the ability to rationalise costs then it will be easily within the FFTF benchmarks within the FY20 timeframe.
- OSR ratio average builds upon the strong results all five councils have previously recorded, with Waverley increasing its ratio to 92.08% for FY15-FY17 and to 923.03% for the period to FY20. The trend develops the ability shown by Waverley in the current period to grow revenue more quickly than it receives supplementary capital grants and contributions.
- BIAR ratio average is 63.00% across both forecast periods, which does not meet the FFTF benchmark of >100%. It should be noted that this ratio is based upon very broad brush assumptions as there is no publicly available data that forecasts this figure forwards. Historically, Waverley has not been able to service its assets as required and there has been no evidence presented to suggest that will not continue to be the case to FY20.
- IB ratio for FY17 is forecast to be 1.31%, achieving the <2% FFTF benchmark. The improvement in ratio is because Waverley expects to invest further resource into unwinding this backlog through over-maintaining its assets. By FY20 the ratio is expected to fall to 0.00% (as Waverley forecasts to remove its backlog by FY20.

Forecast analysis - Option 1- Waverley status quo:

Analysis (cont.)

- AM ratio average is 80.85% for FY15-FY17, which does not meet the FFTF benchmark of >100%. The ratio in FY15 was 85.7% but this falls to 78.3% in FY17, indicating a requirement of further concentrated effort to reduce the IB and arrest this trend. It is forecast by Waverley that this ratio would meet the requirement to reach 100% through into FY20, although this is driven by a 128.9% result in FY20 after two further years of insufficient investment.
- DS ratio average is 1.61%, for FY15-FY17, a slight 0.16% increase on the current period but well between the FFTF benchmark of >0% to 20%. Waverley's debt service ratio has been stable throughout the period and FY18-FY20 is expected to be stable at 1.18%.
- ROEPC is forecast to increase to a peak of 1.49 in FY15 but to decrease to 1.44 in FY17. This meets the FFTF benchmark which advocates a decreasing trend. From FY18-FY20 the downward trend continues.

Waverley improves in the forecast period to FY17 meeting 5 of the 7 ratios as a standalone council and increases to 6 of 7 in the period to FY20.

However, even if Waverley is not expected to meet the requirements of all ratios by FY20, the BIAR ratio is well below the threshold and it is arguable if it could be reasonably expected to achieve that ratio into the further future, everything else remaining equal.

Forecast analysis - Option 2- Greater Sydney (as per ILGRP report)(GS):

FY15-FY17

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	1.11%	92.08%	63.00%	1.31%	80.85%	1.61%	DOWN	5
2	Greater Sydney option per ILGRP	2.11%	88.79%	90.24%	1.65%	96.77%	1.06%	DOWN	5
3	Waverley, Woollahra and Randwick	1.59%	92.60%	98.73%	0.84%	99.62%	2.94%	DOWN	5
4	Waverley and Woollahra	0.35%	92.89%	89.50%	1.62%	94.09%	4.94%	UP	4
5	Waverley and Randwick	2.37%	92.13%	90.10%	0.54%	95.76%	0.74%	DOWN	5
6	Waverley, Woollahra, Randwick and Botany	2.77%	88.73%	92.80%	1.29%	97.21%	2.46%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

FY18-FY20

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	3.02%	93.03%	63.00%	0.00%	103.00%	1.18%	DOWN	6
2	Greater Sydney option per ILGRP	2.89%	90.75%	87.31%	1.40%	102.83%	0.98%	DOWN	6
3	Waverley, Woollahra and Randwick	3.01%	93.14%	93.85%	0.27%	109.72%	2.66%	DOWN	6
4	Waverley and Woollahra	2.85%	93.70%	82.00%	0.62%	105.00%	4.45%	DOWN	6
5	Waverley and Randwick	3.14%	92.64%	90.28%	0.02%	111.08%	0.54%	DOWN	6
6	Waverley, Woollahra, Randwick and Botany	3.95%	89.22%	89.14%	0.73%	104.79%	2.24%	DOWN	6
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Background

- Grant Thornton has assessed Option 2 on a forecast basis against two three-year periods, from FY15 to FY17 and FY18 to FY20.

Analysis

- OP ratio average is 2.11%, which meets the FFTF benchmark of >0% . Looking in more detail, however, the ratio steadily increases from 1.75% in FY15 to 2.48% in FY17. The average increases in FY18-FY20 to 2.89%, but after a strong result of 3.16% in FY18 the ratio declines through c.2.83% to c.2.70% for the remainder of the period, but still well inside of the threshold. All councils in the combination exhibit positive OP ratio (but Waverley and Woollahra combined (FY15-FY18 0.35%) lower the ratio. The Botany forecasts are in comparison to a -2.68% OP for FY14. We have not performed an analysis on the composition of Botany Bay's forecasts (which show a strongly increasing gross margin) and we have had to assume a level of capital grants that Botany Bay will receive over the two forecast periods. These two factors are key drivers of this ratio and therefore caution should be used when assessing the inclusion of Botany Bay a viable option going forward.
- OSR ratio average exceeds the FFTF requirement of >60% with a result of 88.79% for the three years to FY17 and 90.75% for the further three year period to FY20. All five council forecasts exhibit forecast statistics that exceed the benchmark, with Botany Bay's average of c.72% across each three year period being the lowest, but still in a comfortable position.
- BIAR ratio has increased to an average 90.24% for FY15-FY17 from the FY14 result, but still short of FFTF benchmark for BIAR of >100%. Through to FY20 BIAR also falls, to 87.31%. As per the current analysis, Randwick is the stand-out contributing council with an average BIAR of 117.20% to FY17 and 117.56% to FY20.

Forecast analysis - Option 2 - Greater Sydney (as per ILGRP report)(GS):

Analysis (cont.)

- IB ratio is 1.71% from FY15 to FY17 which meets the FFTF benchmark of <2% (albeit immaterially), falling to 1.48% for FY18-FY20. Botany Bay is the significant contributor to the ratio being dragged down with the assumption it will continue not have the same backlog as FY14, at 6.93%, to FY20 as no other evidence has been made available that there is capacity to improve in the forecast period. However, as Waverley and Randwick improve, the ratio for GS improves in comparison to its current position. It is worth noting that Woollahra forecast a c.2% IB ratio into the forecast period but as a stand alone result in FY14 the ratio was 6.93%.
- AM ratio average is 96.77%, which does not meet the FFTF requirement of >100%. However, the trend does drive forward through FY18-FY20 to 102.83% above the FFTF benchmark., but this is because Waverley's FY20 forecast rises to 128.9% and Randwick show excellent numbers of 117.56%. These two aside, the average here is also brought down by City of Sydney (forecast to only achieve 95% ratio across the forecast period) and Botany Bay (90%). This casts a doubt on the sustainability of this ratio with these councils in the combination. All councils, however show positive trends in relation to individual FY14 results.
- DS ratio average is 1.07%, which is inside the boundaries recommended by FFTF and similar to 0.98% in FY14. Only Waverley (1.61% FY15-FY17 and 1.18% FY18-FY20) and Woollahra (9.47% FY15-FY17 and 8.88% FY18-FY20) have debt items on their balance sheets and as such are the only councils that contribute to this figure being above 0%. It should be noted that Woollahra's high figure is due to an investment in a large PPP project.
- ROEPC has decreased in FY15-FY17 and from FY18-FY20 and as such fulfils the criteria on a consistent basis year-on-year throughout the forecast period.

GS improves in the forecast period to FY17 to meet 5 of the 7 ratios, increasing to 6 out of 7 in the period to FY20 but continues to struggle with BIAR in the three-year period to FY20.

GS is a relatively strong option in relation to scale in an absolute sense (population 555,560 by FY20) and capacity because of the combined footprint of CBD, key infrastructure assets and residential hubs that would bring together Sydney's international icons and infrastructure as OLG envisages.

An assessment on how such a large council would appeal to residents of Waverley from a cultural perspective may need to be considered.

In addition, the GS council, being made up of four entities (plus Waverley) carries the increased risk if forecasts are over-stated and/or unreliable.

Forecast analysis - Option 3 - Waverley, Woollahra and Randwick (WWR):

FY15-FY17

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	1.11%	92.08%	63.00%	1.31%	80.85%	1.61%	DOWN	5
2	Greater Sydney option per ILGRP report	2.11%	88.79%	90.24%	1.65%	96.77%	1.06%	DOWN	5
3	**Waverley, Woollahra and Randwick**	1.59%	92.60%	98.73%	0.84%	99.62%	2.94%	DOWN	5
4	Waverley and Woollahra	0.35%	92.89%	89.50%	1.62%	94.09%	4.94%	UP	4
5	Waverley and Randwick	2.37%	92.13%	90.10%	0.54%	95.76%	0.74%	DOWN	5
6	Waverley, Woollahra, Randwick and Botany	2.77%	88.73%	92.80%	1.29%	97.21%	2.46%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

FY18-FY20

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	3.02%	93.03%	63.00%	0.00%	103.00%	1.18%	DOWN	6
2	Greater Sydney option per ILGRP report	2.89%	90.75%	87.31%	1.40%	102.83%	0.98%	DOWN	6
3	**Waverley, Woollahra and Randwick**	3.01%	93.14%	93.85%	0.27%	109.72%	2.66%	DOWN	6
4	Waverley and Woollahra	2.85%	93.70%	82.00%	0.62%	105.00%	4.45%	DOWN	6
5	Waverley and Randwick	3.14%	92.64%	90.28%	0.02%	111.08%	0.54%	DOWN	6
6	Waverley, Woollahra, Randwick and Botany	3.95%	89.22%	89.14%	0.73%	104.79%	2.24%	DOWN	6
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Background

- Grant Thornton has assessed Option 3 on a forecast basis against two three-year periods, from FY15 to FY17 and FY18 to FY20.

Analysis

- OP ratio average is 1.59% in FY15-FY18, which exceeds the FFTF benchmark of >0%. When looking in further detail, the ratio then improves over the period to FY20 to 3.01%. The WWR combination is negatively affected by Woollahra's -- 0.72% average in FY15-FY17. Conversely, Randwick's positive average results of 3.22% in FY15-FY17 drive the ratio upwards but in FY18-FY20 Randwick (3.25%) Waverley (an improvement to 3.02%) and Woollahra (2.62%) all drive the ratio upwards.
- OSR ratio average is 92.60% for FY15-FY17 which remains stable at 93.14% for the second forecast period to FY20. Both are easily in excess of the FFTF requirement of >60%. As discussed, all five council forecasts exhibit forecast statistics that exceed the benchmark.
- BIAR ratio average is 98.73%, which is below the FFTF benchmark of 100%, whilst improving Waverley's ratio which sits at 63.00%. Waverley's BIAR ratio of 63.00% across the two forecast periods is improved significantly by Woollahra's 116% for FY15–FY17 and 101 % for FY18-FY20 respectively, but the combination is still below FFTF benchmark. Even Randwick's positive addition of 117.20% to FY17 and 117.56% to FY20 cannot lift the result to a high enough level to be acceptable in FY20 (due to Waverley operating at 63.00%). Woollahra's BIAR increases from 74.16% in FY14 to 116% average from FY15-FY17 and some understanding of the investments to be made to underpin this would help give more credibility to a combination with Woollahra.
- The IB ratio is 1.62% for FY15-FY17 and 0.27% for FY18-FY20 which meets the FFTF benchmark. The ratio here is significantly positively influenced by Randwick, Waverley and Woollahra's strong rising trends (0.23%, 1.31% and 1.72% average to FY17 respectively and 0.03%, 0.00% and 1.20% average to FY20 respectively). Woollahra pulls the IB ratio up from 0.00% in FY20 for WR.

Forecast analysis - Option 3 - Waverley, Woollahra and Randwick (WWR):

Analysis (cont.)

- AM ratio average is 99.62% for FY15-FY17 (falling just short of the benchmark) and 109.72% for FY18-FY20, which meets the FFTF requirement of >100% across the latter forecast period. All three councils have shown a commitment to improving this ratio into FY20, however the upward trend to FY20 is due Waverley's 128.9% FY20 result offsetting the inefficiency of spending >100% once the IB has been removed (i.e. there should be a natural trend to 1:1 ratio).
- DS ratio average is 2.95% for FY15-FY17 and 2.67% for FY18-FY20. Only Waverley (1.61% FY15-FY17 and 1.18% FY18-FY20) and Woollahra (9.47% FY15-FY17 and 8.88% FY18-FY20) have debt items on their balance sheets and as such are the only councils that contribute to this figure being above 0%, although Randwick (with no debt for the whole forecast period) is arguably as financially stable and effective as a partner.
- ROEPC shows an decreasing trend for WWR in FY15-FY17 and it stays on this road to be in line with the FFTF benchmark at FY18-FY20.

WWR maintains its position into the FY17 forecast period, meeting 5 of 7 criteria, improving on 4 from FY14. The forecast period has developed its OP ratio as the council's forecast improved margins that elevate the OP above break even. In addition, AM is pulled lower than the benchmark by Waverley's forecast. By FY18-FY20 this option reaches 6 of 7 ratio targets as AM is covered off by Waverley.

However, like all options, WWR does not meet BIAR or AM in FY15 to FY17. Randwick as a standalone council reaches the BIAR target easily, improving to over 117.56% by FY20, but it is pulled down by poor investment predicted into the future by Waverley.

From a population perspective, the critical mass of 286,370 forecast by FY20 is c.50% of the GS option of 555,560 (at FY20) but is in excess of other metropolitan councils such as Penrith and Sutherland who have been advised by the ILGRP report not to merge. It is also in line with the Hornsby-Ku-Ring Gai amalgamation option suggested, and therefore could be argued to be 'broadly consistent' with the ILGRP report.

Forecast analysis - Option 4 - Waverley and Woollahra (WW):

FY15-FY17

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	1.11%	92.08%	63.00%	1.31%	80.85%	1.61%	DOWN	5
2	Greater Sydney option per ILGRP report	2.11%	88.79%	90.24%	1.65%	96.77%	1.06%	DOWN	5
3	Waverley, Woollahra and Randwick	1.59%	92.60%	98.73%	0.84%	99.62%	2.94%	DOWN	5
4	**Waverley and Woollahra**	0.35%	92.89%	89.50%	1.62%	94.09%	4.94%	UP	4
5	Waverley and Randwick	2.37%	92.13%	90.10%	0.54%	95.76%	0.74%	DOWN	5
6	Waverley, Woollahra, Randwick and Botany	2.77%	88.73%	92.80%	1.29%	97.21%	2.46%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

FY18-FY20

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	3.02%	93.03%	63.00%	0.00%	103.00%	1.18%	DOWN	6
2	Greater Sydney option per ILGRP report	2.89%	90.75%	87.31%	1.40%	102.83%	0.98%	DOWN	6
3	Waverley, Woollahra and Randwick	3.01%	93.14%	93.85%	0.27%	109.72%	2.66%	DOWN	6
4	**Waverley and Woollahra**	2.85%	93.70%	82.00%	0.62%	105.00%	4.45%	DOWN	6
5	Waverley and Randwick	3.14%	92.64%	90.28%	0.02%	111.08%	0.54%	DOWN	6
6	Waverley, Woollahra, Randwick and Botany	3.95%	89.22%	89.14%	0.73%	104.79%	2.24%	DOWN	6
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Background

- Grant Thornton has assessed Option 4 on a forecast basis against two three-year periods, from FY15 to FY17 and FY18 to FY20.

Analysis

- OP ratio average is 0.35% for FY15-FY17 which meets the FFTF benchmark of >0%, and also this does improve significantly to 2.85% by FY20, again exceeding the target. As with the previous option, WW is negatively affected by Woollahra's -0.72% average in FY15-FY17 but positively by its forecast growth to 2.62% average in FY18-FY20. If Waverley was to pursue this as an option it would be prudent to understand the turnaround in this ration by auditing the income and expense forecasts.
- OSR ratio average is 92.89% in FY15-FY17, rising to 93.70% in FY18-FY20. The two councils combined forecast this ratio to be stable and it is worth noting Woollahra marginally is accretive to Waverley in this ratio.
- The BIAR ratio average for the WW option for FY15-FY17 89.50% and for FY18-FY20 is only 82.00%, well underneath the required level by FFTF of >100%. Woollahra's forecasts show strong 138% for FY15 which positively increases the average to FY17 to 116% for Woollahra, adding to Waverley's 63.00% average. Woollahra as a combination to FY20 would also be accretive (101% vs Waverley 63.00%).
- The IB ratio is 1.62% in FY15-FY17, improving to 0.62% for FY18 to FY20 which within the FFTF benchmark of <2%, As discussed, Woollahra's forecast average of c.2% assists in dipping underneath the required level, alongside Waverley's forecast 1.31% in Fy15-Fy17 and 0.00% to FY20.
- The AM ratio average is 94.09% for FY15-FY17 (falling short of the benchmark) and 105.00% for FY18-FY20, satisfying the FFTF benchmark of >100% in the latter forecast period. Both Waverley and Woollahra forecast >100% AM ratios for the period of FY18 through to FY20 and therefore are attractive partners from this longer term perspective, providing each is happy with the substance of forecast assumptions (acknowledging Waverley's sharp increase to FY20).

Forecast analysis - Option 4 - Waverley and Woollahra (WW):

Analysis (cont.)

- As discussed, Waverley and Woollahra are the only two Councils forecast to continue to have debt balances and both at manageable quantities, although Woollahra has some significant debt items on the balance sheet due to a major PPP project. DS ratio average for FY15-FY17 is 4.94% and for FY18-FY20 4.45% as Woollahra invests in its infrastructure across the forecast period.
- ROEPC is an increasing trend for this combination across FY15-FY17 but becomes in line with the FFTF framework from FY18-FY20, suggesting operational expense is controlled later in the forecast period but may be an issue to FY17.

WW option remains the weakest potential combination across the ratios in FY15-FY17 achieving only 4 of 7 ratios but strengthens in FY18-FY20, achieving 6 of 7 ratios at this stage of the forecast period.

In addition WW is the smallest scale in terms of income and population, only reaching a forecast population by FY20 of 133,450, lower than all other suggested Metropolitan amalgamation options and singular councils that have not been opined to merge, such as Penrith, Campbelltown, the Hills, Sutherland etc.

Forecast analysis - Option 5 - Waverley and Randwick (WR):

FY15-FY17

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	1.11%	92.08%	63.00%	1.31%	80.85%	1.61%	DOWN	5
2	Greater Sydney option per ILGRP report	2.11%	88.79%	90.24%	1.65%	96.77%	1.06%	DOWN	5
3	Waverley, Woollahra and Randwick	1.59%	92.60%	98.73%	0.84%	99.62%	2.94%	DOWN	5
4	Waverley and Woollahra	0.35%	92.89%	89.50%	1.62%	94.09%	4.94%	UP	4
5	**Waverley and Randwick**	2.37%	92.13%	90.10%	0.54%	95.76%	0.74%	DOWN	5
6	Waverley, Woollahra, Randwick and Botany	2.77%	88.73%	92.80%	1.29%	97.21%	2.46%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

FY18-FY20

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	3.02%	93.03%	63.00%	0.00%	103.00%	1.18%	DOWN	6
2	Greater Sydney option per ILGRP report	2.89%	90.75%	87.31%	1.40%	102.83%	0.98%	DOWN	6
3	Waverley, Woollahra and Randwick	3.01%	93.14%	93.85%	0.27%	109.72%	2.66%	DOWN	6
4	Waverley and Woollahra	2.85%	93.70%	82.00%	0.62%	105.00%	4.45%	DOWN	6
5	**Waverley and Randwick**	3.14%	92.64%	90.28%	0.02%	111.08%	0.54%	DOWN	6
6	Waverley, Woollahra, Randwick and Botany	3.95%	89.22%	89.14%	0.73%	104.79%	2.24%	DOWN	6
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Background

- Grant Thornton has assessed Option 5 on a forecast basis against two three-year periods, from FY15 to FY17 and FY18 to FY20.

Analysis

- OP ratio average is 2.37% for FY15-FY17 and 3.14% for FY18-FY20, which meets the FFTF benchmark of >0% and shows continued improvement from FY14 as a result of both Waverley and Randwick's forecast improvements. Despite not being as large in scale terms as the GS option, it is stronger here on OP for FY15-FY17.
- OSR ratio average is 92.13% for FY15-FY17 and 92.64% for FY18-FY20, again exceeding the FFTF benchmark result of >60% for both periods of the forecast. Despite Waverley as a stand-alone council exceeding the benchmark, a combination with Randwick would strengthen Waverley marginally in this ratio.
- BIAR ratio average is 90.10% for WR for FY15-FY17, again below the required level by FFTF of >100%. However, the ratio marginally increases to 90.28% for FY18-FY20 showing the continued forecast commitment of resources by Randwick and Waverley to BIAR. In addition Randwick is forecast to achieve >117% up to FY20 and whilst WR fails, Waverley is significantly enhanced by the combination but 90.28% may not be close enough to argue that from FY20 onwards the combination may be able to reach the required level. This would depend on Waverley's ability to develop from 63.00%.
- The IB ratio is 0.54% for FY15-FY17, falling to 0.02% by FY20 both of which is significantly inside the FFTF benchmark of <2% and the latter result being unequivocally good. Waverley's 1.31% IB ratio for FY15-FY17 is positively influenced by Randwick's sustainability forecast of 0.23% for FY15-FY17 and 0.03% by FY20, hence the blended 0.54% in FY15-FY17. However both council's forecast commitment to removing the IB shows a 0.02% rate in FY20.

Forecast analysis - Option 5 - Waverley and Randwick (WR):

Analysis (cont.)

- The AM ratio for WR is brought down by Waverley's 80.85% average from FY15-FY17 to 95.76% for the combination, below the benchmark of >100%. As Randwick improves its ratio and invests in its asset maintenance, Waverley also becomes a positive partner with a 103% average into FY18-FY20, for a combination average of 111.08%. The reason why Randwick brings the average down into FY20 is because it has covered its IB and trends to a 1:1 maintenance ratio.
- DS ratio average for WW is 0.74% for FY15-FY17 and 0.54% for FY18-FY20 which on both occasions meets the FFTF requirement. Randwick does not have any debt and therefore fails the benchmark, but, when combined with Waverley, it passes due to Waverley's continued forecast leveraged position.
- ROEPC for WR decreases consistently from FY15-FY20 across the entire forecast period as both councils in the combination have forecast greater efficiency of service.

WR reaches 5 of 7 ratios in the forecast period FY15 -FY17 and increases this to 6 out of 7 into the FY18-FY20 period. WR fails on BIAR and AM (as all combinations do) but by FY20 it has the second strongest potential BIAR at 90.28%, and passes AM so it is arguable given time and focus on BIAR WR may achieve all the criteria as a standalone combination and is still a strong option.

In addition, Randwick has stated it is exploring undertaking further forecast data collection to further add to the robustness of its forecasts and is a strong option from this perspective.

The population of 226,400 by FY20 is close to the combined Hornsby, Ku-Ring Gai amalgamation option suggested by ILGRP as being of sufficient scale (once the Parramatta border change has occurred).

The Council maintains a strong ROEPC for FY15-FY17 and FY18-FY20 and the areas within this boundary of Bondi, Coogee and Maroubra offer great potential to grow population and achieve economies of scale.

Forecast analysis - Option 6 - Waverley, Woollahra, Randwick and Botany Bay (WWRB):

FY15-FY17

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	1.11%	92.08%	63.00%	1.31%	80.85%	1.61%	DOWN	5
2	Greater Sydney option per ILGRP report	2.11%	88.79%	90.24%	1.65%	96.77%	1.06%	DOWN	5
3	Waverley, Woollahra and Randwick	1.59%	92.60%	98.73%	0.84%	99.62%	2.94%	DOWN	5
4	Waverley and Woollahra	0.35%	92.89%	89.50%	1.62%	94.09%	4.94%	UP	4
5	Waverley and Randwick	2.37%	92.13%	90.10%	0.54%	95.76%	0.74%	DOWN	5
6	**Waverley, Woollahra, Randwick and Botany**	2.77%	88.73%	92.80%	1.29%	97.21%	2.46%	DOWN	5
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

FY18-FY20

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Waverley	3.02%	93.03%	63.00%	0.00%	103.00%	1.18%	DOWN	6
2	Greater Sydney option per ILGRP report	2.89%	90.75%	87.31%	1.40%	102.83%	0.98%	DOWN	6
3	Waverley, Woollahra and Randwick	3.01%	93.14%	93.85%	0.27%	109.72%	2.66%	DOWN	6
4	Waverley and Woollahra	2.85%	93.70%	82.00%	0.62%	105.00%	4.45%	DOWN	6
5	Waverley and Randwick	3.14%	92.64%	90.28%	0.02%	111.08%	0.54%	DOWN	6
6	**Waverley, Woollahra, Randwick and Botany**	3.95%	89.22%	89.14%	0.73%	104.79%	2.24%	DOWN	6
	Comparable criteria (what is required to pass each ratio)	>0.00%	>60.00%	>100.00%	<2.00%	>100.00%	>0.00% & <20.00%	DOWN	

Background

- Grant Thornton has assessed Option 6 on a forecast basis against two three-year periods, from FY15 to FY17 and FY18 to FY20.

Analysis

- OP ratio average 2.77% for FY15-FY17 and 3.95% for FY18-FY20 which meets the FFTF benchmark of >0%. The key contributor to this ratio is Botany Bay which forecasts an OP of 8.79% for FY15-FY17 and 8.88% for FY18-FY20. The same reservations about Botany's forecasts apply as per Option 2.
- OSR ratio average is 88.73% for FY15-FY17 and 89.22% for FY18-FY20. The ratio has been stable and exceeds the FFTF benchmark of >60%. Botany Bay is the primary driver of the slight decrease in comparison to Waverley's current OSR ratio, driven by its result of 72.00% in FY15-FY17, only increasing to 75.00% in FY18-FY20.
- BIAR ratio average is 92.80% for FY15-FY17 and 89.14% for FY18-FY20, neither of which meet the FFTF benchmark. This ratio is driven by City of Sydney and Botany Bay forecast ratios being 80% and 75% respectively through to FY20, with Randwick, Waverley and Woollahra pulling the average up with their progress at >100%. Therefore WWRB looks a less attractive combination for Waverley than WR, or WWR for example, on this ratio. It is worth noting that in FY15 Woollahra forecasts 138% coverage despite only reaching an average of 73% from FY12-FY14.
- The IB ratio is 1.29% for FY17, decreasing to 0.73% for FY20, both of which meet the FFTF benchmark of <2%. The ratio is driven upwards by the discussed Botany Bay ratio which reaches 6.93% through out the forecast period. A deeper understanding of asset planning at Botany Bay would help to potentially be more detailed and analytical with forecast assumptions. In addition understanding the driver for Woollahra cutting their backlog from 7% in FY14 to an average 2% across the forecast period would give more comfort to any combination including Woollahra.

Forecast analysis - Option 6 - Waverley, Woollahra, Randwick and Botany Bay (WWRB):

Analysis (cont.)

- AM ratio average is 97.21% for FY15-FY17, which does not meet the threshold. However, the ratio improves above the FFTF threshold in FY18-FY20 at 104.75%. The reason for this is that as the stronger performing councils in relation to assets (for example Randwick forecast to re-allocate resource away from AM as their backlog is quickly worked away), Waverley offsets this by strengthening its forecast average thus improving the ratio. Botany Bay's average AM ratio fell from 177.67% in FY13 to 81.32% in FY14 and as such has been difficult to forecast. Any further understanding of Botany may lead to an improvement in accuracy of this ratio into the forecast period.
- DS ratio average has been very stable at 2.47% for FY15-FY17, declining to 2.24% for FY18-FY20. As discussed, only Waverley and Woollahra have debt balances and although Woollahra forecasts the largest debt balance, it is due to a major PPP project and what should be studied is expected returns in relation to the debt on the balance sheet.
- ROEPC for WWRB has shown a uniform decreasing trend FY15 to FY17, which is extended to FY20 in the second forecast period.

WWRB meets 5 of the 7 ratios in FY15-FY17 and 6 of the 7 in FY18-FY20. In FY15-17 both Waverley's and Botany Bay's forecasts adversely affect the AM ratio but this improves from both into FY18-FY20.

WWRB is the second largest option for scale and would achieve a self – contained council of the majority of infrastructure assets outside of the City which would assist in potential capacity growth. It also carries a strong population prediction of 333,380 at FY20, significantly in excess of every combination that has been optioned not to merge in the Metropolitan Sydney and in line with other recommended amalgamation Councils such as Hunters Hill, Lane Cove, Mosman, North Sydney, Ryde (part) and Willoughby.

Again, the real drivers of the asset ratios in this combination are Randwick Waverley and Woollahra as all forecast to clear the IB and renew assets as required, although some forecast assumption checks may be prudent.

Finally, WWRB, being made up of three entities (plus Waverley) carries the increased risk if forecasts are over-stated and/or unreliable.