Woollahra Municipal Council

Fit for the Future
Report on Financial Benchmarks in Relation to Amalgamation Options

April 2015

Grant Thornton

Annexure 3

Woollahra Municipal Council Technical Assistance FFTF

Report on financial benchmarks in relation to amalgamation options

April 2015

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Glossary

ABS	Australian Bureau of Statistics
AM	Asset Maintenance
BIAR	Building Infrastructure Asset Renewal Ratio (average 3 years)
IB	Infrastructure Backlog Ratio (Final year of period)
DS	Debt Service
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)
WS	Waverley, City of Sydney
WW	Waverley and Woollahra
WWR	Waverley, Woollahra Randwick

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Section 1 Executive summary

01. Executive summary

02. Background

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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 Woollahra Municipal Council to determine whether Council can deliver the necessary financial and operational performance inside the timeframe required by the OLG to remain a viable and thriving standalone council. This included an independent assessment of Council's current and forecast performance against the Fit for the Future financial benchmarks but also included an assessment of a series of amalgamation options to understand a fuller range of options available to Woollahra.
- A financial model based on the Self Assessment Tool developed by the 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 FY12-FY14, as well as two forecast periods; 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 are prescribed by the OLG and include:
  - Operating Performance (OP);
  - Own Source Revenue (OSR);
  - Building and Infrastructure Renewal (BIAR);
  - Infrastructure Backlog (IB);
  - Asset Maintenance (AM);
  - Debt 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** Five amalgamation options were assessed by Grant Thornton: • Option 1: Woollahra Status Quo; • Option 2: Greater Sydney Option per ILGRP report; • Option 3: Woollahra, Waverley and Randwick; • Option 4: Woollahra and Waverley; and • Option 5: Woollahra and City of Sydney. • (These options have been assessed on a standalone basis through the amalgamation of financial data only, assuming no loss of current service levels and no increased cost for Woollahra residents). We have however used our knowledge of Woollahra's key goals at no loss of current service and no increased costs to residents to contextualise the results from our analysis when commenting on the suitability of Woollahra as a standalone against amalgamation options.
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 5 out of the 7 benchmarks along with Option 3; and • Option 2 (preferred per the ILGRP report) meets 4 out of the 7 ratio benchmarks along with Options 4 and 5. • 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 achieve all 7 ratios at the current time if Randwick had $1 of debt, thus enabling it to pass the DS ratio. 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 attractive to any merger partner. This is, for example, the key driver for Option 3 meeting 5 out of the 7 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 benchmarks in FY15-FY17 as a standalone forecast period, however in FY18-FY20, Option 1 meets all 7 benchmarks while all other Council combinations fail BIAR in the forecast period, driven by Waverley's 63.00% average and City of Sydney's 80.00% average. • Option 1 as a stand alone meets all FFTF benchmarks with its financial improvements against the current period driven by large commercial income from Kiaora Place leases into FY20 and an improved IB ratio resulting from a change of calculation approved by the Council's external auditors. • Option 2 (preferred per the ILGRP report) meets 5 out of the 7 benchmarks in FY15-FY17 and 6 out of the 7 in FY18-FY20. If this option is pursued Woollahra should seek to understand in more detail the asset management policies of Botany Bay and City of Sydney which negatively impact a combined super-council.

Analysis

Forecast performance analysis against FFTF benchmarks (cont.)	• The remaining options all meet 6 out of the 7 benchmarks in FY18-FY20, although Option 4 builds from only 4 out of the 7 in FY15-FY17 and Options 2 and 3 from 5 out of 7. WS option maintains a position of 6 out of 7 throughout the two forecast periods. • 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 WWR, with a forecast population of 286,370 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. Woollahra 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.
Scale and Capacity analysis	• Woollahra's population is the second smallest of all Councils considered within our analysis (Botany Bay being the smallest). We have been made aware by Woollahra that it has contracted an independent consultant to conduct extensive independent research into the scale and capacity criteria and how it will position itself for a response in relation to this matter. Therefore, Grant Thornton has concentrated its analysis on the financial benchmarks although we comment briefly as outlined below. • 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 touched on scale and capacity on 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 also touched on 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 Woollahra. • 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 such as the airport for the aim of Sydney's ongoing development as a global city.

Analysis

Next steps for Woollahra	
	• 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 which is a key concern of Woollahra Municipal Council and also what the potential synergies, cost savings, cultural impacts or current service level 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 Woollahra 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

01. Executive summary

02. Background

03. Current Analysis FY12-FY14

04. Forecast Analysis FY15-FY17 and FY18-FY20

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 Woollahra Municipal Council with Randwick, City of Sydney and Waverley Councils or the combination of all Councils (including Botany Bay) 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. We have therefore considered scale and capacity briefly in relation to this option however as noted the focus of this report is the financial benchmarks.
- In response to the ILGRP's report, Woollahra Municipal Council has resolved that it does 'not support amalgamation with any other Council in the absence of demonstrable benefits for the Woollahra community'. This is because, at the date of this report, Woollahra Municipal Council feels it can deliver the necessary financial and operational performance inside the timeframe required by the OLG to remain a viable and thriving standalone council.
- Woollahra Municipal Council also believes the potential benefits of an amalgamation with any council would be outweighed by the potential for rate rises incurred by its residents due to the high land values inside Woollahra Municipal Council boundaries, relative to neighbouring councils.
- In order for Woollahra Municipal Council to determine whether there is sufficient evidence for it to remain a viable standalone council and to assess the potential financial results of amalgamation options, it is now seeking to appoint an independent consultant to assess those identified options.

Introduction

Background to Councils subject to FFTF analysis

Council	Description
Woollahra Municipal Council ("Woollahra")	Woollahra's 2013 population was 57,677 (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 industries in Woollahra are; Professional Scientific & Technical Services, Financial & Insurance Services and Health Care and Social Assistance. 359 building approvals were issued by Woollahra Municipal Council in 2013.
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 70,706 (2013) Waverley's largest industries are Retail and Tourism. There were 633 residential buildings approved to be built in the financial year 2013-FY2014.
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 43,292 (2013) inhabitants and a land area of 27km². 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 FY13-FY14. 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 (2013) inhabitants 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. With 191,918 inhabitants in 2013, the City of Sydney issued 2,377 building approvals to be built in the financial year FY13-FY14.

Statistics and location

Statistical background to each Council

Column heading	Woollahra	Waverley	Botany Bay	Randwick	City of Sydney
Population (2013)	57,677	70,706	43,292	142,310	191,918
Population (2021)	61,100	74,850	48,150	156,800	232,200
Population (2031)	67,250	82,150	56,050	174,300	273,500
TCorp Assessment – Financial Sustainability Ratings	Moderate	Moderate	Weak	Sound	Strong
TCorp Assessment - Financial Sustainability Outlooks	Positive[1]	Positive[3]	Neutral	Positive[2]	Positive
OLG – Infrastructure Management assessment	Strong	Strong	Moderate	Very Strong	Strong
Land Size (km2)	12.3	9.2	21.7	36.3	26.7
Average residential rates	$1,118	$1,058	$689	$1,075	$654
Residential rates (2014)	$26.6M	$28.3M	$9.2M	$49.5M	$54.3M
Business rates (2014)	$4.5M	$11M	$15.9M	$12.8M	$190M
Debt	$6M	$3M	$0	$0	$0
Infrastructure backlog	$5.4M[4]	$12.1M	$11.4M	$6.8M	$66.6M

Sources Population data sourced from Australian Bureau of Statistics, Regional Population Growth, Australia

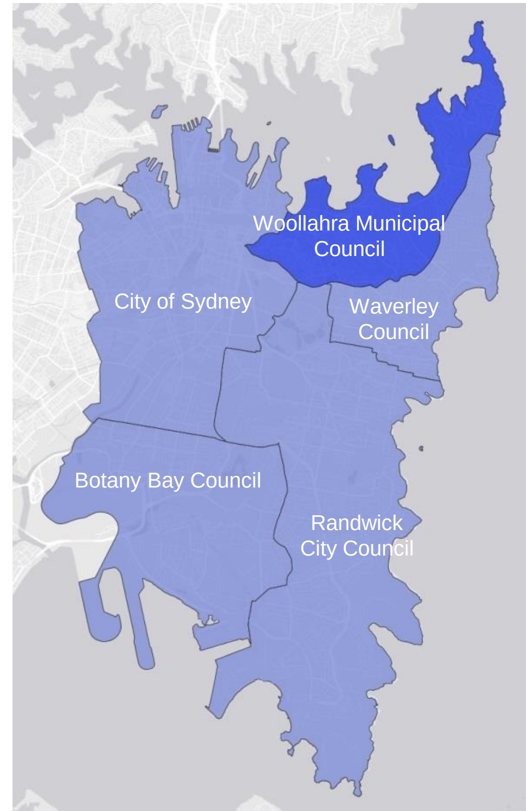
Forecast population data sourced from New South Wales Government, New South Wales State and Local Government Area Population, Household and Dwelling Projections: 2014 Final.

Tcorp assessment information sourced from Financial Sustainability of the New South Wales Local Government Sector (April 2013) unless otherwise stated below from more recent information received;
1. Tcorp Woollahra Municipal Council – Financial Assessment and Sustainability Report (16 February 2015);
2. Randwick Financial Statements (FY14); and
3. Discussion with Waverley Council (January 2015).

Average Residential Rates sourced from Randwick City's future Information Pack (January 2015).

Rates, Debt and Infrastructure backlog data sourced from Each council's financial statements (FY13-FY14) except
4. Woollahra issued a revised Special Schedule 7 in January 2015.

Map of Council locations



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 this measure does not take into account the actual services delivered, nor the quality of the services delivered.

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

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 Woollahra Municipal Council to amalgamate the data input for various Councils and start to compare the ratios of the four potential Council combinations (plus the current status quo) that have been suggested as potential strategic future options by Woollahra Municipal 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 Woollahra Municipal 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 yourselves, Waverley and Randwick. We endeavoured to engage City of Sydney and Botany Bay but received no response. – 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 yourselves, Waverley 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 has provided a LTFP for FY16-FY20 that we have used as a basis for BIAR for this period, and we have used FY15 from the prior report. This is in conjunction with discussion with Randwick Council. – You have provided forecast financial information after discussions yourselves 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 IB data the latest LTFP made available, and this has been discussed in conjunction with Randwick Council. Waverley has provided information through the Council in relation to IB ratio for FY17 and FY20 that was not publicly available. – You have 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. In addition you have sent a letter dated January 2015 outlining a revised Special Schedule 7 which reduces IB in 2014 to c.$5.4 million. – 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. – You have 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). – 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 provided a LTFP for FY16-FY20 that we have used as a basis for AM for this period, and we have used FY15 from the prior report. This is in conjunction with discussion with Randwick Council. – 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	– You have 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). – 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). – 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

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Current analysis - Option 1 - Woollahra status quo:

Background

- Grant Thornton has assessed Woollahra Municipal 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	Woollahra	(3.48%)	90.75%	74.16%	1.36%	102.31%	2.12%	DOWN	5
2	Greater Sydney option per ILGRP report	2.24%	85.13%	77.95%	1.83%	99.61%	0.35%	UP	4
3	Woollahra, Waverley and Randwick	(0.52%)	88.75%	80.81%	1.32%	112.66%	1.00%	DOWN	5
4	Woollahra and Waverley	(3.27%)	88.62%	59.00%	2.04%	100.54%	1.72%	DOWN	4
5	Woollahra and City of Sydney	3.44%	85.33%	77.12%	1.81%	89.96%	0.26%	UP	4
	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 FFTF benchmarks** 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 FFTF benchmarks** as suggested by the OLG and illustrated at the foot of the tables.

Analysis

- OP ratio average is -3.48% which does not meet the FFTF benchmark of >0%. OP increased from -4% to -2.78% in FY2014 due to a negative fair value adjustment in relation to investment properties of c.$-1.9m. However, Woollahra's historic income from continuing operations FY12-FY14 only grew c$.4.5m when expenses grew c.$8.3m over the corresponding period. This denotes OP has a decreasing trend towards FY14 if this one-off adjustment is overlooked.
- OSR ratio is 90.75% and is comfortably above the FFTF benchmark of >60%. The ratio has experienced a positive trend over the past three years as it increased from 89.9% in FY12 and FY13 to 92.4% in FY14. The slight increase in FY14 is attributable to decreasing income both from grants and contributions for operating and capital purposes but balanced by an increase in rates, annual charges as well as user charges and fees compared to FY13. The $-1.9m fair value adjustment also negatively impacted the OSR ratio in FY14.
- BIAR ratio is 74.16% which does not meet the FFTF benchmark of 100%. Despite being below benchmark, it must be noted that the ratio increased from 56.6% in FY12 to 89.6% in FY14. This improvement highlights Woollahra's efforts to increase its funding for asset renewal through the Environmental and Infrastructure Renewal Levy. If Woollahra continued on this trend, it would potentially reach the FFTF benchmark in the near future.
- IB ratio is 1.36% which meets the FFTF benchmark of <2%. It must be noted that the IB ratio was c.5% in FY12 and c.6% in FY13. FY14 significant improvement is due to a change in the calculation method of the IB ratio, specifically how Woollahra calculate the cost of returning assets to a satisfactory standard. After discussion with the Council errors in the initial process had been identified and the external auditor has reported on and formally signed off on the new method.

Current analysis - Option 1 - Woollahra status quo:

Analysis (cont.)

- AM ratio decreased from 109.8% in FY13 to 95.4% in FY14. With a three year average of 102.31%, the ratio is slightly over the FFTF benchmark. The positive average result can be explained by the Council's significant effort to maintain its public roads, however the decrease in FY14 is due to a new asset category; open space and recreational assets, that Woollahra council was not maintaining in previous years and for which the actual maintenance was close to $300k lower than the required maintenance.
- DS ratio is 2.12% which meets the FFTF benchmark of >0% to 20%. The ratio increased from 1.99% in FY13 to 2.30% in FY14 and has been well positioned between the benchmark limits over the past three years as debt level has remained stable.
- ROEPC has been decreasing from 1.17 in FY10 to 1.12 in FY14 and therefore meets the FFTF benchmark which promotes a decreasing trend. Over this period of time, Woollahra's population has been slowly increasing while the Council's CPI-deflated real operating expenditure remained relatively stable.

Woollahra meets 5 of the 7 FFTF benchmarks at the current time.

However, if Woollahra continues with current trends, based solely on this data it may be that the BIAR ratio will be in a position to pass the respective test in the near future. This is analysed in the forecast section of the report.

Woollahra's OP ratio has been impacted by a relative increases in expense over revenue in FY12-FY14. For example in FY14, total continuing operating revenue (excluding grants and contributions) was only c.$72.2 million against operating expenses of c.$75.7 million.

Current analysis - Option 2 – Greater Sydney option as 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 comprising of Woollahra, Waverley, 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 benchmarks 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	Woollahra	(3.48%)	90.75%	74.16%	1.36%	102.31%	2.12%	DOWN	5
2	Greater Sydney option per ILGRP	2.24%	85.13%	77.95%	1.83%	99.61%	0.35%	UP	4
3	Woollahra, Waverley and Randwick	(0.52%)	88.75%	80.81%	1.32%	112.66%	1.00%	DOWN	5
4	Woollahra and Waverley	(3.27%)	88.62%	59.00%	2.04%	100.54%	1.72%	DOWN	4
5	Woollahra and City of Sydney	3.44%	85.33%	77.12%	1.81%	89.96%	0.26%	UP	4
	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 from 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 in FY14). Woollahra would need to consider the risks of a decreasing trend in this ratio even though its OP ratio would benefit from a c5.72% increase.
- 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 71.8% being the lowest current total, but still in a comfortable position. Woollahra's OSR ratio is the strongest of all councils but the GS option by has a slightly negative impact on current data.
- BIAR ratio has increased from 74.0% in FY12 to 85.2% in FY14 to an average of c.78%. 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 is similar to Woollahra's as a stand alone and illustrates a general cross-council consensus to ensure renewal of existing assets, but also means that further investment would be required by all except Randwick.
- IB ratio is 1.83% for FY14 which meets the FFTF benchmark of <2% (albeit immaterially). 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, which end up increasing the ratio for the combined option to 1.83% compared to 1.36% for Woollahra.
- 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, Woollahra would need to be aware its position as standalone is better placed (on current data).

Current analysis - Option 2 - Greater Sydney option as 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 is primarily driven by the City of Sydney which has seen an increase from 1.99 to 2.23 during the period, driven by 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 FFTF benchmarks at the current time.

This combination would significantly enhance Woollahra's ability to fulfil the OP ratio and slightly improve its BIAR ratio. All other ratios are lower than Woollahra status quo results.

The increase in ROEPC indicates a potential problem in fulfilling requirements form OLG but could be weighed up that additional spend per person may enhance ratepayers' in the council area.

Even though the GS option is not the most favourable option for Woollahra according to the FFTF requirements, 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'. In addition this council has a strong population of 505,903 and may be a key feature for any assessment by the OLG on a scale and capacity basis.

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

Background

- Grant Thornton has assessed a combination of Woollahra, Waverley 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	Woollahra	(3.48%)	90.75%	74.16%	1.36%	102.31%	2.12%	DOWN	5
2	Greater Sydney option per ILGRP report	2.24%	85.13%	77.95%	1.83%	99.61%	0.35%	UP	4
3	**Woollahra, Waverley and Randwick**	(0.52%)	88.75%	80.81%	1.32%	112.66%	1.00%	DOWN	5
4	Woollahra and Waverley	(3.27%)	88.62%	59.00%	2.04%	100.54%	1.72%	DOWN	4
5	Woollahra and City of Sydney	3.44%	85.33%	77.12%	1.81%	89.96%	0.26%	UP	4
	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, however, over the period, from -2.45% in FY12 to 0.2% in FY13 and 0.52% in FY14. The WWR combination is negatively affected by Woollahra's average ratio of -3.48% over FY12-FY14 in addition to Waverley's average ratio of -3.13%, although Waverley increases its ratio (which assists the average) into FY14. Conversely, Randwick's positive average result of 3.3% is responsible for bringing the WWR option's ratio close to break even, therefore making Randwick accretive to Woollahra.
- 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 three councils exhibit a strong OSR ratio relative to the 60% benchmark, hence the positive response to all combinations. This ratio is similar to Woollahra as a standalone council.
- BIAR ratio average is 80.81%, which does not meet the FFTF benchmark of >100%. This is mainly due to Waverley and Woollahra's BIAR ratios (50.77% and 74.16%) which are below FFTF benchmark. Randwick's positive addition of 111.8% does not lift the result to a high enough level to be acceptable at this point. It is worth noting that Waverley and especially Woollahra have been significantly improving their ratio, however it is Randwick as a partner that drives a comparatively better result than Woollahra as a standalone.
- The IB ratio is 1.32% which meets the FFTF benchmark of <2%. The ratio here is significantly influenced by Woollahra's strong improvement in its adjusted FY14 Schedule 7 to 1% from an average 6% in FY12 and FY13. Ultimately, the WWR would slightly improve Woollahra's ratio by c.04%.
- AM ratio average is 112.7%, which meets the FFTF requirement of >100%. Woollahra would improve as part of this combination but Waverley's 99.6% result limits any further gains for Woollahra. On the other hand, Randwick lifts WWR's average ratio result with its strong average of 139.5%.

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

Analysis (cont.)

- DS ratio average is 1.0%. 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 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.

The Woollahra, Waverley and Randwick amalgamation option meets 5 of the 7 FFTF benchmarks at the current time, the same result as Woollahra as a standalone Council.

The option would be favourable for Woollahra in that its OP ratio is much lower as a standalone, however, it still does not pass the FFTF benchmark. The combination would also be accretive to Woollahra's BIAR, IB and AM ratio, mainly due to Randwick's excellent current performance.

WWR's 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.

Even combining the total income from all three councils that form WWR, this combination's revenues are only $319m against over $1bn for GS, therefore making it less easy to argue the benefits of potential economies of scale and whether it has sufficient scale and capacity.

Current analysis - Option 4 – Woollahra and Waverley (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	Woollahra	(3.48%)	90.75%	74.16%	1.36%	102.31%	2.12%	DOWN	5
2	Greater Sydney option per ILGRP report	2.24%	85.13%	77.95%	1.83%	99.61%	0.35%	UP	4
3	Woollahra, Waverley and Randwick	(0.52%)	88.75%	80.81%	1.32%	112.66%	1.00%	DOWN	5
4	**Woollahra and Waverley**	(3.27%)	88.62%	59.00%	2.04%	100.54%	1.72%	DOWN	4
5	Woollahra and City of Sydney	3.44%	85.33%	77.12%	1.81%	89.96%	0.26%	UP	4
	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 relatively poor average OP ratio of -3.48%, which negates Waverley's positive trend into FY14 with a 0.09% result, although Waverley was negative for FY12 and FY13 with respective results of -8.38% and -1.92%.
- OSR ratio average is 88.62%. The two councils combined exhibit excellent stability ranging only between 88.90% in FY12 and 88.4% in FY13. Woollahra's ratio increased from 89.90% in FY13 to 92.38% in FY14 although Waverley's ratio has been decreasing over the past three years from 88.1% to 86.3%, it is a only a slight trend and as a standalone or in combination there is an immaterial difference.
- 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's ratio has a strong positive trend which is significantly impacted by Waverley's poor results of 25.4% in FY12, 62.9% in FY13 and 63.4% in FY14.
- The IB ratio is 2.04% which does not meet the FFTF benchmark of <2% (albeit immaterially). Woollahra's result of 1.36% in FY14 significantly pulls the combination upwards as Waverley's IB result in FY14 is at 2.62%.
- The AM ratio average is 100.54% which satisfies the FFTF benchmark (albeit immaterially). Encouragingly, the ratio trend is increasing, from 91.14% in FY12 to 109.79% in FY14 and is attributable primarily to Waverley's improving ratio which increased from 83.1% in FY12 to 102.5% in FY13 and 117.5% in FY14. Woollahra's AM ratio in the same period decreased from 105.2% in FY12 to 95.4% in FY14 and therefore a combination could be argued as a more positive option when compared to standalone.

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

Analysis (cont.)

- As discussed, Waverley and Woollahra are the only two councils with debt balances and because both exhibit manageable quantities of debt, the ratio is passed by the WW combination. DS ratio average for WW is 1.72%, has been stable and slightly decreasing and therefore meets the FFTF requirement.
- ROEPC shows a decreasing trend over the past five years for this combination, in line with the FFTF framework. It is important to note that FY14 showed an increase to 1.25 from 1.24 in FY13 and would need to be monitored going forward as any further increase would unfavourably alter the result of the ratio.

The Woollahra and Waverley combination only reaches 4 of the 7 FFTF benchmarks based on current data.

Most significantly, Waverley's poor BIAR and IB ratios penalise Woollahra such that it passes 1 less ratio than as a standalone. In addition the failure of BIAR is significant.

AS a combination, the WW option is also the smallest council from a population perspective and arguably would add little value to the scale and capacity argument when compared with Woollahra as a standalone.

Current analysis - Option 5 – Woollahra, City of Sydney (WS):

Background

- Grant Thornton has assessed the combination of Woollahra Municipal Council's and City of Sydney Council'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	Woollahra	(3.48%)	90.75%	74.16%	1.36%	102.31%	2.12%	DOWN	5
2	Greater Sydney option per ILGRP report	2.24%	85.13%	77.95%	1.83%	99.61%	0.35%	UP	4
3	Woollahra, Waverley and Randwick	(0.52%)	88.75%	80.81%	1.32%	112.66%	1.00%	DOWN	5
4	Woollahra and Waverley	(3.27%)	88.62%	59.00%	2.04%	100.54%	1.72%	DOWN	4
5	**Woollahra and City of Sydney**	3.44%	85.33%	77.12%	1.81%	89.96%	0.26%	UP	4
	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 is 3.44% and is comfortably above the FFTF benchmark of >0%. Nonetheless, the ratio drops from 9.67% in FY12 to 1.37% in FY13 and further to -0.47% in FY14. This strong decrease is due to City of Sydney's ratio which decreases from 11.53% in FY12 to -0.13% in FY14. This fall is mainly due to the grants and contributions for capital purposes received by the City of Sydney which experienced a c.128.2% increase in FY13 in addition to increasing expenses from continuing operations and decreasing income in FY14. Woollahra would need to consider the risks of such a decreasing trend as a combination as the average ratio may not show the full picture.
- The OSR ratio is 85.33% and meets the FFTF benchmark of >60%. The ratio decreased from 88.9% in FY12 to 82.5% in FY13 before increasing to 85% in FY1. It must be noted that even though Woollahra has been increasing its ratio from 89.9% in FY12 and FY13 to 90.7% in FY14, the volume of City of Sydney's financials outweigh Woollahra's and consequently drive the trend.
- The BIAR ratio is 77.12% and is well below the FFTF requirement of >100%. The ratio has been fluctuating from 86.3% in FY12 to 66.6% in FY13 and 81.3% in FY14. Once again the ratio follows City of Sydney's results whose financials are proportionally much bigger than Woollahra's. The decrease between FY12 and FY13 is due to City of Sydney's depreciation, amortisation and impairment which increased significantly faster than building and infrastructure renewals costs. The WS option achieves a relatively similar result to Woollahra's BIAR ratio of 74.16% over FY12-FY14.
- IB ratio is 1.81% and is close but below the FFTF threshold of <2%. The ratio is driven by City of Sydney's result of 1.86% while Woollahra's IB ratio is 1.36%.
- The AM ratio is 89.96% and is not in line with the FFTF requirements of >100%. The ratio was close to 95.5% in FY12 and FY14 but dropped to only 81.4% in FY13. As for the above ratios, City of Sydney is driving the trend and is accountable for the c.14.3% decrease between FY12 and FY13 because of a material increase in required maintenance against actual maintenance. The WS option would drive down the ratio to lower than Woollahra as a standalone.

Current analysis - Option 5 – Woollahra, City of Sydney (WS):

Analysis (cont.)

- The DS average ratio for FY12-14 is 0.26% and is in line with the FFTF benchmark of >0%. As previously discussed, Woollahra council has a DS ratio of 2.12% contrary to the City of Sydney council which is debt free and fails the FFTF benchmark as a stand alone.
- ROEPC increases from 1.80 in FY10 to 1.97 in FY14 and is consequently not meeting the FFTF benchmark. The ratio increase is almost fully 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%. Woollahra's positive trend cannot reverse the WS's trend as it is proportionally very small compared to City of Sydney.

The Woollahra and City of Sydney meets 4 of the 7 FFTF benchmarks and as such the option is comparable to the GS combination which exhibited the same number of passes.

Woollahra is substantially influenced by City of Sydney due to the financial weight of the latter. It is worth noting that City of Sydney's OP ratio has been significantly falling over the past 3 years, from 11.53% in FY12 to -0.13% in FY14 which can challenge the future of this combination.

Also, the increase in ROEPC is significant and indicates a potential problem for a combination including City of Sydney to pass the threshold.

However, in terms of scale and capacity, a combination with the largest standalone council would surely enhance this argument.

Section 4 Forecast Analysis FY15-FY17 and FY18-FY20

01. Executive summary

02. Background

03. Current Analysis FY12-FY14

04. Forecast Analysis FY15-FY17 and FY18-FY20

Forecast analysis - Option 1- Woollahra status quo:

FY15-FY17

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	**Woollahra**	(0.72%)	94.03%	116.00%	1.94%	107.33%	9.47%	UP	5
2	Greater Sydney option per ILGRP report	2.07%	88.78%	90.24%	1.65%	96.77%	1.06%	DOWN	5
3	Woollahra, Waverley and Randwick	1.49%	92.59%	98.73%	0.84%	99.62%	2.94%	DOWN	5
4	Woollahra and Waverley	0.35%	92.89%	89.50%	1.62%	94.09%	4.87%	UP	4
5	Woollahra and City of Sydney	1.28%	89.51%	98.00%	1.87%	101.17%	1.31%	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	

FY18-FY20

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	**Woollahra**	2.62%	94.63%	101.00%	1.20%	107.00%	8.88%	DOWN	7
2	Greater Sydney option per ILGRP report	2.89%	90.75%	87.31%	1.40%	102.83%	0.98%	DOWN	6
3	Woollahra, Waverley and Randwick	3.01%	93.14%	93.85%	0.27%	109.72%	2.66%	DOWN	6
4	Woollahra and Waverley	2.85%	93.70%	82.00%	0.62%	105.00%	4.40%	DOWN	6
5	Woollahra and City of Sydney	2.15%	92.30%	90.50%	1.79%	101.00%	1.26%	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 -0.72% in FY15-FY17, which does not meet the FFTF benchmark of >0% but the ratio increases to an average of 2.62% in FY18 to FY20, thus meeting the benchmark. The OP ratio's positive trend across both periods is driven by a greater than proportional increase of total income from continuing operations against expenses from FY15 onwards due to additional commercial income received from the lease of Council's investment in Kiaora Place. In this scenario, Woollahra's total income will be higher than its total expenses in FY17 onwards and hence drive a positive ratio from this point on. If Woollahra is able to secure the commercial income forecast from Kiaora Place then it will comfortably be above the FFTF benchmark within the FY20 timeframe.
- OSR ratio average increases from FY13-FY20 and as such, remains above the FFTF benchmark of >60%. With an average of 94.63% in FY18-FY20 the ratio is significantly in excess of the FFTF benchmark as has always been the case.
- BIAR ratio average is in excess of the FFTF benchmark with a result of 116% in FY15-FY17 and 101% in FY18-FY20. The ratio is forecast to experience a significant increase from 89.6% in FY14 to 138% in FY15 before remaining relatively stable from FY15 onward. This increase is a direct consequence of the Council's plan to relocate its public works depot to a new joint facility with Waverley Council. It must be noted that the ratio is forecast to remain stable, slightly over the benchmark, between FY15 and FY20 once this one-off spike has occurred.
- The IB ratio consistently meets the FFTF benchmark in FY17 and FY20 with respective results of 1.94% and 1.20%. This is consistent with the restated figure discussed in current analysis.

Forecast analysis - Option 1- Woollahra status quo:

Analysis (cont.)

- AM ratio average is 107.33% for FY15-FY17 and 107% in FY18-FY20. The ratio is forecast to increase from 95.4% in FY14 to 108% in FY15 before remaining stable around 107% from FY15 to FY20 as Woollahra forecast to have the sufficient capacity to efficiently maintain its assets. We have been advised by Woollahra that there is potential for this figure to be overstated in that the required asset maintenance figure has not been inflated by CPI in the forecasts. Despite this we have been informed that the council expects sufficient capacity to maintain assets at this % level into the long term future.
- DS ratio average is 9.47%, for FY15-FY17 and 8.88% for FY18-FY20 which represents a significant increase of 7.35% and 6.76% on the current period but well between the FFTF benchmark of >0% to 20%. The increase in debt financing costs is explained by the Kiaora Place development, which is a PPP project with a major retailer. As part of this deal, the Council is able to purchase the development on a stage by stage basis, which will be debt funded and recorded as an investment asset.
- ROEPC is forecast to strongly increase from 1.12 to 1.45 between FY14 and FY18. As a consequence the Woollahra's ROEPC is not forecast to meet the FFTF benchmark in FY15-FY17. However, the ratio will decrease from 1.45 to 1.38 between FY16 and FY20 and therefore meets the benchmark in FY18-FY20. This rapid increase and slow decrease are due to total expenses from continuing operations increasing faster than the population's growth rate, before increasing at a more steady pace from FY16 onward as the council's financial position becomes more stabilised.

From meeting 5 out of 7 FFTF benchmarks in FY15-FY17, Woollahra's long term planning into the forecast period shows it meeting 7 out of the 7 benchmarks in the FY18-FY20 period.

In FY12-FY14 Woollahra's OP and BIAR ratio were below benchmark while in FY15-FY17 Woollahra's additional income from property leases in addition to the new depot's location significantly improved its BIAR and OP ratios which goes over the FFTF threshold.

Ultimately, Woollahra meets 7 out of 7 benchmarks in the period FY18-FY20 making the Woollahra status quo option perfectly viable and favourable. It is the only option assessed with the data available to Grant Thornton and with our assumptions which meets all FFTF benchmarks by FY20.

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

FY15-FY17

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Woollahra	(0.72%)	94.03%	116.00%	1.94%	107.33%	9.47%	UP	5
2	**Greater Sydney option per ILGRP**	2.07%	88.78%	90.24%	1.65%	96.77%	1.06%	DOWN	5
3	Woollahra, Waverley and Randwick	1.49%	92.59%	98.73%	0.84%	99.62%	2.94%	DOWN	5
4	Woollahra and Waverley	0.35%	92.89%	89.50%	1.62%	94.09%	4.87%	UP	4
5	Woollahra and City of Sydney	1.28%	89.51%	98.00%	1.87%	101.17%	1.31%	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	

FY18-FY20

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Woollahra	2.62%	94.63%	101.00%	1.20%	107.00%	8.88%	DOWN	7
2	**Greater Sydney option per ILGRP**	2.89%	90.75%	87.31%	1.40%	102.83%	0.98%	DOWN	6
3	Woollahra, Waverley and Randwick	3.01%	93.14%	93.85%	0.27%	109.72%	2.66%	DOWN	6
4	Woollahra and Waverley	2.85%	93.70%	82.00%	0.62%	105.00%	4.40%	DOWN	6
5	Woollahra and City of Sydney	2.15%	92.30%	90.50%	1.79%	101.00%	1.26%	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 2.07%, which meets the FFTF benchmark of >0% . Looking in more detail, however, the ratio steadily increases from 1.71% in FY15 to 2.46% 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 Woollahra lowers it in FY15-FY17 due to its relatively poor performance). 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 benchmark of >60% with a result of 88.78% 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. Woollahra's OSR ratio is the strongest of all councils and is consequently marginally penalised in the GS option by loosing c.5.25% and c.3.88% in FY15-FY17 and FY18-FY20.
- BIAR ratio has increased to an average 90.24% for FY15-FY17 from the FY14 result, but is still short of the 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 117.2% in FY15-FY17 and 117.6% in FY18-FY20. City of Sydney and Waverley pull the ratio down by forecasting their average ratio to remain at 80% and 63%n respectively across both periods.

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

Analysis (cont.)

- IB ratio is 1.65% from FY15-FY17 which meets the FFTF benchmark of <2% (albeit immaterially), falling to 1.40% for FY18-FY20. Botany Bay is the significant contributor to the ratio not falling as quickly as if Woollahra was standalone. This is because, in the light of no other information, Grant Thornton has forecast this to remain at 6.93% into FY20.
- AM ratio average is 96.77%, in FY15-FY17 which does not meet the FFTF benchmark of >100%. However, the average increases through FY18-FY20 to 102.83% which is in excess of the FFTF benchmark. The improvement is driven by Waverley's average exceeding 100%, Randwick's average being 119.56% in FY18-FY20 and Woollahra's consistent performance with a ratio remaining stable around 107% from 2015 onwards. The sustainability of the ratio needs to be considered in context with Botany Bay and City of Sydney, both of whom are assumed to be under 100% into the forecast period.
- DS ratio average is 1.06% in FY15-FY17 and 0.98% in FY18-FY20, which is inside the boundaries recommended by FFTF and similar to 0.98% in FY14. Only Waverley (1.57% FY15-FY17 and 1.15% 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%.
- 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 FY15-FY17 to meet 5 of the 7 FFTF benchmarks, increasing to 6 out of 7 in the period FY18-FY20 but continues to struggle with BIAR in the three-year period to FY20 (as do all other combinations except for Woollahra standalone).

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.

Even though the GS option has an immaterially better OP ratio in FY18-FY20, the OSR, IB, AM and in particular BIAR ratios are weaker than Woollahra as a standalone.

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

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

FY15-FY17

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Woollahra	(0.72%)	94.03%	116.00%	1.94%	107.33%	9.47%	UP	5
2	Greater Sydney option per ILGRP report	2.07%	88.78%	90.24%	1.65%	96.77%	1.06%	DOWN	5
3	**Woollahra, Waverley and Randwick**	1.49%	92.59%	98.73%	0.84%	99.62%	2.94%	DOWN	5
4	Woollahra and Waverley	0.35%	92.89%	89.50%	1.62%	94.09%	4.87%	UP	4
5	Woollahra and City of Sydney	1.28%	89.51%	98.00%	1.87%	101.17%	1.31%	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	

FY18-FY20

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Woollahra	2.62%	94.63%	101.00%	1.20%	107.00%	8.88%	DOWN	7
2	Greater Sydney option per ILGRP report	2.89%	90.75%	87.31%	1.40%	102.83%	0.98%	DOWN	6
3	**Woollahra, Waverley and Randwick**	3.01%	93.14%	93.85%	0.27%	109.72%	2.66%	DOWN	6
4	Woollahra and Waverley	2.85%	93.70%	82.00%	0.62%	105.00%	4.40%	DOWN	6
5	Woollahra and City of Sydney	2.15%	92.30%	90.50%	1.79%	101.00%	1.26%	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 1.49% in FY15-F17 and 3.01% in FY18-FY20, which outperforms the FFTF benchmark. The improvement is initially driven by Randwick's positive average of 3.22% in FY15-FY17 but by FY18-FY20 Randwick (3.25%) Waverley (3.02%) and Woollahra (2.62%) all exhibit strong standalone ratios. The WWR option is slightly more robust than Woollahra as a standalone into FY18-FY20.
- OSR ratio average is 92.59% for FY15-FY17 which remains stable at 93.14% for FY18-FY20. Both are comfortably in excess of the FFTF benchmark of >60%. As previously discussed, all councils exhibit forecast statistics that exceed the benchmark. Woollahra's OSR ratio is immaterially improved as a standalone rather than being part of a WWR amalgamation.
- BIAR ratio average is 98.73% in FY15-F17 and 93.85% in FY18-FY20 which is below the FFTF benchmark of 100%. The ratio is improved by Woollahra's strong forecast results of 116% in FY15-FY17 and 101% in FY18-FY20 while Waverley's BIAR ratio of 63.00% across the two forecast periods negatively impacts the combination. Even though Randwick is stronger in this ratio at an average of 117.20% in FY15-FY17 and 117.56% in FY18-FY20, the level still does not match the FTFF threshold by FY20.
- The IB ratio is 0.84% for FY15-FY17 and 0.27% for FY18-FY20 which meets the FFTF benchmark of <2%. The ratio here is largely influenced by Randwick and Waverley who respectively improve their ratios to 0.03% and 0.00% into FY20 and therefore Woollahra would benefit form being in a combination with these.

Forecast analysis - Option 3 – Woollahra, Waverley 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%. All three councils have shown a commitment to improving this ratio into FY20, however, Waverley forecasts a result of 128.9% for FY20 which offsets all other years in the forecast period being under 100%. If Woollahra was to consider amalgamation it may be necessary to drive more deeply into this result. Even though WWR reaches in excess of 109%s in FY18-FY20, a standalone Woollahra has a more consistent ratio (c.107% from FY15-FY20) and is easily within the FFTF benchmarks itself.
- DS ratio average is 2.94% for FY15-Y17 and 2.66% for FY18-FY20. Only Waverley (1.57% FY15-FY17 and 1.15% 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. As a combination, in theory finance payments would decrease as a proportion of total continuing operating revenue, which would benefit Woollahra, but in reality there is likely to be opposition from those councils without debt.
- ROEPC shows a decreasing trend for WWR in FY15-FY17 and FY18-FY20, therefore meeting the FFTF benchmark.

WWR only meets 5 of 7 FFTF benchmarks in FY15-FY17, improving to 6 out of 7 in FY18-FY20.

In FY18-FY20 concerns over AM and ROEPC not meeting the FFTF benchmarks are addressed, although BIAR is still an underperforming ratio driven by Waverley's predicted 63% into the forecast period. This option may become as viable as Woollahra as a standalone if this is addressed in more detail.

From a population perspective, the critical mass of 286,370 forecast by FY20 is only 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 may be argued to be broadly consistent with 'scale and capacity' as per the ILGRP report.

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

FY15-FY17

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Woollahra	(0.72%)	94.03%	116.00%	1.94%	107.33%	9.47%	UP	5
2	Greater Sydney option per ILGRP report	2.07%	88.78%	90.24%	1.65%	96.77%	1.06%	DOWN	5
3	Woollahra, Waverley and Randwick	1.49%	92.59%	98.73%	0.84%	99.62%	2.94%	DOWN	5
4	**Woollahra and Waverley**	0.35%	92.89%	89.50%	1.62%	94.09%	4.87%	UP	4
5	Woollahra and City of Sydney	1.28%	89.51%	98.00%	1.87%	101.17%	1.31%	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	

FY18-FY20

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Woollahra	2.62%	94.63%	101.00%	1.20%	107.00%	8.88%	DOWN	7
2	Greater Sydney option per ILGRP report	2.89%	90.75%	87.31%	1.40%	102.83%	0.98%	DOWN	6
3	Woollahra, Waverley and Randwick	3.01%	93.14%	93.85%	0.27%	109.72%	2.66%	DOWN	6
4	**Woollahra and Waverley**	2.85%	93.70%	82.00%	0.62%	105.00%	4.40%	DOWN	6
5	Woollahra and City of Sydney	2.15%	92.30%	90.50%	1.79%	101.00%	1.26%	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 improves 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.
- OSR ratio average is 92.89% in FY15-FY17, rising to 93.70% in FY18-FY20. The two councils combined forecast a stable ratio, similar to that of Woollahra as a standalone option.
- The BIAR ratio average for the WW option for FY15-FY17 is 89.50% and for FY18-FY20 only 82.00%, not meeting the FFTF benchmark of >100%. Despite Woollahra's strong results of 116% and 101% in FY15-FY17 and FY17-FY20, the WW's BIAR average ratio is negatively affected by Waverley's average of 63.00% across both periods.
- The IB ratio is 1.62% in FY15-FY17, improving to 0.62% in FY18-FY20 which is within the FFTF benchmark of <2%. Woollahra's forecast average of c.1.94% in FY15-F17 dropping to 1.20% in FY18-FY20 is below the required level as a standalone but is further improved by Waverley as it forecasts to improve its ratio from 1.31% in FY15-FY17 to 0.00% in FY18-FY20.
- The AM ratio average is 94.09% for FY15-FY17 and 105.00% for FY18-FY20, satisfying the FFTF benchmark of >100% in the latter forecast period. Waverley's strong improvement from 128.9% in FY20 (although the previous five years are all under 100%) enables the WW option to be in line with the FFTF benchmark. However, Woollahra's AM ratio remains stable around 107% from FY2015 onward and meets the FFTF requirement across both periods as a standalone.

Forecast analysis - Option 4 – Woollahra and Waverley (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 the Kiaora Place project. DS ratio average for FY15-FY17 is 4.87% and 4.40% for FY18-FY20 as Woollahra invests in the above infrastructure.
- ROEPC shows an increasing trend for this combination across FY15-FY17 but becomes in line with the FFTF framework by decreasing over the FY18-FY20 period. This is because expenses are forecast to be more tightly controlled in this period by both councils.

WW option achieves only 4 of 7 FFTF benchmarks FY15-FY17 but strengthens in FY18-FY20, achieving 6 of 7 benchmarks at this stage of the forecast period.

Whilst being comparable to other options in the forecast period that meet 6 out of the 7 benchmarks, the WW option is not as strong as the Woollahra as a standalone option and it does not also provide the same critical mass of population or infrastructure assets such as that from GS or even WWR.

Forecast analysis - Option 5 – Woollahra, City of Sydney (WS):

FY15-FY17

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Woollahra	(0.72%)	94.03%	116.00%	1.94%	107.33%	9.47%	UP	5
2	Greater Sydney option per ILGRP report	2.07%	88.78%	90.24%	1.65%	96.77%	1.06%	DOWN	5
3	Woollahra, Waverley and Randwick	1.49%	92.59%	98.73%	0.84%	99.62%	2.94%	DOWN	5
4	Woollahra and Waverley	0.35%	92.89%	89.50%	1.62%	94.09%	4.87%	UP	4
5	**Woollahra and City of Sydney**	1.28%	89.51%	98.00%	1.87%	101.17%	1.31%	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	

FY18-FY20

	Option	OP	OSR	BIAR	IB	AM	DS	ROEPC	Ratios met
1	Woollahra	2.62%	94.63%	101.00%	1.20%	107.00%	8.88%	DOWN	7
2	Greater Sydney option per ILGRP report	2.89%	90.75%	87.31%	1.40%	102.83%	0.98%	DOWN	6
3	Woollahra, Waverley and Randwick	3.01%	93.14%	93.85%	0.27%	109.72%	2.66%	DOWN	6
4	Woollahra and Waverley	2.85%	93.70%	82.00%	0.62%	105.00%	4.40%	DOWN	6
5	**Woollahra and City of Sydney**	2.15%	92.30%	90.50%	1.79%	101.00%	1.26%	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 increasing from 1.28% in FY15-FY17 to 2.15% in FY18-FY20 and is therefore above the FFTF benchmark across both periods. The ratio increases from 0.87% in FY15 to 2.42% in FY18 before decreasing to 1.96% in FY20, however the decline is minimal. The combination is driven by City of Sydney results (due to the volume of City of Sydney's financials) and in Fy18-FY20 drops below Woollahra as a standalone.
- OSR ratio average is 89.51% in FY15-FY17, rising to 92.30% in FY18-FY20. The two councils combined forecast this ratio to be grow steadily and as such represent a comfortable option to pass this ratio.
- The BIAR ratio average is 98.00% in FY15-FY17 and 90.50% in FY18-FY20 which does not meet the FFTF benchmark of >100%. Despite Woollahra's strong results of 116% and 101% in FY15-FY17 and FY17-FY20, the WS's BIAR average ratio is negatively affected by City of Sydney's forecast to remain at 80% across both periods. It is highlighted in our assumptions that Grant Thornton has not been provided with data for these forecasts and as such BIAR may be passed if City of Sydney's forecasts are materially changed.
- The IB ratio is 1.87% in FY15-FY17, improving to 1.79% in FY18-FY20 which within the FFTF benchmark of <2%. City of Sydney IB ratio remains stable at 1.86% across both periods. Both councils as a combination show an ability to ensure the IB ratio is kept below 2%., although Woollahra in FY18-FY20 as a standalone demonstrates more headroom at 1.20%

Forecast analysis - Option 5 – Woollahra, City of Sydney (WS):

Analysis (cont.)

- The AM ratio average remains stable with a 101.17% result for FY15-FY17 and 101.00% result for FY18-FY20, which meets the FFTF benchmark of >100% in both periods. City of Sydney's and Woollahra's ratio are forecast to respectively stay at 95% and 107% across the forecast period. As can be seen Woollahra elevates this combination above the threshold, but again, changes to City of Sydney's forecast assumptions may materially affect performance in this ratio.
- DS ratio is 1.31% in FY15-FY17 and 1.26% in FY18-FY20 and meet the FFTF benchmark of >0%. City of Sydney is free of debt, but such is the size of its operational revenue, the DS% is reduced from Woollahra as a standalone, which forecasts 9.47% and 8.88% in Fy15-FY17 and FY18-FY20 respectively.
- ROEPC is a decreasing trend for the WS combination across FY15-FY17 and FY18-FY20 and therefore meets the FFTF requirement.

The WS option meets 6 out of 7 FFTF benchmarks both in FY15-17 and FY18-20 (which places this combination very strongly in the interim FY15-FY17 forecast period).

As per the current analysis, the option is strongly influenced by the City of Sydney and it scale relative to Woollahra. A combination may satisfy scale and capacity requirements from a population perspective but would weaken Woollahra (when compared to it passing all 7 benchmarks as a standalone). A review of City of Sydney forecasts may change the view of this option, specifically as it only fails on BIAR in both FY15-FY17 and FY18-FY20.