Infrastructure Assessment Report

Lachlan Shire Council

Infrastructure Depreciation Review and FFF Summary

Version 2
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JRA

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This report focuses on whether the Council has reasonable capacity, based on the information provided to JRA, to manage infrastructure risks

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Abbreviations used in this report in the order they appear

Abbreviation	Full Term
FFF	"Fit for the Future" NSW Office Local Government
OLG	NSW Office of Local Government
BTS	Bring to Satisfactory – see report section 3.
IPART	Independent Pricing and Regulatory Tribunal
ILGRP Report	Final Report of the NSW Independent Local Government Review Panel October 2013
IIMM	International Infrastructure Management Manual, IPWEA
IPART Guide	IPART Local Government — Assessment Methodology, Methodology for Assessment of Council Fit for the Future Proposals, June 2015
IPWEA	Institute of Public Works Engineering Australasia
IPR	NSW Integrated Planning and Reporting
IPR Manual	Integrated Planning and Reporting Manual for local government in NSW, March 2013, NSW Office of Local Government
Code Update 23	Local Government Code of Accounting Practice and Financial Reporting (Guidelines). Update 23 March 2015, NSW Office of Local Government.
CSP	Community Strategic Plan as described in IPR Manual
AMP	Asset Management Plan as described in IPR Manual
RMP	Risk Management Plan – should be included in AMP.
AASB	Australian Accounting Standards Board
AIFMG	Australian Infrastructure Financial Management Guidelines IPWEA

1. Executive Summary

Lachlan Shire Council's infrastructure backlog presents a manageable financial risk and the infrastructure sustainability FFF targets are achievable in 5 years. Asset Management Plans will be updated by the end of 2015 to ensure ongoing optimisation of infrastructure expenditure. Council's road network is in good condition and other infrastructure risk is being satisfactorily managed.

Previous backlog reporting included low risk and upgrade/new costs and this has been recalculated to $3.7 M for all infrastructure categories to align with community expectation for affordable levels of service. This estimate includes $1.3 M for buildings, however some of these buildings are not likely to be replaced and the backlog is likely to be reduced in the asset management plan update.

1.1 Infrastructure Backlog

Table 1: Infrastructure Sustainability Measures

Infrastructure Sustainability Measures	2014 Annual Report	2015 JRA Estimate
Infrastructure WDV (For SS7 Backlog Ratio)	$295,446	$388,305
AASB116 Infrastructure Depreciable Amount	$368,273	$467,197
Population	6,476	6,476
Annual Revenue	$28,500	$28,500
Depreciation	$11,206	$6,474
Annual Depreciation % of Value	3.0%	1.4%
Infrastructure BTS Backlog Value #	$64,159	$3,673
BTS Backlog / Total Infrastructure Value	17.4%	0.8%
Renewal Expenditure (SS7)	$5,248	$5,248
Actual Maintenance Expenditure (SS7)	$3,678	$3,885
Required Maintenance Expenditure (SS7)	$8,039	$3,915
Total Capital Expenditure	$8,171	$8,171
Annual Maintenance % of Value	1.0%	0.8%
1. Building & Infrastructure Renewals Ratio	0.47	0.81
2. Infrastructure Backlog Ratio	0.22	0.01
3. Asset Maintenance Ratio	0.46	0.99
4. Capital Expenditure Ratio	0.73	1.26
5. Infrastructure Population/Ratio	$57	$72
6. Expansion/Upgrade Expenditure *	$2,923	$2,923
7. Expansion/Upgrade Ratio **	0.56	0.56
8. Maintenance and Operating Increase ***	$118.15	$64.82
9. Infrastructure Growth per Population	0.45	0.45

Refer section 4 of the report
All amounts in '000's
* Capital Expenditure on new or upgraded infrastructure. Represents increasing service levels and operating costs (maintenance and operations)
** Expansion/Upgrade Expenditure divided by Renewal Expenditure. A measure of how much is being spent on upgraded and new assets compared with renewal of existing.
*** Addition depreciation and maintenance resulting from upgrade new

Observations and Trends

1. Depreciation has reduced as a result of a revaluation. The depreciation rate of 1.4% of depreciable amount is now is consistent with similar rural councils.
2. Current replacement cost and carrying value have increased as a result of the valuation increase applying current unit costs. Depreciation has reduced due to previous asset lives being extended to reflect actual in service lives and application of non depreciable components such as earthworks that were previously depreciated.
3. Asset management plans are being updated to provide a 10 year forward projection of operating, maintenance, renewal and expansion balanced to the Long Term Financial Plan.
4. Current service levels are increasing by expenditure on upgrade expansion – see items 6 – 9 on tables 1 & 2.
5. The target renewal ratio in any year needs to align with the annually reviewed asset management plan. The current ratio is close to optimum renewal levels
6. Asset Management Plans need to gradually shift expenditure from new / upgrade to renewal over the next 10 years to ensure continuing optimum expenditure on renewal as shown in table 5 (scenario 2).

Table 2: Revaluation Results

Lachlan - Note 9a	As at 30/6/2014			2015 JRA Reval		
$'000	Current Replacement Cost	Carrying Value	Depreciation Expense	Current Replacement Cost	Carrying Value	Depreciation Expense
Land Improvements - depreciable	$ 4,141	$ 1,441	$ 39	$ 4,141	$ 1,441	$ 39
Buildings - Non Specialised	$ 12,611	$ 7,258	$ 81	$ 12,611	$ 7,258	$ 81
Buildings - Specialised	$ 72,480	$ 40,984	$ 1,036	$ 72,480	$ 40,984	$ 1,036
Other Structures	3,538	2,621	$ 124	$ 3,538	$ 2,621	$ 124
Infrastructure						
- Roads	$ 224,500	$ 89,370	$ 9,237	$ 334,206	$ 303,716	$ 4,754
- Bridges and Major Culverts	$ 38,112	$ 31,730	$ 426	$ 27,832	$ 23,794	$ 286
- Footpaths	$ 10,199	$ 1,502	$ 227	$ 3,684	$ 3,265	$ 67
- Stormwater Drainage	$ 2,692	$ 1,639	$ 36	$ 8,704	$5,225.30	$ 88
TOTAL	**$ 368,273**	**$ 176,545**	**$ 11,206**	**$ 467,197**	**$ 388,305**	**$ 6,474**

Table 3 shows the detail of the backlog results. Working papers for each group have reviewed asset condition and risk to deterimine backlog in accordance with the methodology set out in this report.

Table 3: Infrastructure BTS Backlog Value

Description	TOTAL BTS
Sealed Roads - Unfunded Reseal and Rehab needed now	$1,607
Gravel Roads - Unfunded Gravel resheeting now	$687
Bridges - Island Creek Bridge -$412 less $297 in reserve)	$115
Kerb and Paths No high risk assets - $79,200 spent on new assets	$ -
Other -No high risk assets	
Drainage - No high risk assets	$ -
Buildings - Unfunded building rectification cost identified in the risk register	$1,264
Renewal program as per SAMP - Water and Sewer Below Ground - Unfunded Structural Failure Cost to reline or renew	$ -
Renewal program as per SAMP - Water and Sewer Above Ground - Modern equivalent renewal cost to rehabilitate assets that have structurally failed.	$ -
	$3,673

Table 4: Infrastructure Sustainability Measures Forward Projection Scenario 1

Scenario 1 includes $14.8 M of asset growth in the form of expansion/upgrade. All amounts in '000s. All infrastructure ratios meet targets at the end of the period, however a backlog of $3.1 M remains at the end of the model period. These models are optimisation models that predict depreciation, renewal need and backlog that are not intended to balance to the OLG FFF template. Both models show that FFF targets are achieved.

Scenario 1 - Current LTFP	Lachlan	Forward Projections in LTFP						Asset Fully Depreciated at Renewal			
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Renewal Budget	$ 5,248	$ 7,083	$ 6,494	$ 6,527	$ 6,332	$ 6,600	$ 6,651	$ 6,691	$ 6,635	$ 6,651	$ 6,613
Expansion Upgrade Budget	$ 2,923	$ 2,881	$ 1,412	$ 781	$ 1,135	$ 689	$ 589	$ 1,036	$ 1,060	$ 922	$ 1,356
Maintenance Budget	$ 3,885	$ 3,968	$ 4,137	$ 4,162	$ 4,169	$ 4,207	$ 4,196	$ 4,224	$ 4,234	$ 4,245	$ 4,257
Total Capital Budget	$ 8,171	$ 9,964	$ 7,906	$ 7,309	$ 7,467	$ 7,289	$ 7,240	$ 7,727	$ 7,695	$ 7,573	$ 7,969
AASB116 Infrastructure Depreciable Amount	$ 467,197	$ 470,077	$ 471,489	$ 472,270	$ 473,405	$ 474,094	$ 474,683	$ 475,719	$ 476,779	$ 477,701	$ 479,058
AMP Renewal Need (excluding backlog)	$ 6,474	$ 6,514	$ 6,534	$ 6,545	$ 6,560	$ 6,570	$ 6,578	$ 6,592	$ 6,607	$ 6,620	$ 6,639
AMP Renewal Plus Backlog	$ 10,147	$ 9,618	$ 9,677	$ 9,706	$ 9,949	$ 9,929	$ 9,864	$ 9,780	$ 9,767	$ 9,749	$ 9,793
Maintenance Optimum Target	$ 3,915	$ 3,940	$ 3,951	$ 3,958	$ 3,967	$ 3,973	$ 3,978	$ 3,987	$ 3,996	$ 4,003	$ 4,015
Depreciation	$ 6,474	$ 6,514	$ 6,534	$ 6,545	$ 6,560	$ 6,570	$ 6,578	$ 6,592	$ 6,607	$ 6,620	$ 6,639
BTS Backlog (Deferred Renewal)	$ 3,673	$ 3,104	$ 3,144	$ 3,161	$ 3,389	$ 3,359	$ 3,285	$ 3,187	$ 3,160	$ 3,129	$ 3,154
Infrastructure WDV (For SS7 Backlog Ratio)	$ 388,305	$ 391,754	$ 393,126	$ 393,890	$ 394,797	$ 395,516	$ 396,178	$ 397,312	$ 398,400	$ 399,354	$ 400,684
1. Building & Infrastructure Renewals Ratio	0.81	1.09	0.99	1.00	0.97	1.00	1.01	1.01	1.00	1.00	1.00
2. Infrastructure Backlog Ratio	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
3. Asset Maintenance Ratio	0.99	1.01	1.05	1.05	1.05	1.06	1.05	1.06	1.06	1.06	1.06
4. Capital Expenditure Ratio	1.26	1.53	1.21	1.12	1.14	1.11	1.10	1.17	1.16	1.14	1.20

Figure 1: Infrastructure Sustainability Measures Forward Projection Scenario 1

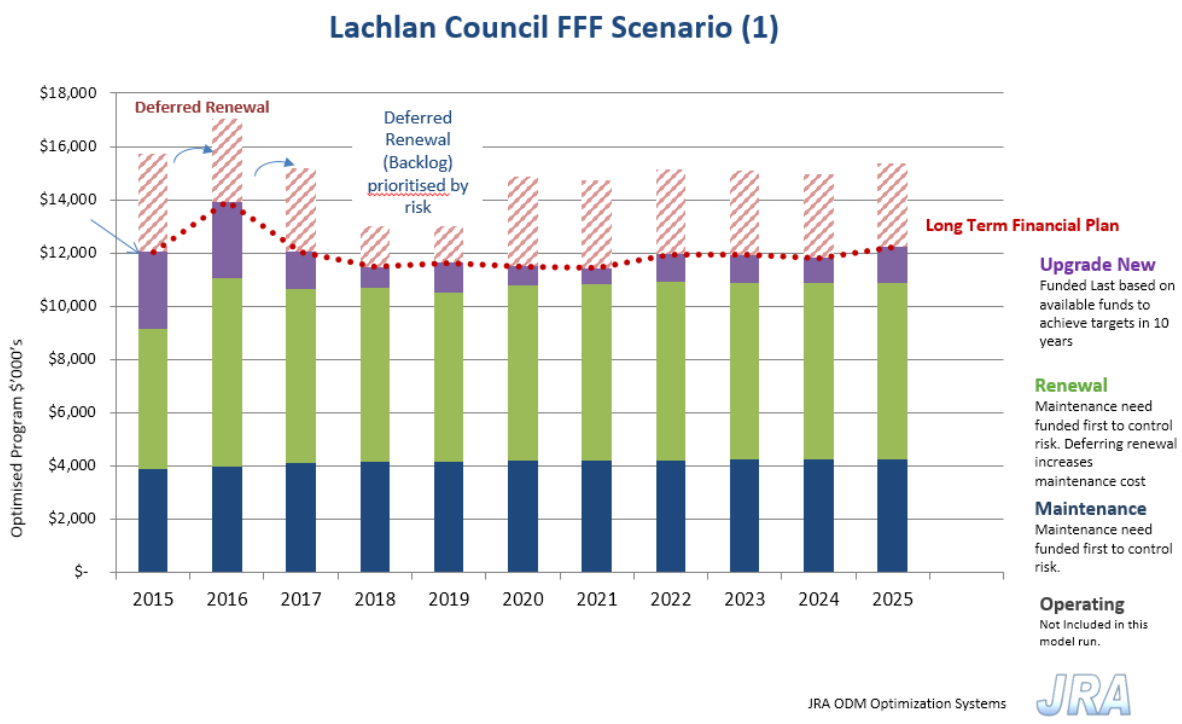
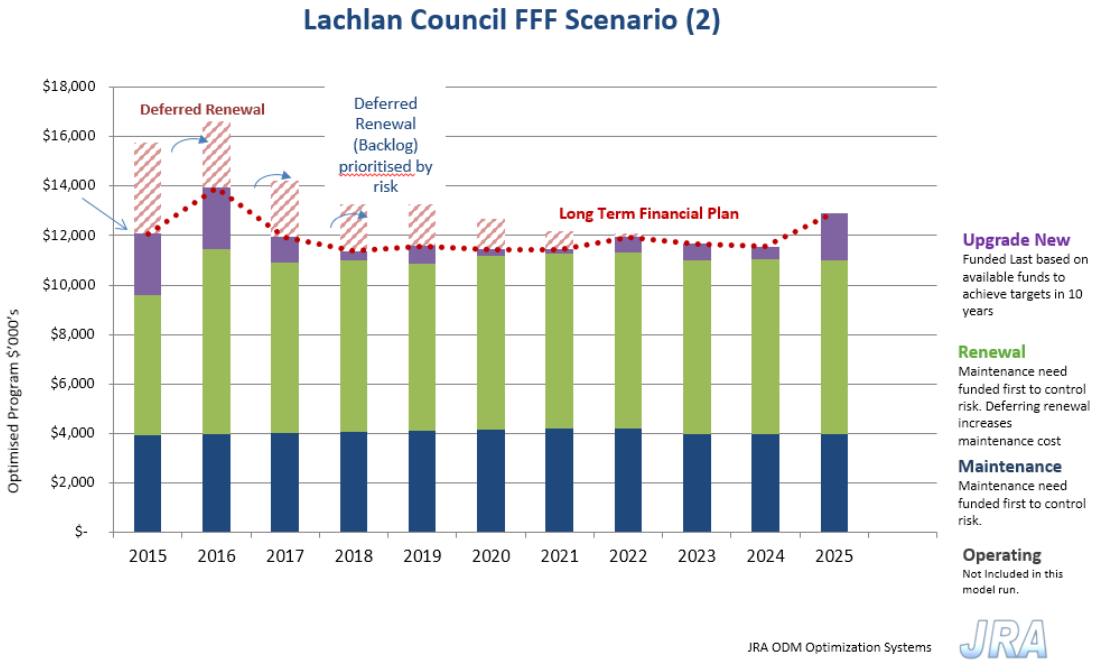


Table 5: Infrastructure Sustainability Measures Forward Projection Scenario 2

Scenario 2 transfers growth expenditure (expansion/upgrade) to renewal and allocates priority to maintenance, then high risk renewal. Any amounts remaining after optimisation of infrastructure lifecycle costs have been allocated to expansion upgrade. Scenario 2 links to the asset management plan optimum scenario and will be reviewed annually as part of the budget process to ensure efficient service provision while managing risk.

Scenario 2	Lachlan	Meet FFF Targets in 5 years	Asset Fully Depreciated at Renewal	$ 3,541.30	Upgrade Transferred to Renewal to Meet Target						
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Renewal Budget	$ 5,656	$ 7,491	$ 6,903	$ 6,936	$ 6,740	$ 7,009	$ 7,060	$ 7,099	$ 7,043	$ 7,060	$ 7,021
Expansion Upgrade Budget	2,515	2,472	1,003	373	727	280	181	628	652	514	1,898
Maintenance Budget	3,915	3,975	4,024	4,067	4,114	4,158	4,201	4,207	3,968	3,973	3,989
AASB116 Infrastructure Depreciable Amount	467,197	469,669	470,672	471,045	471,772	472,052	472,233	472,861	473,513	474,027	475,925
AMP Renewal Need (Optimised)	6,474	6,509	6,523	6,528	6,538	6,542	6,544	6,553	6,562	6,569	6,595
AMP Renewal Need Including Backlog	6,474	6,509	6,523	6,528	6,538	6,542	6,544	6,553	6,562	6,569	6,595
Amount Transferred Upgrade to Renewal	408	408	408	408	408	408	408	408	408	408	0
Maintenance Optimum Target	3,915	3,975	4,024	4,067	4,114	4,158	4,201	4,207	3,968	3,973	3,989
Depreciation	6,474	6,509	6,523	6,528	6,538	6,542	6,544	6,553	6,562	6,569	6,595
BTS Backlog (Deferred Renewal)	3,673	2,690	2,310	1,902	1,699	1,232	717	171	0	0	0
Infrastructure WDV (For SS7 Backlog Ratio)	388,305	$ 391,760	$ 393,143	$ 393,924	$ 394,854	$ 395,601	$ 396,297	$ 397,471	$ 398,604	$ 399,608	$ 401,932
1. Building & Infrastructure Renewals Ratio	0.87	1.15	1.06	1.06	1.03	1.07	1.08	1.08	1.07	1.07	1.06
2. Infrastructure Backlog Ratio	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Asset Maintenance Ratio	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
4. Capital Expenditure Ratio	1.26	1.53	1.21	1.12	1.14	1.11	1.11	1.18	1.17	1.15	1.35
Initial Renewal	$ 15,786	$ 14,465	$ 15,474	$ 16,510	$ 17,847	$ 19,255	$ 20,738	$ 22,298	$ 23,942	$ 25,671	$ 27,491
Renewal Funding Needed	$ 16,194	$ 14,874	$ 15,882	$ 16,918	$ 18,255	$ 19,663	$ 21,146	$ 22,707	$ 24,351	$ 26,079	$ 27,899

Figure 2: Infrastructure Sustainability Measures Forward Projection Scenario 1



2. Introduction

This report provides an independent assessment of Lachlan Shire Council's capacity to sustainably deliver infrastructure based services to its community. This report has reviewed two of the primary indicators of financial sustainability of interest to IPART, depreciation compared with renewal expenditure and "infrastructure backlog."

The NSW Government has asked IPART to perform the role of the Expert Advisory Panel to assess how council proposals meet the Fit for the Future criteria. Councils are to prepare proposals as to how they will meet the criteria for submission to us by 30 June 2015.

This report is Part 1 of a 2 Part Report and provides the assessment of depreciation and backlog necessary for the "fit for the future" (FFF) application to IPART.

Part 1 provides a forward estimate of the 3 asset management inputs to FFF criteria and measures set out in the IPART Guide Table 1.1.

Building and Asset Renewal Ratio

Building and Asset Renewal Ratio	Asset renewals (building and infrastructure) / Depreciation, amortisation and impairment (building and infrastructure)	Greater than 100% average over 3 years

Infrastructure Backlog Ratio

Infrastructure Backlog Ratio	Estimated cost to bring assets to satisfactory condition / Total (WDV)[a] of infrastructure, buildings, other structures, depreciable land, and improvement assets	Less than 2%

Asset Maintenance Ratio

Asset Maintenance Ratio	Actual asset maintenance / Required asset maintenance	Greater than 100% average over 3 years

Part 2 will address asset management scale and capacity issues and in particular the essential element of prioritising asset management planning[1] and the "Rigorous ongoing implementation of Integrated Planning and Reporting requirements for long term financial and asset management plans, and upgraded 4-year Delivery Programs"[2]. It should also be noted that Code Update 23 requires that Asset condition should be based on up to date asset condition assessments rather than an engineering estimates. This requires up to date asset management plans that are subject to ongoing monitoring and regular review (at least annually) to reflect any changes in asset conditions and/or the asset portfolio.[3] Part 2 will address Councils plan to ensure it has the scale and capacity to maintain Asset Management Plans that integrate to the delivery program and annual budget process and are based on up to date and reliable condition assessments.

Finance, asset management and corporate will work closely together to ensure:

- Condition assessment is based on "up to date asset condition assessments rather than an engineering estimates."[4]
- Asset Management Plans aligns with the requirements set out the ILGRP Report and IPR Manual.

[1] ILGRP Report, P34 – Fiscal Responsibility
[2] ILGRP Report, P49 – Meeting Infrastructure Needs
[3] IPR Manual, Essential Element 2.11 p80.
[4] Code update 23 pC21

3. Infrastructure Backlog

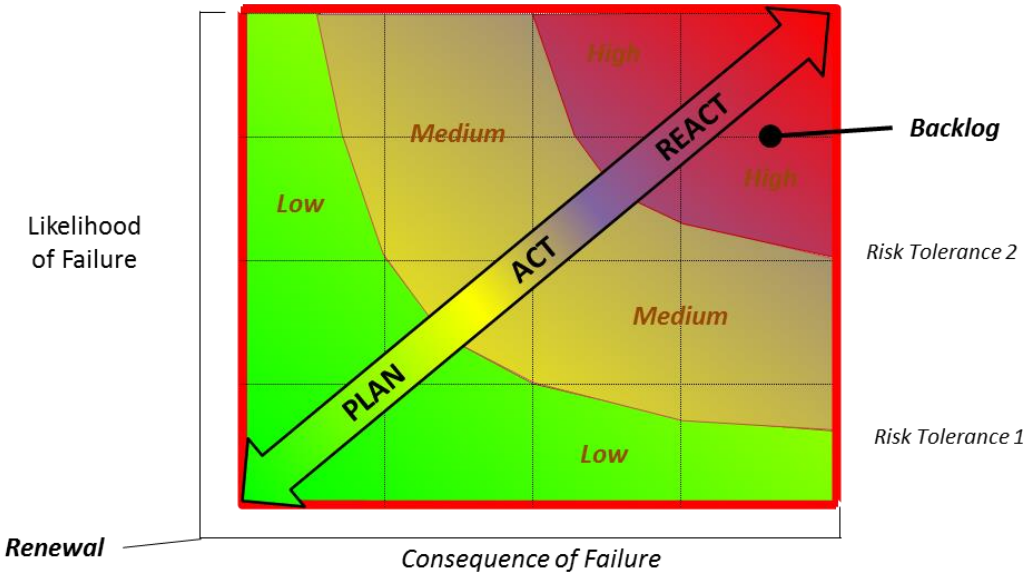
Infrastructure backlog needs to be defined in asset management terms to ensure auditable and evidence based approach to measurement and reporting and avoid theoretical and aspirational goals the community does not want to pay for. The International Infrastructure Management Manual (IIMM) does not focus on "backlog". It concentrates on minimising asset lifecycle cost for service levels essential to strategic objectives while managing risk. The NSW Integrated Planning and Reporting Manual (IPR) also focuses on managing infrastructure services and risk does not mention "backlog".

Engagement with communities on appropriate and affordable service levels while managing risk is also a foundational principle of IPR, encouraging councils to *"engage the community in identifying the acceptable level of service for each asset type in Asset Management Plans."*

Asset Management Plans balanced to Long Term Financial Plans, annually reviewed in accordance with the IPR manual are the key instrument to enable organisations to be fit for the future and accordingly this report will also review the state of asset management plans.

For the purpose of this report "infrastructure backlog" will be defined as *"unfunded high residual risk associated with assets essential to achieving Council's Community Strategic Plan (CSP). High risk assets not essential to Councils CSP should be disposed, closed or reclassified and do not represent a financial sustainability risk."* This is shown in figure 1 and ensures backlog is aligned with Council's asset management plan in accordance with Code Update 23, IPR manual and the IPART Assessment Methodology released 5th June 2015.

Figure 3: Infrastructure Backlog Definition



4. Calculation of Bring to Satisfactory / Backlog

4.1 Existing Policy Framework

- The existing policy framework to determine satisfactory service levels and risks based on IP&R is robust and effective and provide the basis for a transparent, accountable and evidence based methodology. JRA observation is that this policy framework has not been applied consistently to "Bring to Satisfactory" BTS or "backlog" across NSW local government primarily due to it being seen as a lower priority. The realisation of importance has changed, the guidance needed to implement this awareness is needed urgently and the following guide provides a summary of policy and practice.
- The Annual Report is one of the key accountability mechanisms between a Council and its community. As such, it should be written and presented in a way that is appropriate for each council's community.[5]
- Councils are required to report on the condition of the public works (including public buildings, public roads, as well as water, sewerage and drainage works) under the control of the Council as at the end of that year, together with:
- An estimate (at current values) of the amount of money required to bring the works up to a satisfactory standard;
- An estimate (at current values) of the annual expense of maintaining the works at that standard;
- The council's program of maintenance for that year in respect of the works; and
- The report on the condition of public works is also included in the financial reports and is known as Special Schedule 7. Councils must complete this Schedule each year.[6]
- The Asset Management Strategy must identify assets that are critical to the council's operations and outline the risk management strategies for these assets.[7]
- The Asset Management Plan/s must identify asset service standards and should incorporate an assessment of the risks associated with the assets involved and the identification of strategies for the management of those risks. The strategies should be consistent with the overall risk policy of Council. The International and Australian Standard AS/NZS/ISO/31000:2009 – Risk management – Principles and guideline provides a useful guide. [8]
- For water supply and sewerage a 30-year total asset management plan (TAMP, which is a key element of the Strategic Business Plan (SBP) and Integrated Water Cycle Management (IWCM) Strategy) and a 30 year financial plan are required. A council's peak planning document is the later of its IWCM Strategy

[5] IP&R Manual March 2013. Section 6.1.
[6] Ibid Section 6.4
[7] Ibid Section 3.4.1
[8] Ibid Section 3.4.2

and SBP, which are required every 8 years on a rotation of every 4 years (www.water.nsw.gov.au). The key outputs of the IWCM Strategy or SBP are a 30-year TAMP, a 30-year financial plan and an affordable Typical Residential Bill (TRB) on the basis of the agreed levels of service and the projected demographic growth. The annual Action Plan to Council, which is the key water and sewerage working document provided to the council each year, enables the council to effectively and efficiently manage its risks and highlights any corrective actions needed to address emerging issues, areas of underperformance, or to implement Best Practice Management (BPM) requirements.

- The report on the condition of public works (Special Schedule 7) should flow directly from the Delivery Program (Note 1) which should define performance indicators for both existing and proposed levels of service. These performance measures can be used to quantify the upgrade costs (or degree of over-servicing) between existing and target service levels (Note 2).
- The determination of satisfactory target service levels (Note 3) involves an informed trade-off using the Long Term Financial Plan and Asset Management Plan 10 year scenarios for revenues, risks and service levels. This approach is consistently identified in the IP&R Manual and expanded in complementary resources such the IPWEA Level of Service and Community Engagement Practice Note 8.
- The Final Report of the NSW Independent Local Government Review Panel October 2013 noted that "Collaborative approaches are also needed to ensure that all councils have access to high quality technical assistance in fields such as setting realistic condition standards for infrastructure, including undertaking community engagement to determine what levels of service are acceptable. It needs to be more widely understood that at any given time a significant percentage of a council's infrastructure assets will be at a less than desirable standard: it is simply financially impossible (and irresponsible) to aim for every road, bridge, drain, building etc to be 'satisfactory' or better."[9] The report notes that some councils have already done excellent work in this regard and that the Institute of Public Works Engineering and the Australian Centre of Excellence for Local Government have prepared a 'practice note' on levels of service which should provide a sound basis for training programs.
- Cost to bring to assets to satisfactory (BTS) should be determined by asset and risk management plans. This guide recommends that the cost to bring to satisfactory should be the total unfunded cost to renew all high residual risk assets in the current risk register. Residual risk includes all types of risk shown in table 1 on the following page.
- Special Schedule 7 is auditable by checking for alignment between SS7 and asset and risk management plans. The risk register establishes a consistent and evidence based cost to bring to satisfactory and connects to good governance practice of transparent reporting of risk through appropriate governance processes such as an audit committee.

[9] Revitalising Local Government Final Report of the NSW Independent Local Government Review Panel October 2013, p52

- Asset Risks include operational, technical, financial, legal, social and environmental risks using the ISO 31000 framework. Supporting resources are available and this methodology is consistently applied internationally. (Note 4)

Note 1 *– For water supply and sewerage, this is the first 4 years of a water and sewerage council's 30-year total asset management plan (TAMP) in accordance with the Strategic Business Planning Check List (http://www.water.nsw.gov.au/ArticleDocuments/36/town_planning_strategy_checklist.pdf.aspx). The TAMP involves a cost -effective 30-year capital works program showing each of works for growth, improved standards and a renewals plan, together with an operation plan, which includes non-build solutions, and a maintenance plan.*
Note 2 *– NSW Office of Local Government, IP&R Manual Section 6.4 P133*
Note 3 *– Levels of service for water supply and sewerage need to be determined and reported in accordance with Item 4 on page 5 of the Strategic Business Planning Check List.*
Note 4 *– IPWEA NAMSPLUS – Asset and Risk Management Plan Templates*

The input of the NSW Office of Water to the draft of this guide is gratefully acknowledged. Also the peer review by Dr Penny Burns and John Comrie (JAC).

4.2 Application for Lachlan Shire Council

The following principles have been applied to implement the existing policy framework. This methodology focuses limited council resources to areas of highest risk.

- "Bring to satisfactory" is the sum of Modern Equivalent Renewal Cost (MERC) of high residual risk assets not financed in the current annual reporting period. This is based on assets due for renewal or partial renewal but not funded[i]. Cost to bring to satisfactory is the most efficient modern equivalent capital treatment to keep the asset to service at a satisfactory level. (Note 5) This aligns with Code update 23 when read together with the IPR manual. Satisfactory level of service is not bringing and asset to "as new" condition but to a level where "only minor maintenance is required".
- "Maintain at satisfactory" (MAS) is the unfunded maintenance treatments recommended by the risk management plan to manage BTS risks but not financed in the current annual reporting period.
- BTS is audited by examining the Asset Management Plan and Risk Register that act as "working papers" for BTS and MAS in the annual report.
- Deferring renewal may result in the modern equivalent renewal cost increasing and will impact future BTS reporting.
- BTS analysis must be carried out for each material asset component. Network averages are not likely to provide reliable or consistent BTS reporting.
- The connection to risk registers reinforces the importance of independent Audit Committees to report service risks associated with "unsatisfactory service levels" to Council. This enables the essential separation of aspirational but unaffordable service levels from target service levels identified in the delivery program.

Table 6: Types of Risk
(NAMSPLUS Risk Management Plan Template, ISO 31000)

Criterion	Risk Evaluation Notes
Operational	Risks that have the potential to reduce services for a period of time unacceptable to the community and/or adversely affect the council's public image.
Technical	Risks that cannot be treated by council's existing and/or readily available technical resources.
Financial	Risks that cannot be treated within council's normal maintenance budgets or by reallocation of an annual capital works program.
Legal	Risks that have the potential to generate unacceptable exposure to litigation.
Social	Risks that have the potential to: - cause personal injury or death and/or - cause significant social/political disruption in the community.
Environmental	Risks that have the potential to cause environmental harm.

Note 5 *– This application is consistent with code update 23 where Satisfactory is defined as "satisfying expectations or needs, leaving no room for complaint, causing satisfaction, adequate". High levels of complaint. The estimated cost to bring assets to a satisfactory standard is the amount of money that is required to be spent on an asset to ensure that it is in a satisfactory standard. Where an asset is in condition 3, 4 or 5 AND has low risk AND acceptable levels of community complaint (operational risk) then the cost or renewing these assets would represent an unaffordable cost to the community and should not be included in reported backlog. It may be included in aspirational service levels for consultation in the Community Strategic Plan (CSP).*

4.3 Calculation of Maintain at Satisfactory

The objective of the methodology is to have an evidence based approach to show Council is well managed and can be fit for the future. Risk management and governance are a core part of capacity in fit for the future and a core element in the Final Report of the NSW Independent Local Government Review Panel final report.

- Lachlan Council will be aligning with IPR manual requirements to align the annual budget with funding high risk first in the annual budget process.
- The additional maintenance is calculated by JRA applies the current ratio of maintenance to backlog amount, effectively saying Council needs to double the normal maintenance on backlog assets. JRA experience is that that more than covers the additional maintenance required except where there are very high backlog proportions. That is not the case for Lachlan Council.
- The drop in maintenance is aligned with the required connection in the resourcing strategy between the LTFP and AMP.
- Underfunding maintenance is very high risk and high levels of underfunded risk should be reported to the audit committee. In future, the annual review of the Asset Management Plans (IPR essential element 2.11) should inform the budget process to direct resources where the highest risks are.
- For example – High risk items like inspecting and maintaining bridges, footpaths, play equipment, public buildings for fire safety should be funded first in the annual budget process informed by the asset and risk management plans.

From the OLG Internal Audit Guidelines
Internal audit is an essential component of a good governance framework for all councils. At both a management and councillor level, councils must strive to ensure there is a risk management culture. Internal audit can assist in this regard.

Internal audit is widely used in corporate Australia as a key mechanism to assist councils to manage risk and improve efficiency and effectiveness. At Federal and State Government levels there are clear requirements for internal audit and risk management.

From the IPR Manual

Essential Element 2.12
The Asset Management Strategy must include an overarching council endorsed Asset.

Management Policy.
Essential Element 2.13
The Asset Management Strategy must identify assets that are critical to the council's operations and outline the risk management strategies for these assets.
Essential Element 2.14
The Asset Management Strategy must include specific actions required to improve the council's asset management capability and projected resource requirements and timeframes.

Essential Element 2.11
Asset Management Plans should also be subject to ongoing monitoring and regular review (at least annually) to reflect any changes in asset conditions and/or the asset portfolio.

5. References

References

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