

Infrastructure Assessment Report

Goulburn Mulwaree Council

Infrastructure Depreciation Review And FFF Summary



Version 2
21 June 2015



First Published 2015

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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

Goulburn Mulwaree Council's infrastructure backlog presents a manageable financial risk and the infrastructure sustainability FFF targets are achievable in 5 years with the current funding and service levels under scenario 2 which allocates \$16.7 of the budgeted \$35.6M of asset growth (expansion / upgrade) to renewal. 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 BTS amounts and this has been recalculated to \$18.2 M for all infrastructure categories to align with community expectation for affordable levels of service. The primary sustainability strategy is to commence an ongoing process of community engagement to balance service levels, risks and revenues whilst continuing to work with surrounding councils on efficiency improvement.

1.1 Infrastructure Backlog

Table 1: Infrastructure Sustainability Measures

Infrastructure Sustainability Measures	2014 Annual Report	2015 JRA Estimate
Infrastructure WDV (For SS7 Backlog Ratio)	\$566,477	\$565,487
Current Replacement Cost	\$925,190	\$765,848
Population	28,924	28,924
Annual Revenue	\$51,400	\$51,400
Depreciation	\$12,454	\$9,869
Annual Depreciation % of Value	1.35%	1.29%
Infrastructure BTS Backlog Value #	\$30,339	\$18,168
BTS Backlog / Total Infrastructure Value	3.3%	2.4%
Renewal Expenditure (SS7)	\$5,090	\$5,090
Actual Maintenance Expenditure (SS7)	\$2,157	\$2,953
Required Maintenance Expenditure (SS7)	\$2,677	\$3,023
Total Capital Expenditure	\$6,448	\$6,448
Annual Maintenance % of Value	0.23%	0.39%
1. Building & Infrastructure Renewals Ratio	0.41	0.52
2. Infrastructure Backlog Ratio	0.05	0.03
3. Asset Maintenance Ratio	0.81	0.98
4. Capital Expenditure Ratio	0.52	0.65
5. Infrastructure Population/Ratio	\$32	\$26
6. Expansion/Upgrade Expenditure *	\$1,358	\$1,358
7. Expansion/Upgrade Ratio **	0.27	0.27
8. Maintenance and Operating Increase ***	\$21.45	\$22.74
9. Infrastructure Growth per Population	0.05	0.05

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 1.3% of depreciable amount is now consistent with similar rural councils.
2. 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.
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 likely to gradually improve and ongoing consultation with the community will provide input into an annual review of the asset management plan as part of the annual budget and annual reporting process.
5. The target renewal and maintenance programme in the 4 year rolling forward delivery program will align with the annually reviewed asset management plan.
6. Asset Management Plans will provide annual updates of service level risk and revenue projections.

Table 2: Revaluation Results

Goulburn - Note 9a	As at 30/6/2014			2015 JRA Revaluation		
\$'000	Current Replacement Cost	Carrying Value	Depreciation Expense	Current Replacement Cost	Carrying Value	Depreciation Expense
Land Improvements -depreciable	\$ 2,954	\$ 2,189	\$ 92	\$ 2,958	\$ 2,113	\$ 92
Buildings - Non Specialised	\$ 74,022	\$ 33,680	\$ 1,203	\$ 74,131	\$ 32,884	\$ 1,205
Other Structures	\$ 3,524	\$ 1,334	\$ 203	\$ 3,529	\$ 1,150	\$ 203.30
Infrastructure						
- Roads	\$ 701,556	\$ 448,057	\$ 9,116	\$ 551,019	\$ 438,420	\$ 6,918
- Bridges	\$ 56,636	\$ 32,467	\$ 699	\$ 35,666	\$ 22,639	\$ 358
- Footpaths	\$ 9,696	\$ 2,705	\$ 177	\$ 8,762	\$ 6,562	\$ 121
- Stormwater Drainage	\$ 76,708	\$ 46,003	\$ 957	\$ 89,689	\$ 61,683	\$ 965
Other Assets						
- Other	\$ 94	\$ 42	\$ 7	\$ 94	\$ 36	\$ 7
TOTAL	\$ 925,190	\$ 566,477	\$ 12,454	\$ 765,848	\$ 565,487	\$ 9,869

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

Table 3: Infrastructure BTS Backlog Value

Category	Subcategory	Description	TOTAL BTS
Roads	Sealed Roads	Renewal all condition 5 and high risk condition 4	\$ 14,019
Roads	Unsealed Roads	Gravel high risk high traffic roads	\$ 3,300
Roads	Bridges	Renew condition 4 and 5 bridges	\$ 8
Roads	Footpaths and Cycleways	Renew condition 4 and 5 paths	\$ 97
Roads	Kerb and Gutter	Renew cond 5 kerb	\$ 28
Roads	Ancillary (signs, lines, bus shelters)	Renew condition 4 and 5 safety barriers	\$ 203
Buildings	Buildings	Carried forward previous Year	\$ 512
Drainage	Drainage	No high risk structural failure	\$ -
			\$ 18,168

Table 4: Infrastructure Sustainability Measures Forward Projection Scenario 1

Scenario 1 includes a total \$35.6 M of asset growth in the form of expansion/upgrade over the model period. A backlog of \$20 M remains at the end of the model period based on projections of deferred renewal. These models are optimisation models that predict depreciation, renewal need and backlog that are not intended to balance to the OLG FFF template. FFF targets are not achieved under this scenario.

Maintenance and renewal optimum targets are estimates based on best available data and will be updated to align with asset management plans when the AMP update is completed.

All amounts in '000s.

Scenario 1 - Current LTFP	Goulburn LGA		Forward Projections in LTFP				Asset Fully Depreciated at Renewal				Upgrade Expansion Budget		\$ 35,576
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025		
Renewal Budget	\$ 5,090	\$ 10,323	\$ 7,373	\$ 9,903	\$ 5,251	\$ 5,251	\$ 5,251	\$ 5,251	\$ 5,251	\$ 5,251	\$ 5,251	\$ 5,251	
Expansion Upgrade Budget	\$ 1,358	\$ 4,647	\$ 6,950	\$ 11,309	\$ 1,616	\$ 1,616	\$ 1,616	\$ 1,616	\$ 1,616	\$ 1,616	\$ 1,616	\$ 1,616	
Maintenance Budget	\$ 2,953	\$ 3,267	\$ 3,361	\$ 3,460	\$ 3,559	\$ 3,559	\$ 3,559	\$ 3,559	\$ 3,559	\$ 3,559	\$ 3,559	\$ 3,559	
Total Capital Budget	\$ 6,448	\$ 14,970	\$ 14,323	\$ 21,212	\$ 6,867	\$ 6,867	\$ 6,867	\$ 6,867	\$ 6,867	\$ 6,867	\$ 6,867	\$ 6,867	
AASB116 Infrastructure Depreciable Amount	\$ 765,848	\$ 770,495	\$ 777,445	\$ 788,754	\$ 790,370	\$ 791,986	\$ 793,602	\$ 795,218	\$ 796,834	\$ 798,450	\$ 800,066	\$ 800,066	
AMP Renewal Need (excluding backlog)	\$ 6,415	\$ 6,453	\$ 6,512	\$ 6,606	\$ 6,620	\$ 6,633	\$ 6,647	\$ 6,661	\$ 6,674	\$ 6,688	\$ 6,701	\$ 6,701	
AMP Renewal Plus Backlog	\$ 24,583	\$ 20,752	\$ 19,949	\$ 16,747	\$ 18,130	\$ 19,526	\$ 20,935	\$ 22,358	\$ 23,795	\$ 25,245	\$ 26,709	\$ 26,709	
Maintenance Optimum Target	\$ 321,656	\$ 3,236	\$ 3,298	\$ 3,379	\$ 3,420	\$ 3,461	\$ 3,503	\$ 3,545	\$ 3,588	\$ 3,631	\$ 3,675	\$ 3,675	
Depreciation	\$ 9,869	\$ 9,928	\$ 10,018	\$ 10,164	\$ 10,185	\$ 10,205	\$ 10,226	\$ 10,247	\$ 10,268	\$ 10,289	\$ 10,309	\$ 10,309	
BTS Backlog (Deferred Renewal)	\$ 18,168	\$ 14,299	\$ 13,437	\$ 10,141	\$ 11,510	\$ 12,892	\$ 14,288	\$ 15,698	\$ 17,121	\$ 18,557	\$ 20,007	\$ 20,007	
Infrastructure WDV (For SS7 Backlog Ratio)	\$ 565,487	\$ 570,529	\$ 574,834	\$ 585,882	\$ 582,565	\$ 579,226	\$ 575,867	\$ 572,487	\$ 569,087	\$ 565,665	\$ 562,222	\$ 562,222	
1. Building & Infrastructure Renewals Ratio	0.52	1.04	0.74	0.97	0.52	0.51	0.51	0.51	0.51	0.51	0.51	0.51	
2. Infrastructure Backlog Ratio	0.03	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.04	
3. Asset Maintenance Ratio	0.01	1.01	1.02	1.02	1.04	1.03	1.02	1.00	0.99	0.98	0.97	0.97	
4. Capital Expenditure Ratio	0.65	1.51	1.43	2.09	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	

Figure 1: Infrastructure Sustainability Measures Forward Projection Scenario 1

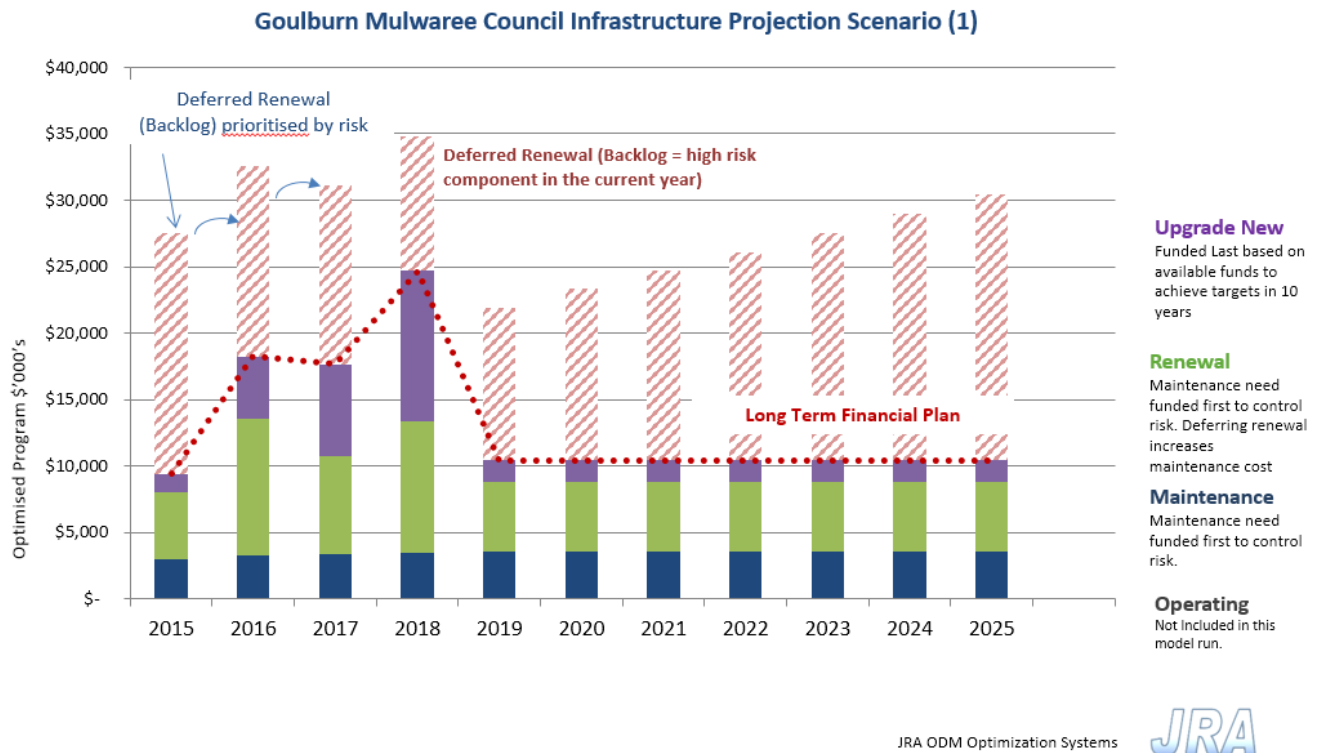


Table 5 shows Scenario 2 that transfers \$16.7M of upgrade/expansion to renewal. Deferred renewal /backlog is fully funded in 2023.

Scenario 2 allocates priority to maintenance, then high risk renewal. A judgement has been made an upgrade new allocation affordable in 2016 – 2018 that still enables all renewal to be funded in a 10 year period.

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. Expansion / Upgrade increases future maintenance and depreciation costs.

All amounts in '000s.

Table 5: Infrastructure Sustainability Measures Forward Projection Scenario 2

Scenario 2	Goulburn LGA	Meet FFF Targets in 5 years			Asset Fully Depreciated at Renewal			\$ 16,729.00	Upgrade Transferred to Renewal to Meet Target			
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Renewal Budget	\$ 4,827	\$ 10,971	\$ 8,360	\$ 17,297	\$ 6,547	\$ 6,545	\$ 6,535	\$ 6,539	\$ 6,542	\$ 6,546	\$ 6,552	
Expansion Upgrade Budget	1,358	4,000	6,000	4,000	469	435	408	402	599	592	584	
Maintenance Budget	3,217	3,266	3,324	3,375	3,410	3,446	3,483	3,485	3,285	3,288	3,290	
AASB116 Infrastructure Depreciable Amount	765,848	769,848	775,848	779,848	780,317	780,752	781,160	781,562	782,161	782,753	783,337	
AMP Renewal Need (Optimised)	6,415	6,448	6,498	6,532	6,536	6,539	6,543	6,546	6,551	6,556	6,561	
AMP Renewal Need Including Backlog	24,583	20,093	18,282	7,549	7,543	7,541	7,552	7,562	6,551	6,556	6,561	
Amount Transferred Upgrade to Renewal	0	647	950	7,309	1,147	1,181	1,208	1,214	1,017	1,024	0	
Maintenance Optimum Target	3,217	3,266	3,324	3,375	3,410	3,446	3,483	3,485	3,285	3,288	3,290	
Depreciation	9,869	9,920	9,997	10,049	10,055	10,061	10,066	10,071	10,079	10,086	10,094	
BTS Backlog (Deferred Renewal)	18,168	13,645	11,783	1,018	1,007	1,002	1,009	1,016	0	0	0	
Infrastructure WDV (For SS7 Backlog Ratio)	565,487	\$ 570,539	\$ 574,901	\$ 586,150	\$ 583,110	\$ 580,029	\$ 576,907	\$ 573,777	\$ 570,839	\$ 567,891	\$ 564,934	
1. Building & Infrastructure Renewals Ratio	0.49	1.11	0.84	1.72	0.65	0.65	0.65	0.65	0.65	0.65	0.65	
2. Infrastructure Backlog Ratio	0.03	0.02	0.02	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	0.63	1.51	1.44	2.12	0.70	0.69	0.69	0.69	0.71	0.71	0.71	
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	\$ 17,882	\$ 16,561	\$ 17,570	\$ 18,606	\$ 19,942	\$ 21,350	\$ 22,833	\$ 24,394	\$ 26,038	\$ 27,767	\$ 29,587	

Figure 2: Infrastructure Sustainability Measures Forward Projection Scenario 2

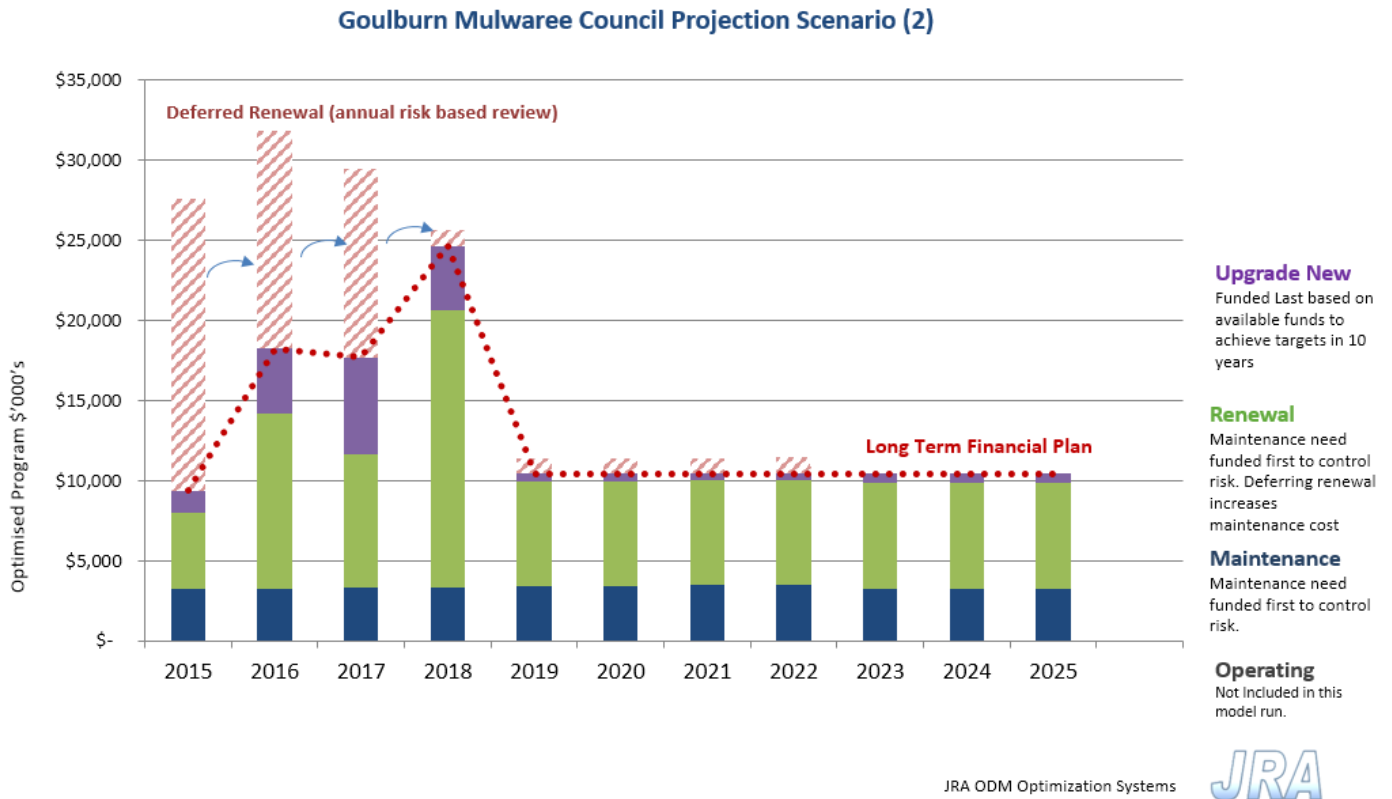


Table 6: Benchmarking Comparisons

Infrastructure Sustainability Measures	Council Annual Report 30 June 2014				JRA Estimate 2015			
	Goulburn LGA	Yass LGA	Lachlan	Upper Lachlan	Goulburn LGA	Yass LGA	Lachlan	Upper Lachlan
Infrastructure WDV (For SS7 Backlog Ratio)	\$ 566,477	\$ 305,130	\$ 295,446	\$ 141,509	\$ 565,487	\$ 247,148	\$212,744,034	\$ 330,279
Current Replacement Cost	\$ 925,190	\$ 443,365	\$ 368,273	\$ 467,610	\$ 765,848	\$ 333,632	\$ 467,197	\$ 420,557
Population	28,924	15,020	6,476	7,562	28,924	15,020	6,476	7,761
Annual Revenue	\$ 51,400	\$ 25,300	\$ 28,500	\$ 24,272	\$ 51,400	\$ 25,300	\$ 28,500	\$ 25,800
Depreciation	\$ 12,454	\$ 5,335	\$ 11,206	\$ 3,137	\$ 9,869	\$ 4,033	\$ 6,474	\$ 3,388
Annual Depreciation % of Replacement Cost	1.35%	1.20%	3.04%	0.67%	1.29%	1.21%	1.39%	0.81%
Infrastructure BTS Backlog Value #	\$ 30,339	\$ 11,589	\$ 64,159	\$ 7,935	\$ 18,168	\$ 8,153	\$ 3,673	\$ 3,121
BTS Backlog / Total Infrastructure Value	3.3%	2.6%	17.4%	1.7%	2.4%	2.4%	0.8%	0.7%
Renewal Expenditure (SS7)	\$ 5,090	\$ 3,135	\$ 5,248	\$ 3,864	\$ 5,090	\$ 3,135	\$ 5,248	\$ 4,639
Actual Maintenance Expenditure (SS7)	\$ 2,157	\$ 5,200	\$ 3,678	\$ 4,790	\$ 2,953	\$ 4,248	\$ 3,885	\$ 3,811
Required Maintenance Expenditure (SS7)	\$ 2,677	\$ 8,132	\$ 8,039	\$ 5,330	\$ 3,023	\$ 4,352	\$ 3,915	\$ 3,357
Total Capital Expenditure	\$ 6,448	\$ 3,426	\$ 8,171	\$ 4,974	\$ 6,448	\$ 3,426	\$ 8,171	\$ 6,269
Annual Maintenance % of Value	0.2%	1.2%	1.0%	1.0%	0.4%	1.27%	0.83%	0.9%
1. Building & Infrastructure Renewals Ratio	0.41	0.59	0.47	1.23	0.52	0.78	0.81	1.37
2. Infrastructure Backlog Ratio	0.05	0.04	0.22	0.06	0.03	0.03	0.00	0.01
3. Asset Maintenance Ratio	0.81	0.64	0.46	0.90	0.98	0.98	0.99	1.14
4. Capital Expenditure Ratio	0.52	0.64	0.73	1.59	0.65	0.85	1.26	1.85
5.1 Infrastructure Population Ratio	\$ 32	\$ 30	\$ 57	\$ 62	\$ 26	\$ 22	\$ 72	\$ 54
5.2 LifeCycle Cost per Person (\$/yr)	\$ 0.523	\$ 0.897	\$ 2.972	\$ 1.120	\$ 0.446	\$ 0.558	\$ 1.604	\$ 0.869
6. Expansion/Upgrade Expenditure *	\$ 1,358	\$ 290	\$ 2,923	\$ 1,110	\$ 1,358	\$ 290	\$ 2,923	\$ 1,630
7. Expansion/Upgrade Ratio **	0.27	0.09	0.56	0.29	0.27	0.09	0.56	0.35
8. Maintenance and Operating Increase ***	\$ 21.45	\$ 6.90	\$ 118.15	\$ 18.82	\$ 22.74	\$ 7.21	\$ 64.82	\$ 27.90
9. Infrastructure Growth per Population	0.05	0.02	0.45	0.15	0.05	0.02	0.45	0.21
Residual Values Applied	No	No	No	Yes	No	No	No	No

2. Introduction

This report provides an independent assessment of Goulburn Mulwaree 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 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	$\frac{\text{Asset renewals (building and infrastructure)}}{\text{Depreciation, amortisation and impairment (building and infrastructure)}}$	Greater than 100% average over 3 years
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Infrastructure Backlog Ratio

Infrastructure Backlog Ratio	$\frac{\text{Estimated cost to bring assets to satisfactory condition}}{\text{Total (WDV)^a of infrastructure, buildings, other structures, depreciable land, and improvement assets}}$	Less than 2%
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Asset Maintenance Ratio

Asset Maintenance Ratio	$\frac{\text{Actual asset maintenance}}{\text{Required asset maintenance}}$	Greater than 100% average over 3 years
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Part 2 will address asset management scale and capacity issues and in particular the essential element of prioritising asset management planning¹ 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

¹ ILGRP Report, P34 – Fiscal Responsibility

² ILGRP Report, P49 – Meeting Infrastructure Needs

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.

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.”*

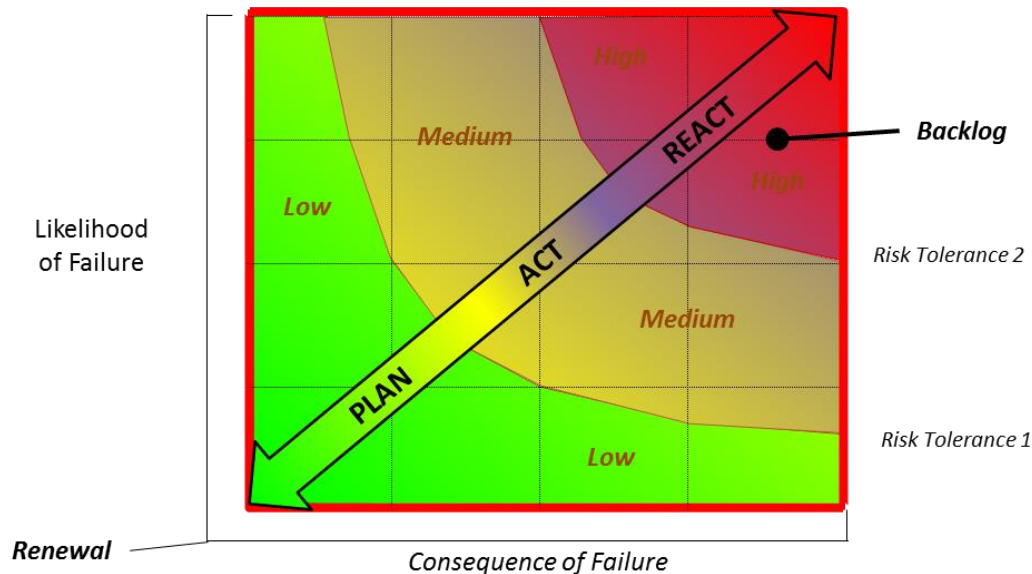
Asset Management Plans balanced to Long Term Financial Plans, annually reviewed in accordance with the IPR manual are the key instrument to enable organisations to be fit for the future and accordingly this report will also review the state of asset management plans.

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 3 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.

³ IPR Manual, Essential Element 2.11 p80.

⁴ Code update 23 pC21

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

⁵ IP&R Manual March 2013. Section 6.1.

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- 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 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

⁶ Ibid Section 6.4

⁷ Ibid Section 3.4.1

⁸ Ibid Section 3.4.2

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.
- 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 Goulburn Mulwaree 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. 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".

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

- “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 7: 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: <ul style="list-style-type: none"> - 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.

- Goulburn Mulwaree 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 Goulburn Mulwaree Council.

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- 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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