



Fit for the Future Improvement Proposal

Attachment 5

Infrastructure Assessment Report

Infrastructure Assessment Report

Shellharbour City Council

Infrastructure Funding Review and FFF Summary



Version 2
19 June 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
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

Shellharbour City Council's infrastructure backlog presents a moderate but manageable financial risk in a 10 year period and the FFF targets are achievable in 5 years. Asset Management Plans will be updated by the end of July 2015.

Previous backlog reporting included low risk and upgrade/new costs and this has been recalculated to \$27.2 M for all infrastructure categories.

A further review of depreciation is required to determine the impact of residual values which need to be removed via a formal revaluation process as set out in section 4.

1.1 Infrastructure Backlog

Table 1: Infrastructure Sustainability Measures

Infrastructure Sustainability Measures	2014 Annual Report	2015 JRA estimate
Infrastructure WDV (For SS7 Backlog Ratio)	\$452,888	\$467,990
AASB116 Infrastructure Depreciable Amount	\$727,983	\$736,449
Population	6,476	6,476
Annual Revenue	\$28,500	\$28,500
Depreciation #	\$13,961	\$14,123
Annual Depreciation % of Value	1.9%	1.9%
Infrastructure BTS Backlog Value	\$64,159	\$27,172
BTS Backlog / Total Infrastructure Value	8.8%	3.7%
Renewal Expenditure (SS7)	\$6,636	\$6,636
Actual Maintenance Expenditure (SS7)	\$3,678	\$5,723
Required Maintenance Expenditure (SS7)	\$8,039	\$5,934
Total Capital Expenditure	\$15,102	\$15,102
Annual Maintenance % of Value	0.5%	0.8%
1. Building & Infrastructure Renewals Ratio	0.48	0.47
2. Infrastructure Backlog Ratio	0.14	0.06
3. Asset Maintenance Ratio	0.46	0.96
4. Capital Expenditure Ratio	1.08	1.07
5. Infrastructure Population/Ratio	\$112	\$114
6. Expansion/Upgrade Expenditure *	\$8,466	\$8,466
7. Expansion/Upgrade Ratio **	1.28	1.28
8. Maintenance and Operating Increase ***	\$205.14	\$228.16
9. Infrastructure Growth per Population	1.31	1.31

Depreciation on roads and stormwater is relatively high at 1.9% and should be reduced by revaluation. The current estimate is based on 30 June 2014 adjusted for asset growth.

* 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 upgrade new compared with renewal of existing.

*** Addition depreciation and maintenance resulting from upgrade expansion

Observations and Trends

1. Depreciation is relatively high and a revaluation is in progress to review depreciation. Residual values should not be used as set out in section 4.
2. Bridges need to be managed by an updated asset management plan.
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. This will align with updated asset register from the revaluation.
4. Current service levels are increasing by expenditure on upgrade expansion – see items 6 – 9 on tables 1 & 2. This is larger than renewal expenditure in the next 4 years indicating future capacity to trade off renewal of existing assets instead of increasing service levels. This has been applied in scenario 2.
5. The forward projection for renewal ratio is dependent on the updated asset management plan and is expected to improve because depreciation is currently overstated and there capacity to shift upgrade/expansion expenditure to renewal.
6. Asset Management Plans need to balance expenditure between new / upgrade and renewal over the next 10 years to ensure continuing optimum expenditure on renewal as shown in figure 2 aligned with target service levels and risk.
7. 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.
8. Asset Management Plans will provide annual updates of service level risk and revenue projections.

Table 2: Asset Valuations

Shell Harbour - Note 9a	As at 30/6/2014			As at 30/6/2015		
\$'000	Current Replacement Cost	Carrying Value	Depreciation Expense	Current Replacement Cost	Carrying Value	Depreciation Expense
Land Improvements - depreciable	\$ 13,679	\$ 10,659	\$ 283	Revaluation is required and is likely to reduce depreciation		
Buildings - Non Specialised	\$ 62,490	\$ 34,160	\$ 1,978			
Buildings - Specialised	\$ 50,976	\$ 28,688	\$ 1,436			
Other Structures	1,698	1,059	88			
Infrastructure						
- Roads	\$ 289,967	\$ 186,714	\$ 5,493			
- Bridges and Major Culverts	\$ 13,524	\$ 9,098	\$ 165			
- Footpaths	\$ 34,109	\$ 22,377	\$ 771			
- Stormwater Drainage	\$ 261,540	\$ 160,133	\$ 3,747			
TOTAL	\$ 727,983	\$ 452,888	\$ 13,961	\$ 736,449	\$ 467,990	\$ 14,123

Table 3 shows the detail 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	BTS '000's
Airport	Airport	Carry forward last year - High risk and should be funded	\$ 370
Buildings	All Buildings	Renew all cond 5 and 50% cond 4 - similar result to last year	\$ 4,355
Drainage	Drainage	Unlikely to have high risk profile - no condition 4 or 5	\$ -
Open space	Open space	Renew all cond 5 and 50% cond 4 - similar result to last year	\$ 2,978
Other Structures	Other Structures	Renew all cond 5 and 50% cond 4 - similar result to last year	\$ 1,355
Other Structures	Pool	Unlikely to have high risk profile - no condition 4 or 5	\$ -
Roads	Other - Roads	Renew all cond 5 and 50% cond 4 - similar result to last year	\$ 397
Roads	Roads	Renew all cond 5 and 50% cond 4 - similar result to last year	\$ 15,902
Roads	Bridges	Renew all cond 5 and 50% cond 4 - similar result to last year	\$ 874
Roads	Footpaths	Renew all cond 5 and 50% cond 4	\$ 941

\$ 27,172

Table 4: Infrastructure Sustainability Measures Forward Projection Scenario 1

Scenario 1 includes \$95 M of asset growth in the form of expansion/upgrade. All amounts in '000s. A backlog of \$20.8 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 achieved in the long term under this scenario with key ratios improving in the next 5 years. All amounts are in '\$000's.

Scenario 1 - Current LTFF	Shell Harbour		Forward Projections in LTFF					Asset Fully Depreciated at Renewal						
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025			
Renewal Budget	\$ 6,636	\$ 25,404	\$ 11,562	\$ 11,841	\$ 10,117	\$ 10,117	\$ 10,117	\$ 10,117	\$ 10,117	\$ 10,117	\$ 10,117	\$ 10,117	\$ 10,117	\$ 10,117
Expansion Upgrade Budget	\$ 8,466	\$ 40,934	\$ 16,934	\$ 12,583	\$ 2,307	\$ 2,307	\$ 2,307	\$ 2,307	\$ 2,307	\$ 2,307	\$ 2,307	\$ 2,307	\$ 2,307	\$ 2,307
Maintenance Budget	\$ 5,723	\$ 5,923	\$ 5,983	\$ 6,043	\$ 6,103	\$ 6,103	\$ 6,103	\$ 6,103	\$ 6,103	\$ 6,103	\$ 6,103	\$ 6,103	\$ 6,103	\$ 6,103
Total Capital Budget	\$ 15,102	\$ 66,338	\$ 28,496	\$ 24,424	\$ 12,424	\$ 12,424	\$ 12,424	\$ 12,424	\$ 12,424	\$ 12,424	\$ 12,424	\$ 12,424	\$ 12,424	\$ 12,424
AASB116 Infrastructure Depreciable Amount	\$ 736,449	\$ 777,383	\$ 794,318	\$ 806,901	\$ 809,208	\$ 811,514	\$ 813,821	\$ 816,127	\$ 818,434	\$ 820,741	\$ 823,047			
AMP Renewal Need (excluding backlog)	\$ 10,310	\$ 10,883	\$ 11,120	\$ 11,296	\$ 11,329	\$ 11,361	\$ 11,393	\$ 11,426	\$ 11,458	\$ 11,490	\$ 11,522			
AMP Renewal Plus Backlog	\$ 37,482	\$ 23,534	\$ 23,329	\$ 22,961	\$ 24,205	\$ 25,481	\$ 26,789	\$ 28,130	\$ 29,502	\$ 30,907	\$ 32,345			
Maintenance Optimum Target	\$ 5,934	\$ 6,264	\$ 6,400	\$ 6,502	\$ 6,520	\$ 6,539	\$ 6,558	\$ 6,576	\$ 6,595	\$ 6,613	\$ 6,632			
Depreciation	\$ 14,123	\$ 14,908	\$ 15,233	\$ 15,474	\$ 15,519	\$ 15,563	\$ 15,607	\$ 15,651	\$ 15,696	\$ 15,740	\$ 15,784			
BTS Backlog (Deferred Renewal)	\$ 27,172	\$ 12,651	\$ 12,209	\$ 11,665	\$ 12,876	\$ 14,120	\$ 15,396	\$ 16,704	\$ 18,045	\$ 19,417	\$ 20,822			
Infrastructure WDV (For SS7 Backlog Ratio)	\$ 467,990	\$ 519,420	\$ 532,683	\$ 541,633	\$ 538,538	\$ 535,399	\$ 532,216	\$ 528,988	\$ 525,716	\$ 522,400	\$ 519,040			
1. Building & Infrastructure Renewals Ratio	0.47	1.70	0.76	0.77	0.65	0.65	0.65	0.65	0.64	0.64	0.64			
2. Infrastructure Backlog Ratio	0.06	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03	0.04	0.04			
3. Asset Maintenance Ratio	0.96	0.95	0.93	0.93	0.94	0.93	0.93	0.93	0.93	0.92	0.92			
4. Capital Expenditure Ratio	1.07	4.45	1.87	1.58	0.80	0.80	0.80	0.79	0.79	0.79	0.79			

Figure 1: Infrastructure Sustainability Measures Forward Projection Scenario 1

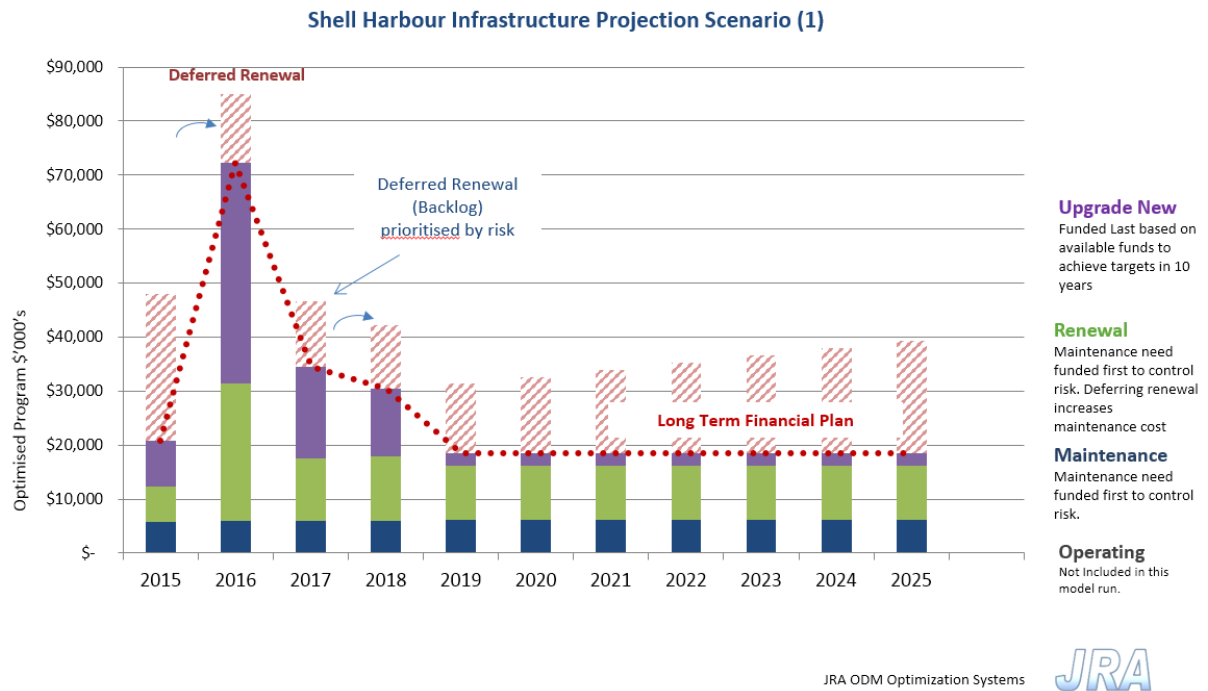


Table 5: Infrastructure Sustainability Measures Forward Projection Scenario 2

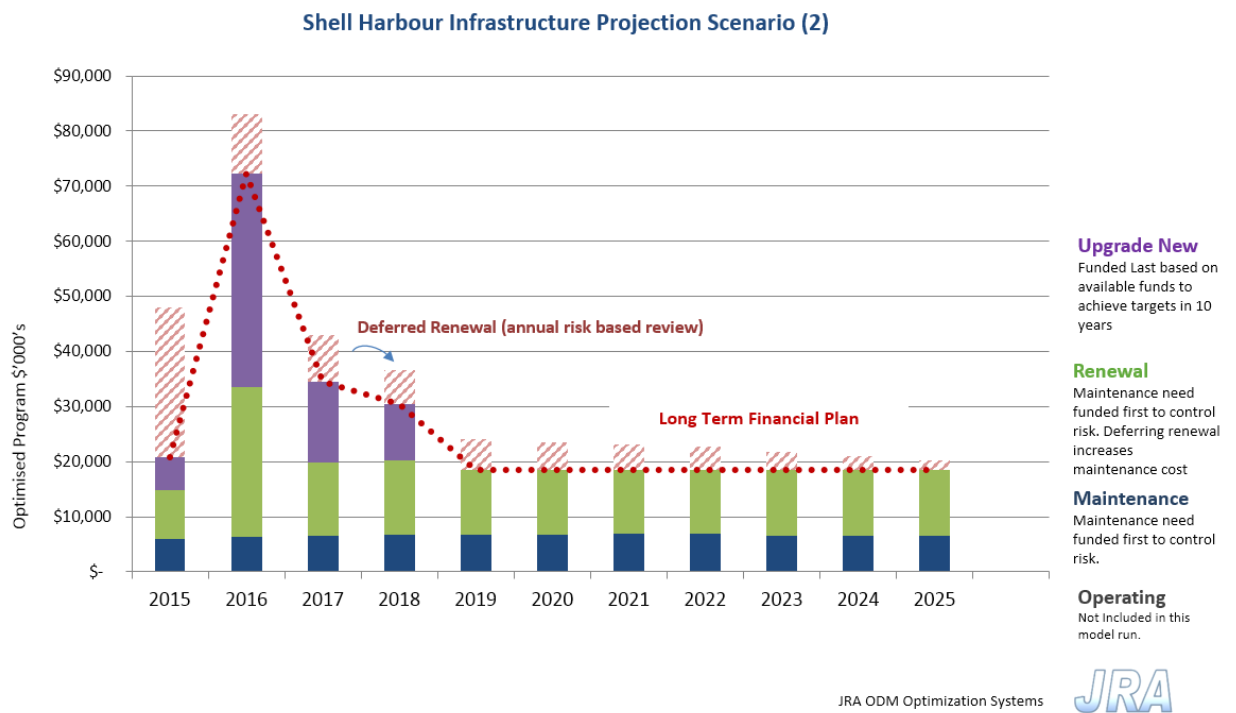
Scenario 2 allocates \$25 M of upgrade / new expenditure to maintenance first, then to renewal.

Scenario 2 links to an asset management plan optimum scenario and will be reviewed annually as part of the budget process to ensure efficient service provision while managing risk.

All amounts in '000s.

Scenario 2	Shell Harbour	Meet FFF Targets in 5 years			Asset Fully Depreciated at Renewal			\$ 25,245 Upgrade Transferred to Renewal to Meet Target				
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Renewal Budget	\$ 8,910	\$ 27,293	\$ 13,328	\$ 13,516	\$ 11,786	\$ 11,719	\$ 11,650	\$ 11,650	\$ 12,047	\$ 12,046	\$ 12,046	
Expansion Upgrade Budget	5,979	38,658	14,658	10,308	31	31	31	31	31	31	31	
Maintenance Budget	5,934	6,308	6,492	6,642	6,709	6,776	6,844	6,844	6,448	6,448	6,449	
AASB116 Infrastructure Depreciable Amount	736,449	775,108	789,766	800,074	800,104	800,135	800,166	800,197	800,228	800,259	800,289	
AMP Renewal Need (Optimised)	10,310	10,851	11,056	11,201	11,201	11,202	11,202	11,203	11,203	11,203	11,204	
AMP Renewal Need Including Backlog	10,310	10,851	11,056	11,201	11,201	11,202	11,202	11,203	11,203	11,203	11,204	
Amount Transferred Upgrade to Renewal	2,487	2,276	2,276	2,276	2,276	2,276	2,276	2,276	2,276	2,276	0	
Maintenance Optimum Target	5,934	6,308	6,492	6,642	6,709	6,776	6,844	6,844	6,448	6,448	6,449	
Depreciation	14,123	14,865	15,146	15,344	15,344	15,345	15,345	15,346	15,346	15,347	15,348	
BTS Backlog (Deferred Renewal)	27,172	10,730	8,459	6,144	5,559	5,042	4,594	4,146	3,302	2,459	1,617	
Infrastructure WDV (For SS7 Backlog Ratio)	467,990	\$ 519,077	\$ 531,917	\$ 540,397	\$ 536,870	\$ 533,274	\$ 529,610	\$ 525,946	\$ 522,677	\$ 519,407	\$ 516,136	
1. Building & Infrastructure Renewals Ratio	0.63	1.84	0.88	0.88	0.77	0.76	0.76	0.76	0.78	0.78	0.78	
2. Infrastructure Backlog Ratio	0.06	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.01	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	1.05	4.44	1.85	1.55	0.77	0.77	0.76	0.76	0.79	0.79	0.79	
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	\$ 18,060	\$ 16,740	\$ 17,748	\$ 18,784	\$ 20,121	\$ 21,529	\$ 23,012	\$ 24,573	\$ 26,217	\$ 27,945	\$ 29,765	

Figure 2: Infrastructure Sustainability Measures Forward Projection Scenario 1



2. Introduction

This report provides an independent assessment of Shellharbour City 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	$\frac{\text{Asset renewals (building and infrastructure)}}{\text{Depreciation, amortisation and impairment (building and infrastructure)}}$	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 condition should be based on up to date asset condition assessments rather than an

¹ ILGRP Report, P34 – Fiscal Responsibility

² ILGRP Report, P49 – Meeting Infrastructure Needs

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.”*

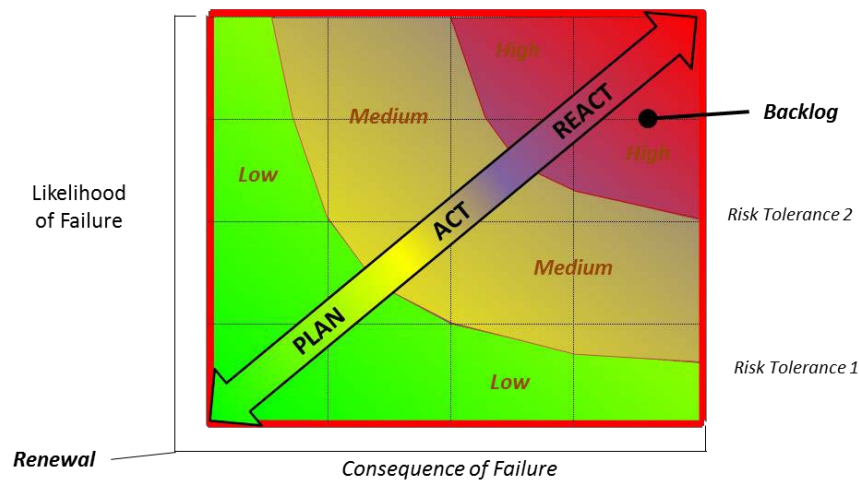
Asset Management Plans balanced to Long Term Financial Plans, annually reviewed in accordance with the IPR manual are the key instrument to enable organisations to be fit for the future and accordingly this report will also review the state of asset management plans.

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 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.

³ IPR Manual, Essential Element 2.11 p80.

⁴ Code update 23 pC21

Figure 3: Infrastructure Backlog Definition



4. Residual Values

The relevance of residual values is whether all capitalised costs should also be depreciated or only part of capitalised costs. This has a major impact on future depreciation estimates for Shellharbour City Council.

Residual values are not currently applied and should be avoided in the current revaluation. The reason is explained below.

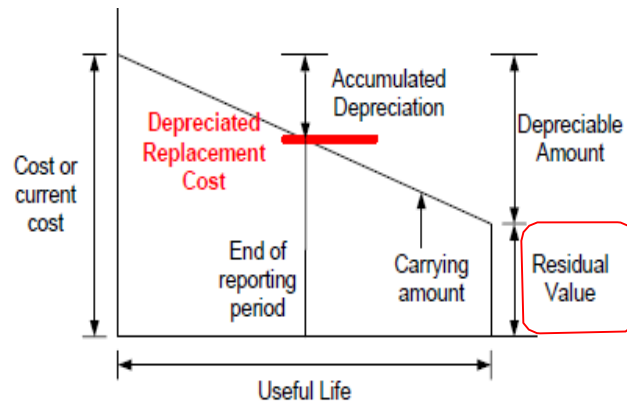
4.1 Residual Value as Carrying Amount Remaining at Asset Renewal

The carrying amount remaining at the time of asset disposal where the asset is disposed before full service potential has expired. In this example the “residual value” is the carrying amount to be written off resulting from asset disposal. Regular reviews of remaining life and residual amount accordance with AASB 116 Clause 51 is intended to minimise these disposals.

AASB116 Cl 51 notes that, “*the residual value and the useful life of an asset shall be reviewed at least at the end of each annual reporting period and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.*”

“*If an asset is already reliably measured at fair value, and the costs of disposal are immaterial compared to the asset’s carrying amount, the recoverable amount should not materially differ from the carrying amount. In such circumstances, the asset would not warrant an impairment adjustment.*”

Figure 4: Residual Value



Planned renewal is not impairment under AASB 136 and regular reviews of asset useful life and residual value should minimise the difference between the carrying amount and recoverable amount at disposal.

4.2 Residual Value as Non Depreciable Component

Residual value as a non-depreciable component as shown in Table 2.

Residual value is defined in AASB 116 as: *“the estimated amount that an entity would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.”*

The use of residual values as a non-depreciable component for infrastructure as currently applied at Shellharbour City Council was recently referred to AASB. The AASB issued a tentative agenda decision in February 2015⁵ that noted that *“the definition of residual value in AASB 116 refers to the estimated amount that an entity would currently obtain from disposal of the asset at the end of its useful life. That is, if significant values attach to in-situ materials, and they are expected to be recycled, the materials have not reached the end of their useful lives. Accordingly, the AASB considered that a residual value would only be recognised when an entity expects to receive consideration for an asset at the end of its useful life.”* The point AASB made in this view is 2015 is that if componentisation, useful lives and unit costs reflect actual in service lives and costs, residual values are not applicable. It is the view of AASB and the authors of AIFMG that treating residual values as a non-depreciable component is not in accordance with the accounting standards. The AASB noted that these requirements apply equally to for-profit and not-for-profit entities.

⁵ Australian Accounting Standards Board, Tentative Agenda Decision – Recognition or Residual Values for Infrastructure Assets, February 2015.

5. Calculation of Bring to Satisfactory / Backlog

5.1 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.⁶
- 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.⁷
- The Asset Management Strategy must identify assets that are critical to the council’s operations and outline the risk management strategies for these assets.⁸
- 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.⁹
- 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

⁶ IP&R Manual March 2013. Section 6.1.

⁷ Ibid Section 6.4

⁸ Ibid Section 3.4.1

⁹ Ibid Section 3.4.2

(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 as 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.”¹⁰ 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

¹⁰ Revitalising Local Government Final Report of the NSW Independent Local Government Review Panel October 2013, p52

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).

5.2 Application for Shellharbour City 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 an 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: <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).*

6. References

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