OBERON COUNCIL

EXTRACTED AND AMENDED

Road Asset Management Plan 2014

OBERON

6. FINANCIAL SUMMARY

This section contains the financial requirements resulting from all the information presented in the previous sections of this asset management plan. The financial projections will be improved as further information becomes available on desired levels of service and current and projected future asset performance.

6.1 Financial Statements and Projections

The financial projections are shown in Fig 7 for projected operating (operations and maintenance) and capital expenditure (renewal and upgrade/expansion/new assets). Note that all costs are shown in real values.

Fig 7: Projected Operating and Capital Expenditure
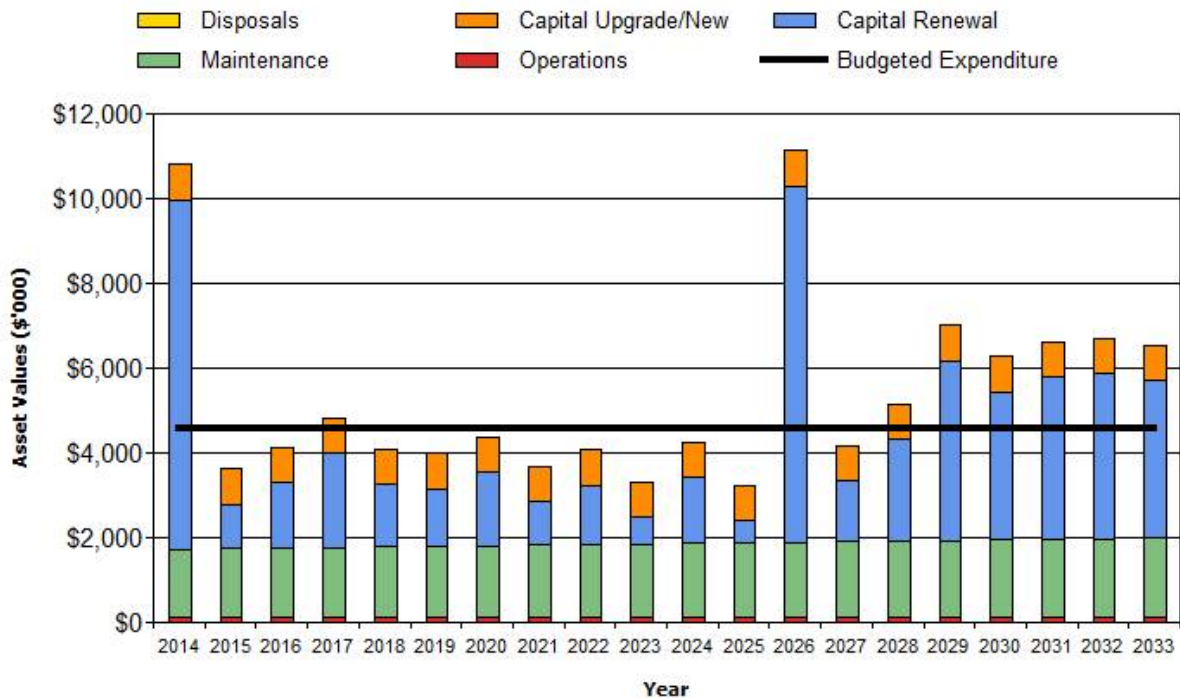
6.1.1 Sustainability of service delivery

There are four key indicators for service delivery sustainability that have been considered in the analysis of the services provided by this asset category, these being the asset renewal funding ratio, long term life cycle costs/expenditures and medium term projected/budgeted expenditures over 5 and 10 years of the planning period.

Asset Renewal Funding Ratio

Asset Renewal Funding Ratio[1]   91%

The Asset Renewal Funding Ratio is the most important indicator and reveals that over the next 10 years, the organisation is forecasting that it will have 91% of the funds required for the optimal renewal and replacement of its assets.

Long term - Life Cycle Cost

Life cycle costs (or whole of life costs) are the average costs that are required to sustain the service levels over the asset life cycle. Life cycle costs include operations and maintenance expenditure and asset consumption (depreciation expense). The life cycle cost for the services covered in this asset management plan is $5,581,000 per year (average operations and maintenance expenditure plus depreciation expense projected over 10 years).

Life cycle costs can be compared to life cycle expenditure to give an initial indicator of affordability of projected service levels when considered with age profiles. Life cycle expenditure includes operations, maintenance and capital renewal expenditure. Life cycle expenditure will vary depending on the timing of asset renewals. The life cycle expenditure over the 10 year planning period is $3,729,000 per year (average operations and maintenance plus capital renewal budgeted expenditure in LTFP over 10 years).

A shortfall between life cycle cost and life cycle expenditure is the life cycle gap. The life cycle gap for services covered by this asset management plan is -$1,852,000 per year (-vee = gap, +vee = surplus).

Life cycle expenditure is 67% of life cycle costs.

The life cycle costs and life cycle expenditure comparison highlights any difference between present outlays and the average cost of providing the service over the long term. If the life cycle expenditure is less than that life cycle cost, it is most likely that outlays will need to be increased or cuts in services made in the future.

Knowing the extent and timing of any required increase in outlays and the service consequences if funding is not available will assist organisations in providing services to their communities in a financially sustainable manner. This is the purpose of the asset management plans and long term financial plan.

Medium term – 10 year financial planning period

This asset management plan identifies the projected operations, maintenance and capital renewal expenditures required to provide an agreed level of service to the community over a 10 year period. This provides input into 10 year financial and funding plans aimed at providing the required services in a sustainable manner.

These projected expenditures may be compared to budgeted expenditures in the 10 year period to identify any funding shortfall. In a core asset management plan, a gap is generally due to increasing asset renewals for ageing assets.

The projected operations, maintenance and capital renewal expenditure required over the 10 year planning period is $3,857,000 on average per year.

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[1] AIFMG, 2009, Financial Sustainability Indicator 8, Sec 2.6, p 2.18

Estimated (budget) operations, maintenance and capital renewal funding is $3,729,000 on average per year giving a 10 year funding shortfall of -$128,000 per year. This indicates that the organisation expects to have 97% of the projected expenditures needed to provide the services documented in the asset management plan.

Short Term – 5 year financial planning period

The projected operations, maintenance and capital renewal expenditure required over the first 5 years of the planning period is $4,659,000 on average per year.

Estimated (budget) operations, maintenance and capital renewal funding is $3,729,000 on average per year giving a 5 year funding shortfall of -$930,000. This indicates that the organisation expects to have 80% of projected expenditures required to provide the services shown in this asset management plan.

Asset management financial indicators

Figure 7A shows the asset management financial indicators over the 10 year planning period and for the long term life cycle.

*Figure 7A: Asset Management Financial Indicators*
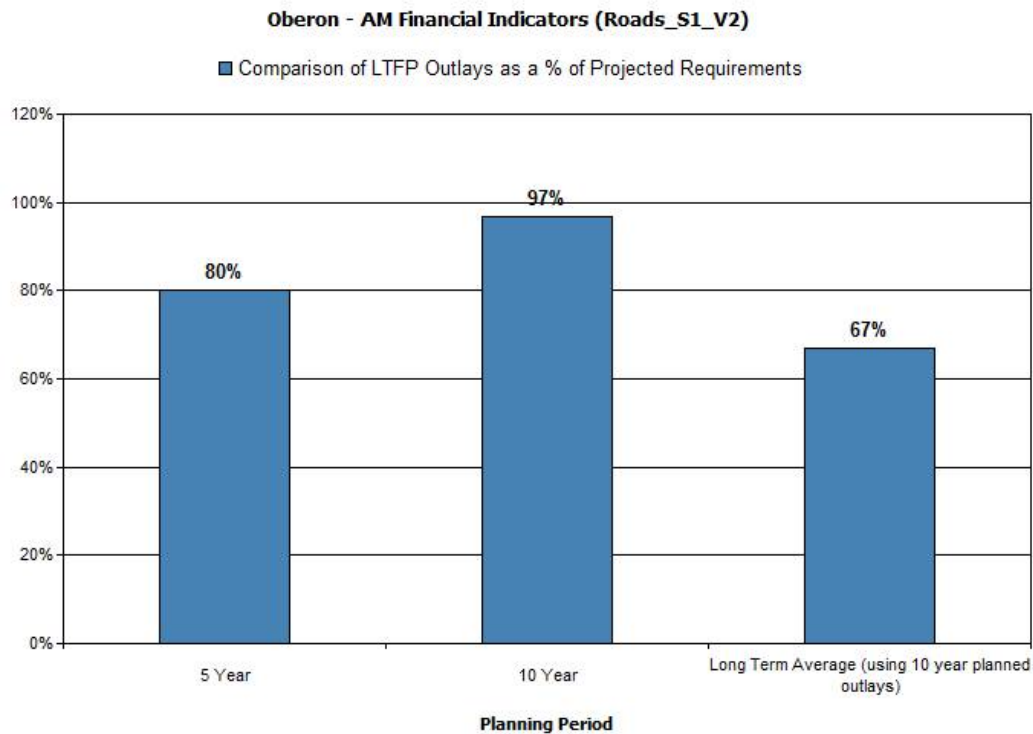
Providing services from infrastructure in a sustainable manner requires the matching and managing of service levels, risks, projected expenditures and financing to achieve a financial indicator of approximately 1.0 for the first years of the asset management plan and ideally over the 10 year life of the Long Term Financial Plan.

Figure 8 shows the projected asset renewal and replacement expenditure over the 20 years of the AM Plan. The projected asset renewal and replacement expenditure is compared to renewal and replacement expenditure in the capital works program, which is accommodated in the long term financial plan

Figure 8: Projected and LTFP Budgeted Renewal Expenditure
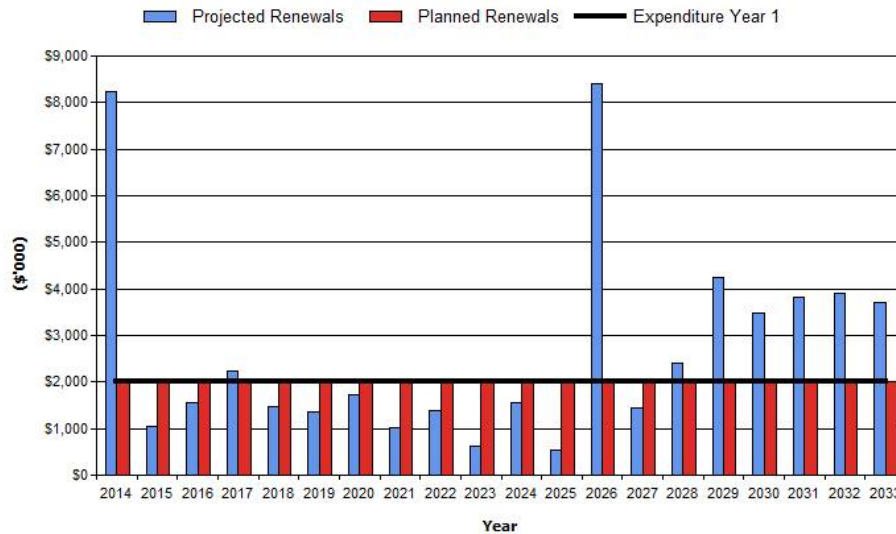
Note the significant renewal load ahead as assets reach end of useful life.

Table 6.1.1 shows the shortfall between projected renewal and replacement expenditures and expenditure accommodated in long term financial plan. Budget expenditures accommodated in the long term financial plan or extrapolated from current budgets are shown in Appendix D.

Table 6.1.1: Projected and LTFP Budgeted Renewals and Financing Shortfall

Year	Projected Renewals ($000)	LTFP Renewal Budget ($000)	Renewal Financing Shortfall ($000) (-vee Gap, +vee Surplus)	Cumulative Shortfall ($000) (-vee Gap, +vee Surplus)
2014	$8,235	$2,000	-$6,235	-$6,235
2015	$1,039	$2,000	$961	-$5,274
2016	$1,547	$2,000	$453	-$4,821
2017	$2,224	$2,000	-$224	-$5,045
2018	$1,468	$2,000	$532	-$4,513
2019	$1,363	$2,000	$637	-$3,876
2020	$1,733	$2,000	$267	-$3,609
2021	$1,026	$2,000	$974	-$2,635
2022	$1,399	$2,000	$601	-$2,033
2023	$629	$2,000	$1,371	-$662
2024	$1,549	$2,000	$451	-$211

Note: A negative shortfall indicates a financing gap, a positive shortfall indicates a surplus for that year.

Providing services in a sustainable manner will require matching of projected asset renewal and replacement expenditure to meet agreed service levels with **the corresponding** capital works program accommodated in the long term financial plan.

A gap between **projected asset renewal/replacement expenditure and amounts accommodated in the LTFP** indicates that **further work is required on the AM Plan (including possibly revising the LTFP).**

Future versions of this asset management plan will seek to improve the accuracy of Figure 8 and Table 6.1. to more closely match planned renewal budget with the Long Term Financial Plan to account for anticipated spikes and troughs in Council's spending ability.

We will manage the 'gap' by developing this asset management plan to provide guidance on future service levels and resources required to provide these services, and review future services, service levels and costs with the community.

6.1.2   Projected expenditures for long term financial plan

Table 6.1.2 shows the projected expenditures for the 10 year long term financial plan.

Expenditure projections are in 2013 real values.

Table 6.1.2: Projected Expenditures for Long Term Financial Plan ($000)

Year	Operations ($000)	Maintenance ($000)	Projected Capital Renewal ($000)	Capital Upgrade/ New ($000)	Disposals ($000)
2014	$126.00	$1,603.00	$8,235.49	$833.00	$0.00
2015	$126.59	$1,616.15	$1,038.73	$833.00	$0.00
2016	$127.18	$1,629.29	$1,547.25	$833.00	$0.00
2017	$127.76	$1,642.44	$2,223.63	$833.00	$0.00
2018	$128.35	$1,655.58	$1,467.93	$833.00	$0.00
2019	$128.94	$1,668.73	$1,362.75	$833.00	$0.00
2020	$129.53	$1,681.87	$1,732.89	$833.00	$0.00
2021	$130.12	$1,695.02	$1,026.06	$833.00	$0.00
2022	$130.71	$1,708.16	$1,398.70	$833.00	$0.00
2023	$131.29	$1,721.31	$628.75	$833.00	$0.00
2024	$131.88	$1,734.45	$1,549.28	$833.00	$0.00
2025	$132.47	$1,747.60	$528.75	$833.00	$0.00
2026	$133.06	$1,760.74	$8,406.56	$833.00	$0.00
2027	$133.65	$1,773.89	$1,441.23	$833.00	$0.00
2028	$134.24	$1,787.03	$2,407.81	$833.00	$0.00
2029	$134.82	$1,800.18	$4,246.74	$833.00	$0.00
2030	$135.41	$1,813.32	$3,485.68	$833.00	$0.00
2031	$136.00	$1,826.47	$3,829.00	$833.00	$0.00
2032	$136.59	$1,839.61	$3,893.13	$833.00	$0.00
2033	$137.18	$1,852.76	$3,721.51	$833.00	$0.00

Note, operations and maintenance costs increase each year to reflect the increased cost of operating and maintaining Council's upgraded assets.

6.2   Funding Strategy

After reviewing service levels, as appropriate to ensure ongoing financial sustainability projected expenditures identified in Section 6.1.2 will be accommodated in the organisation's 10 year long term financial plan.

6.3   Valuation Forecasts

Asset values are forecast to increase as additional assets are added to the asset stock from construction and acquisition by the organisation (upgrade work) and from assets constructed by land developers and others and donated to the organisation. Figure 9 shows the projected replacement cost asset values over the planning period in real values.

Figure 9: Projected Asset Values
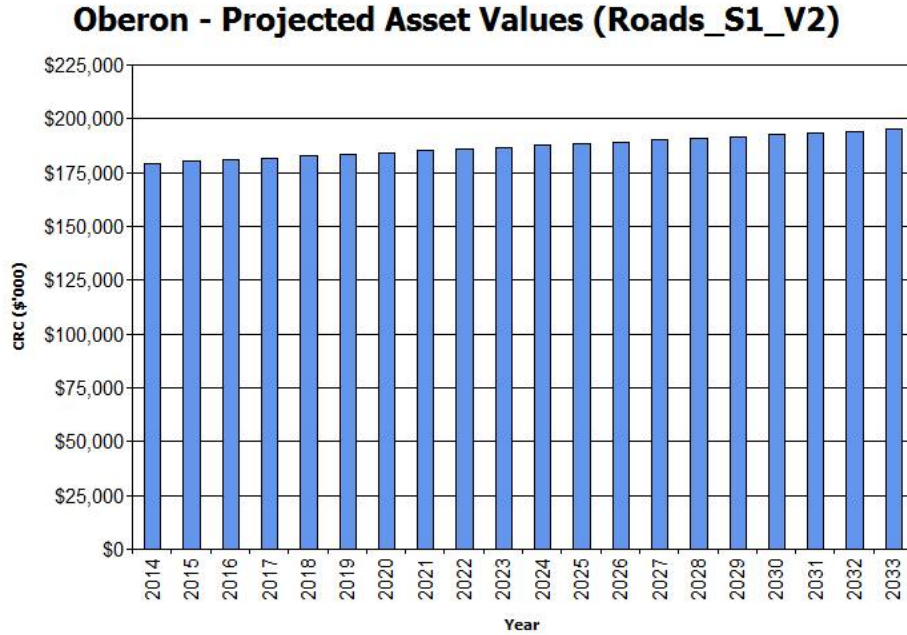
Depreciation expense values are forecast in line with asset values as shown in Figure 10.

Figure 10: Projected Depreciation Expense
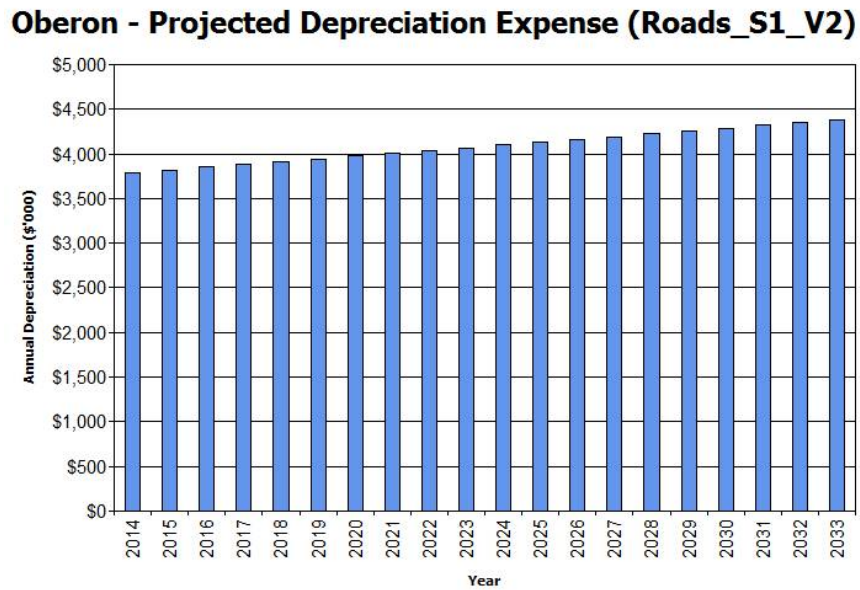
Depreciation increases slightly each year as the value of the asset stock increases.

The depreciated replacement cost will vary over the forecast period depending on the rates of addition of new assets, disposal of old assets and consumption and renewal of existing assets. Forecast of the assets' depreciated replacement cost is shown in Figure 11. The depreciated replacement cost of contributed and new assets is shown in the darker colour and in the lighter colour for existing assets.

Figure 11: Projected Depreciated Replacement Cost

Oberon - Projected Depreciated Replacement Cost (Roads_S1_V2)
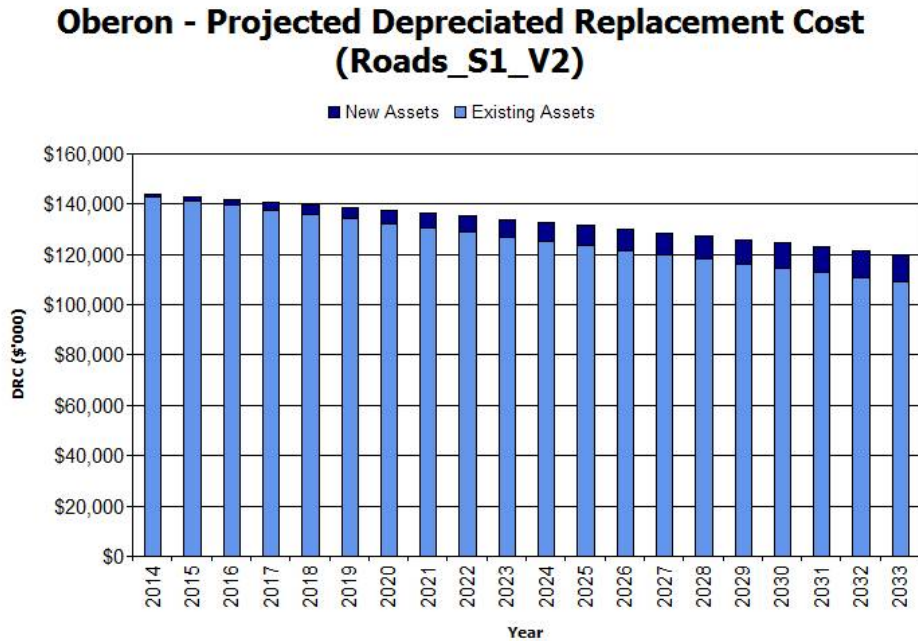
6.4   Key Assumptions made in Financial Forecasts

This section details the key assumptions made in presenting the information contained in this asset management plan and in preparing forecasts of required operating and capital expenditure and asset values, depreciation expense and carrying amount estimates. It is presented to enable readers to gain an understanding of the levels of confidence in the data behind the financial forecasts.

Key assumptions made in this asset management plan and risks that these may change are shown in Table 6.4.

Table 6.4: Key Assumptions made in AM Plan and Risks of Change

Key Assumptions	Risks of Change to Assumptions
Planned capital renewal expenditure and capital new/ upgrade to match recent trends	Plan requires modification once more accurate planned expenditure data is available.
Definition of upgrade and new capital works	Council appears to allocate significant expenditure to upgrade and new capital works, in the light of no network growth. These works may actually be sorely needed renewal works. Further investigation is required to improve the accuracy of this document.

6.5 Forecast Reliability and Confidence

The expenditure and valuations projections in this AM Plan are based on best available data. Currency and accuracy of data is critical to effective asset and financial management. Data confidence is classified on a 5 level scale[2] in accordance with Table 6.5.

Table 6.5: Data Confidence Grading System

Confidence Grade	Description
A Highly reliable	Data based on sound records, procedures, investigations and analysis, documented properly and recognised as the best method of assessment. Dataset is complete and estimated to be accurate ± 2%
B Reliable	Data based on sound records, procedures, investigations and analysis, documented properly but has minor shortcomings, for example some of the data is old, some documentation is missing and/or reliance is placed on unconfirmed reports or some extrapolation. Dataset is complete and estimated to be accurate ± 10%
C Uncertain	Data based on sound records, procedures, investigations and analysis which is incomplete or unsupported, or extrapolated from a limited sample for which grade A or B data are available. Dataset is substantially complete but up to 50% is extrapolated data and accuracy estimated ± 25%
D Very Uncertain	Data is based on unconfirmed verbal reports and/or cursory inspections and analysis. Dataset may not be fully complete and most data is estimated or extrapolated. Accuracy ± 40%
E Unknown	None or very little data held.

The estimated confidence level for and reliability of data used in this AM Plan is shown in Table 6.5.1.

Table 6.5.1: Data Confidence Assessment for Data used in AM Plan

Over all data sources, the data confidence is assessed as Medium confidence level for data used in the preparation of this AM Plan.

Data	Confidence Assessment	Comment
Demand drivers	B Reliable	Estimated, however further substantiation may be required for next revision of the AMP
Growth projections	B Reliable	Estimated, however should be sufficient as Oberon is a low growth area.
Operations expenditures	B Reliable	Direct from budget, breakdown into operations and maintenance and renewal is estimated.
Maintenance expenditures	B Reliable	Direct from budget, breakdown into operations and maintenance and renewal is estimated.
Projected Renewal expenditures. - Asset values	B Reliable	Asset register data used in the development of this AM plan has been cleansed, with best available acquisition dates inputted. Asset values are reliable. They have been recently updated
- Asset residual values	B Reliable	Reasonable
- Asset useful lives	B Reliable	Useful lives have been modified to reflect actual asset condition.
- Condition modelling	B Reliable	Recently updated. Condition data was collected in 2012/13.
- Network renewals	C Unreliable	No data available on future works program
- Defect repairs	N/A	

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[2] IPWEA, 2011, IIMM, Table 2.4.6, p 2|59.

Upgrade/New expenditures	C Uncertain	No data available based on examination of trends in recent years only.
Disposal expenditures	B Reliable	No disposal identified

Over all data sources, the data confidence is assessed as <u>medium </u>confidence level for data used in the preparation of this AM Plan.

7.   PLAN IMPROVEMENT AND MONITORING

7.1   Status of Asset Management Practices

7.1.1   Accounting and financial systems
Council uses the "Authority" suite for its financial / accounting systems. Responsibility for the financial system lies with the Manager – Finance and the Director. Financial reporting is prepared in accordance with the requirements of the Local Government Act 1993 and relevant Australian Accounting Standards.

The Finance Section reports in accordance with the relevant accounting standards and regulations
- Local Government Act (NSW) 1993
- Local Government Amendment (Planning and Reporting) Act 2009
- Local Government (Finance Plans and Reporting) Regulation 2010
- NSW Code of Accounting Practice
- AASB116

Capital/maintenance threshold
To be detailed in future versions of the this document

Required changes to accounting financial systems arising from this AM Plan
- Maintenance expenditure by Council on road assets must be split into reactive and planned.

- A clearer separation is required between capital works expenditure on new/ upgraded assets and asset renewal expenditure.

7.2.1   Asset management system
Oberon Council uses the MyData Asset Management System. It was first implemented in 2007.

Asset registers
Council commenced collation of asset registers for input into the MyData Asset Management System in 2007. Data for the following asset types is stored in the system:

- Roads
- Kerb and gutter
- Footpaths
- Water
- Sewer
- Stormwater
- Bridges

- Buildings and structures
- Plant and Equipment
- Fleet
- Land
- Playground equipment
- Street furniture

Linkage from asset management to financial system
The MyData Asset Management System does not link to the financial system. They are separate software packages developed by different companies.

Accountabilities for asset management system and data maintenance

The Civil Assets Coordinator is responsible for maintaining the currency of asset data in the MyData Asset Management System. Every three years Council engages road data collection contractors to assess and record the condition of road assets, for input into the AM system.

Required changes to asset management system arising from this AM Plan
Useful lives of assets to reflect actual asset condition not just industry norms.

7.2 Improvement Program

The asset management improvement plan generated from this asset management plan is shown in Table 7.2.

Table 7.2: Improvement Plan

Task No	Task	Responsibility	Resources Required	Timeline
1	Need to split maintenance expenditure into planned/ specific and reactive. Currently all bundled together.			
2	Utilise more accurate planned capital expenditure data – not just estimates based on recent trends			
3	More closely match planned capital renewal expenditure with the Long Term Financial Plan to account for anticipated spikes and troughs in Council's spending ability			
4	Providing additional funds to supplement grading on all rural unsealed roads to achieve an acceptable level of service by grading every road at least once a year or as determined by road usage and climatic conditions			
5	Upgrading and improving heavily utilised rural freight transport routes, such as Dog Rocks, Carlwood, Lowes Mount, Hazelgrove, Beaconsfield, Sewells Creek, Nunans Hill, Burraga, and Abercrombie Roads			
6	Developing asset based data sets to determine life of road assets in terms of maintenance and long term rehabilitation of local road network			

7.3 Monitoring and Review Procedures

This asset management plan will be reviewed during annual budget planning processes and amended to recognise any material changes in service levels and/or resources available to provide those services as a result of budget decisions.

The AM Plan will be updated annually to ensure it represents the current service level, asset values, projected operations, maintenance, capital renewal and replacement, capital upgrade/new and asset disposal expenditures and projected expenditure values incorporated into the organisation's long term financial plan. The AM Plan has a life of 4 years (Council election cycle) and is due for complete revision and updating within one year of each Council election.

7.4 Performance Measures

The effectiveness of the asset management plan can be measured in the following ways:

- The degree to which the required projected expenditures identified in this asset management plan are incorporated into the organisation's long term financial plan,
- The degree to which 1-5 year detailed works programs, budgets, business plans and organisational structures take into account the 'global' works program trends provided by the asset management plan,

- The degree to which the existing and projected service levels and service consequences (what we cannot do), risks and residual risks are incorporated into the organisation's Strategic Plan and associated plans,
- The Asset Renewal Funding Ratio achieving the target of 1.0.