

The Corporation of the City of Whyalla



ASSET MANAGEMENT STRATEGY

Version 5

June 2015

1. EXECUTIVE SUMMARY

Context

This Asset Management Strategy is prepared to assist the council in improving the way it delivers services across all Asset classes. The combined replacement value for all Council Assets is given as \$363,269,000.

This Asset Management Strategy has been compiled to combine all Asset classes into one summarised document. Asset Management Plans for specific Asset Categories are held under separate cover and have recently been revised to outline;

- How this asset portfolio will meet the service delivery needs of its community into the future.
- Enable council's Asset Management Policy to be achieved, and
- Ensure the integration of Council's Asset Management with its long term strategic and financial plans.

Adopting the asset management plans will assist council in meeting the requirements of the National Sustainability Framework and the Local Government Act; and provide services needed by the community in a financially sustainable manner.

Strategic Outlook

1. Council is able to improve transport assets and clear the identified transport asset backlog to meet optimal levels of service identified in condition surveys.
2. Council must consider strategies to fund the projected Assets renewal expenditure over next 10 years.
3. Council's current asset management maturity is below 'core' level and investment is needed to data, systems and evaluation.
4. Optimise the life of assets at the most economic cost over time (lifecycle approach).
5. Reducing the demand for new assets through demand management techniques and consideration of alternative service delivery options;

What is Covered?

The City of Whyalla is responsible for managing its Assets at a level that ensures the desired standards of

service are achieved and maintained in a cost effective and timely manner.

The assets included within this strategy include:

- Transport Assets
- Stormwater Assets
- Irrigation
- Plant and Equipment
- Recreation and Open Space
- Building Assets

What does it Cost?

The projected outlays necessary to provide the services covered by this Strategy including operations, maintenance, renewal and upgrade of existing assets over the 10 year planning period is \$135,782,000 or \$13,578,000 on average per year.

Estimated available funding for this period is \$103,426,000 or \$10,343,000 on average per year which is 76% of the cost to provide the service. This is a funding shortfall of -\$3,236,000 on average per year.

Managing the Risks

The following have been identified as major risks:

- Transport Asset Condition and revised useful life based on visual inspection methodology without quantitative base strength testing (such as FWD testing).
- Gifted assets once handed to Council are fit for purpose with any damage rectified and brought to standard.
- Responding to reactive maintenance through Council's Customer Request system to alleviate and manage risk of increased asset deterioration.
- Reliance on historical data and knowledge available for pavement structure and materials.
- Reliance on current data based on a 20 % sampling size of the asset category.
- Compliance with legislative requirements on limited resources.

The Engineering and Infrastructure Department will endeavour to manage these risks by:

- Identifying assets most at risk and undertake necessary testing to quantify pavement strength and condition.
- Develop and maintain a 10 year asset renewal program across all asset classes, with continued analysis prior to compiling annual works program.
- Undertake conditioning surveys every five years to rectify and data deficiencies over the 10 years period.
- Continue planned and some reactive maintenance through Council's maintenance programs.
- Record, inspect, repair and finalise specific concerns through the customer service system.
- Ensure continuous improvement of Council's Conquest Asset Management System.

The Next Steps

The actions resulting from this asset management strategy are:

- Complete revision and adoption of Asset Management Plans for all Asset classes to ensure effective management of Assets (refer to Annexure 'B' for Asset Management Chart).
- Investigate and implement innovative cost effective treatment methods and solutions to extend the life of Council Assets.
- Compile a 10 year forward works program in line with treatments and/or recommendations.
- Undertake testing on key assets where details are unknown or assumed.
- Implement the Asset Management Policy in line with national framework requirements.
- Refine the existing Asset Management System to comply with Asset Management Policy and ensure that the Conquest data is inclusive of all asset categories.
- Enable an asset management improvement plan detailing a program of tasks to be completed and resources required to bring council to a minimum 'core' level of asset maturity and competence.

1. FINANCIAL SUMMARY

This section contains the financial requirements resulting from all the information compiled for the Asset Management Plans. The financial projections will be improved as further information becomes available on desired levels of service and current and projected future asset performance.

The financial projections are shown as projected operation (operations and maintenance) expenditure for the following 20 year period assuming annual CPI projections of 3% in Figure 1 and at 2015 real values in Figure 2.

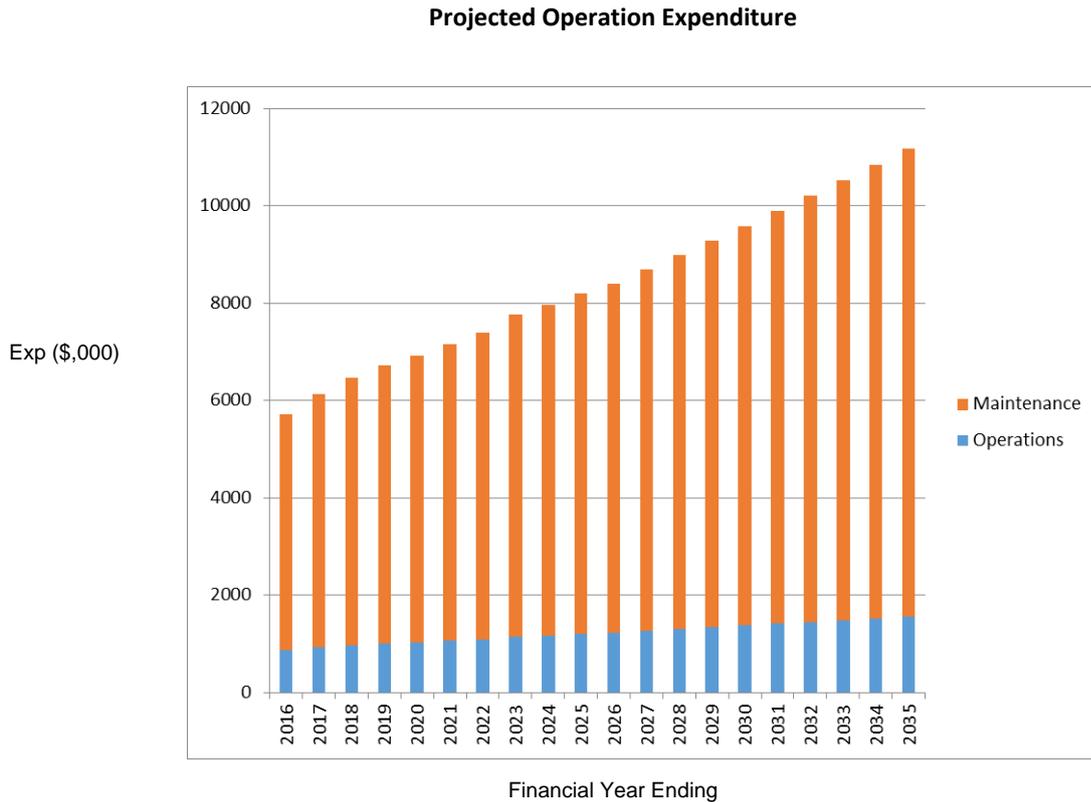


Figure 1: Projected operation expenditure (including maintenance and operating expenditure) assuming 3% annual increase in line with CPI projections.

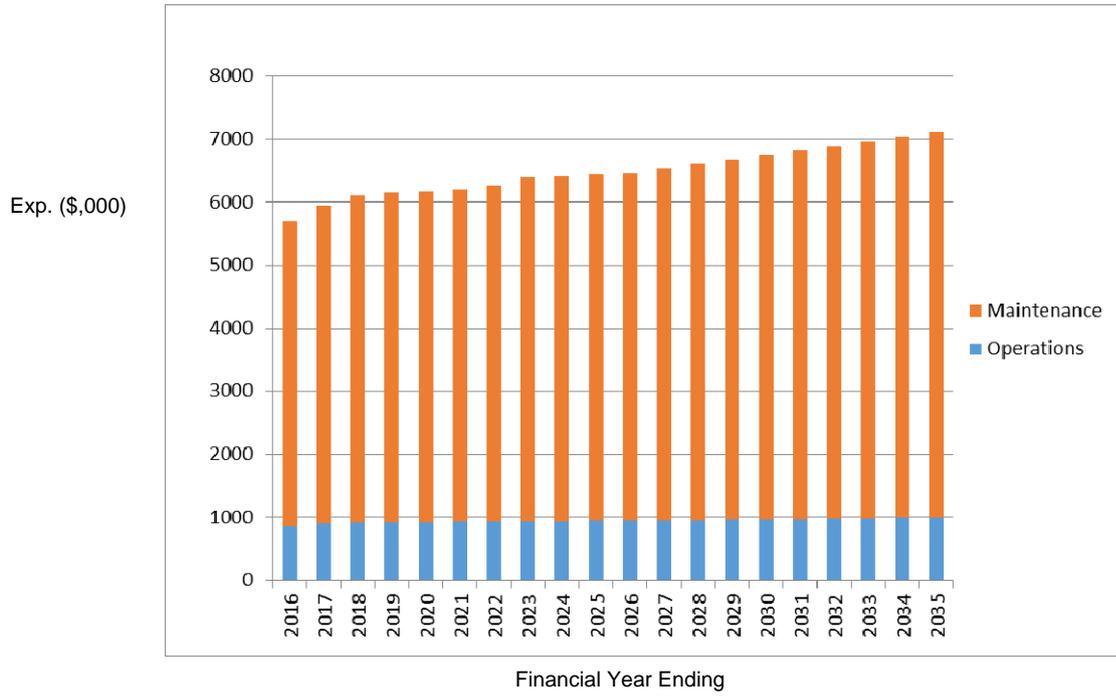


Figure 2: Projected operation expenditure (including maintenance and operating expenditure) based on real values at 2015.

Figure 3 shows the projections for capital expenditure assuming CPI increases and Figure 4 capital expenditure based on real values.

Projected Capital Expenditure

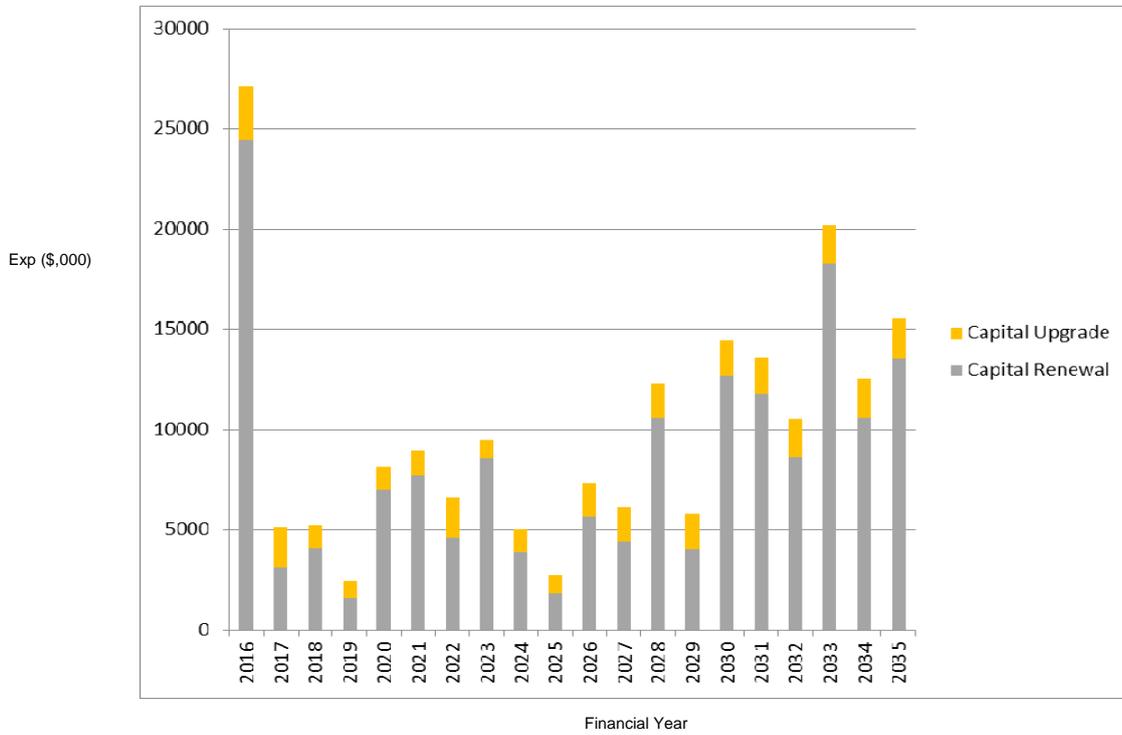


Figure 3: Projected capital expenditure (including back log requirements) assuming 3% annual increase in line with CPI projections.

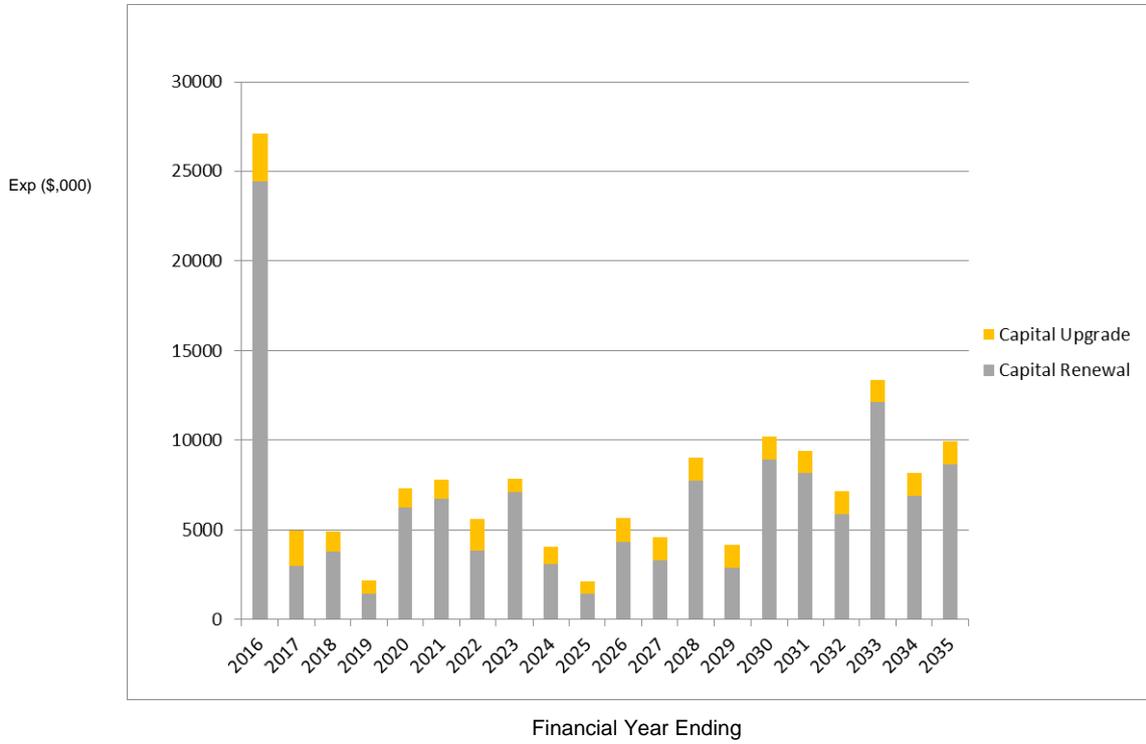
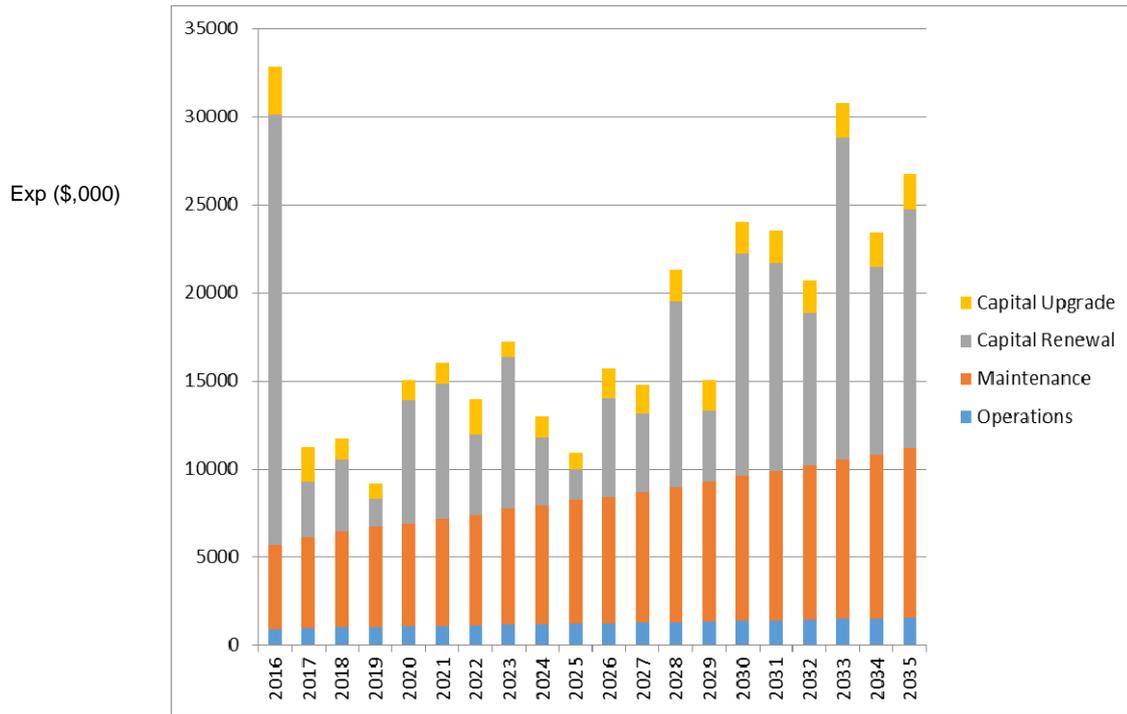


Figure 4: Projected capital expenditure (including back log requirements) based on real values at 2015.

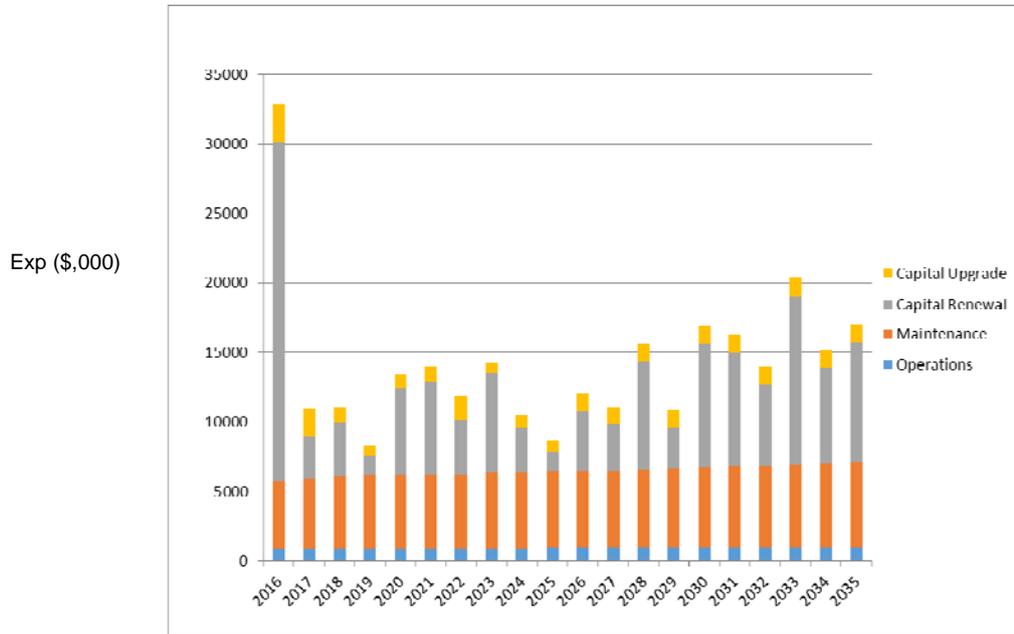
Figures 5 and 6 are a combination of recurrent (operating and maintenance) expenditure and capital expenditure displayed also as assuming CPI increases and in real value terms. Displaying both scenarios of CPI increase and real values allows for comparison to the Long Term Financial Plan (CPI) and Asset Management Plans (real \$values).

Combined Recurrent and Capital Expenditure



Financial year ending

Figure 5: Projected combined recurrent and capital expenditure (including back log requirements) assuming 3% annual increase in line with CPI projections.



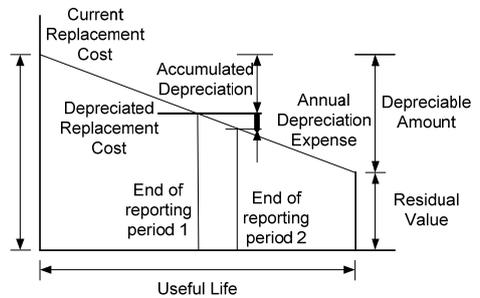
Financial year ending

Figure 6: Projected combined recurrent and capital expenditure based on real values at 2015.

Asset valuations

The value of assets recorded in the asset register as at March 2013 covered by this asset management plan is shown below. Assets were last revaluated at June 2012. Assets are valued at current replacement costs

Current Replacement Cost	\$362,269,000
Depreciable Amount	\$311,835,000
Depreciated Replacement Cost ¹	\$197,089,000
Annual Depreciation Expense	\$5,951,000



Key assumptions made in preparing the valuations were:

- Asset Data available at time of audit is accurate and based on ...
- Depreciation being calculated using a straight line method
- Current depreciated value based on standard life

Various ratios of asset consumption and expenditure have been prepared to help guide and gauge asset management performance and trends over time.

Rate of Annual Asset Consumption (Depreciation/Depreciable Amount)	1.9%
Rate of Annual Asset Renewal (Capital renewal exp/Depreciable amount)	1.8%
Rate of Annual Asset Upgrade/New (Capital upgrade exp/Depreciable amount)	0.86%
Rate of Annual Asset Upgrade/New (including contributed assets)	0.4%

In 2016 the organisation plans to renew assets at 96.3% of the rate they are being consumed and will be increasing its asset stock by 0.4% in the year.

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 ²	60%
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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 60% of the funds required for the optimal renewal and replacement of its assets.

¹ Also reported as Written Down Current Replacement Cost (WDCRC).
² AIFMG, 2009, Financial Sustainability Indicator 8, Sec 2.6, p 2.18

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 \$12,139,000 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 \$ 9,535,000 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 -\$2,765,000 per year (-ve = gap, +ve = surplus).

Life cycle expenditure is 79% 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 \$12,300,000 on average per year.

Estimated (budget) operations, maintenance and capital renewal funding is \$9,535,000 on average per year giving a 10 year funding shortfall of -\$2,765,000 per year. This indicates that Council expects to have 78% of the projected expenditures needed to provide the services documented in the asset management plan. A strategy will be implemented as part of the improvement plan to ensure projected expenditure needs meet budgeted expenditure.

Medium 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 \$13,809,000 on average per year.

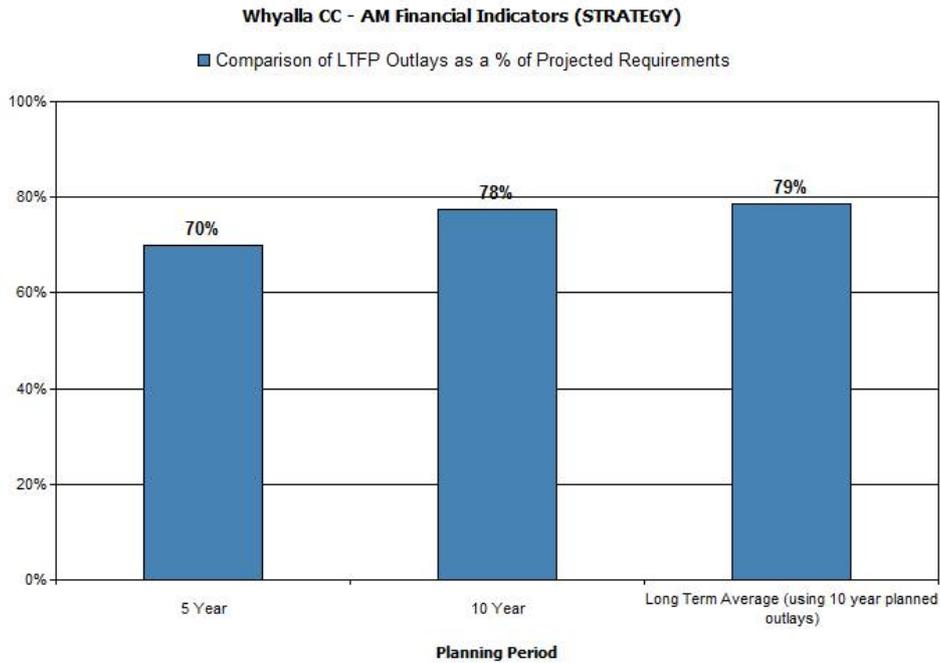
Estimated (budget) operations, maintenance and capital renewal funding is \$9,658,000 on average per year giving a 5 year funding shortfall of -\$4,150,000. This indicates that Council expects to have 70% of projected expenditures required to provide the services shown in this asset management plan.

A strategy will be implemented as part of the improvement plan to ensure projected expenditure needs meet budgeted expenditure.

Asset management financial indicators

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

Figure 7: 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.

FUTHER INFORMATION

Further detail in relation to age profiling, consumption figures and key indicators for service delivery sustainability are considered in the categorised Asset Management Plans.

8. REFERENCES

IPWEA, 2006, 'International Infrastructure Management Manual', Institute of Public Works Engineering Australia, Sydney, www.ipwea.org.au/IIMM

IPWEA, 2008, 'NAMS.PLUS Asset Management', Institute of Public Works Engineering Australia, Sydney, www.ipwea.org.au/namsplus.

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