



## State of the Assets Report – February 2019

### Summary

- Council manages infrastructure assets with an approximate total replacement value of \$630,000,000. These assets are utilised by Council Service Managers to support the delivery of services to the community. In order to ensure an ongoing satisfactory standard of Council's services, the assets on which they hinge must be managed in a manner which prevents unacceptable deterioration.
- This report aims at providing Council with an overview on the state of Council's major asset classes, an insight into the challenges faced in managing these assets and an outlook on the future status of these assets.
- Council manages a total of \$31 Million of assets in poor or very poor condition, more than half of these are road assets.
- Council's Drainage assets have only limited condition data available with only 7.7% of the network assessed. This assessment shows that 22% is in poor to very poor structural condition and 22% in very poor serviceable condition.
- Council has a total renewal requirement of approximately \$21,989,000 for the 2019/20 year (including unfunded backlog projects). Pending budget decisions, this is likely to leave a renewal gap of \$16.5 Million.
- Recommendations for increased maintenance work to Bridges and Pathways that were adopted by Council along with the Asset Management Plans have not been funded in the draft budget.
- All asset classes other than fleet will experience significant deterioration in overall condition over the coming 15 years due to the renewal funding gap.
- Assets overdue for renewal (backlog) require higher levels of reactive maintenance and are more prone to expensive emergency interventions to address asset failures, Council is experiencing increased maintenance demand and increased asset failures for several asset types.
- Council has identified, for the asset classes included in this report, the strengths, weaknesses, threats and opportunities in managing each class. This analysis will guide the development of improvement actions within each asset management plan.
- There is continued need for Council to address the numerous gaps in asset information and knowledge, ensuring that Council's information is adequately maintained is essential in the responsible management of assets both now and into the future.



## Changes and trends

### Roads

- Asphalt unit rate has increased during the last revaluation and so has increased the replacement rate for these asset types by \$5M.
- RMP compliance has risen to 98% (from 70% last year)

### Bridges

- Council has adopted the Bridge Asset Management Plan.
- Further investigations on some bridges found them to be in worse condition than first observed, resulting in capital works being more costly than anticipated.
- Continued lack of renewal investment has resulted in load limits being applied to three bridges, this is contrary to the community level of service in the Bridge AMP which states 0 bridges should have load limits.
- Condition audits in future are likely to be more expensive due to the more thorough inspection requirements.

### Pathways

- Council has adopted the Pathway Asset Management Plan.
- Pathways renewal backlog is down from the previous year but still in excess of \$880k.
- A condition audit of the network shows 8% of pathways have moved from a good to fair condition.

### Buildings

- Condition profile of buildings has not changed. Decentralised budgets of Service Managers may be assisting covering the renewal gap, as well as the decommissioning of many old and disused sheds in the last few years rather than refurbishing or replacing them.
- There are some large renewal items due, such as HVAC systems which may consume an entire annual budget and remove the option for preventative renewal of fair condition assets.

### Drainage

- A lot more condition information is available (7.7% up from 2.7%). This is due to planned condition audits as well as developers now providing CCTV imagery for new subdivisions.
- The Criticality Assessment allows us to target important areas for renewal and further investigation.

### Open Space

- Recent playground renewal projects have elevated the community expectation for playground provision. If this becomes the norm, it will greatly increase the renewal gap.
- Smaller Open Space components are generally replaced under maintenance activities however this does not allow programs to be planned years in advance and is reliant on maintenance funds.
- Public place light poles do not have a maintenance or renewal budget despite posing a significant risk which was reported to Council in 2018.

### Fleet

- MEG has adopted the Fleet Asset Management Plan.
- Continues to have no renewal gap with all vehicles able to be replaced as required.



- A cross-directorate, multi-disciplinary working group promotes Fleet Management and continuously looks for innovations and improvements.

## BACKGROUND

The gross replacement value of local government infrastructure for all Australian councils is estimated at \$438 billion, and \$47 billion of these assets are in poor or very poor condition (Australian Local Government Association, 2015). In addition to the alarming cost of poor condition assets nation-wide, the Victorian Auditor-General's Office found in a 2014 report that:

*“Spending on existing assets is not keeping pace with the consumption of these assets. Audited councils are not able to meet existing asset renewal requirements, resulting in cumulative renewal gaps growing every year. This situation is likely to adversely impact the condition of assets, service levels and councils’ long-term financial sustainability” (Victorian Auditor-General’s Office, 2014).*

Council manages infrastructural assets of an approximate total replacement cost of \$630,000,000. These assets are utilised by Council Service Managers to support the delivery of services to the community. In order to ensure an ongoing satisfactory standard of Council’s services, the assets on which they hinge must be managed in a manner which prevents unacceptable deterioration.

Council has in place an Asset Management Policy to ensure Council manages and provides assets in a sustainable manner in line with the required levels of service based upon the vision adopted by Council. Key Policy objectives are:

- Ensure that Council’s legal obligations are met;
- Asset management is to be integrated with the organisation’s corporate processes, including business plan, budget and reporting procedures;
- A “whole of life” cost approach shall be used to determine financial requirements for all assets;
- Provide infrastructure assets that support services that are appropriate, accessible, responsive, and sustainable to the community; and
- Ensure that the roles and responsibilities of asset managers and users are well defined and understood with respects to ownership, control, accountability and reporting.

Council also has in place an Asset Management Strategy to provide focus on the actions and requirements necessary to implementing the Asset Management Policy. Key Strategy objectives are:

- To provide for the service needs of our community:
  - by ascertaining service level needs through a community consultation process
  - by focussing on outputs and outcomes with a view to continuously improving the match between service requirements and service delivery
  - by ensuring our assets are appropriately used and maintained
- To optimise the service potential of our assets:
  - through effective management of our existing assets
  - through flexibility of our asset base
  - through rigorous planning, evaluation and budgetary processes
  - by using economies of scale for more cost effective service delivery



- To maximise value for money:
  - by taking account of the full costs of holding, using and disposing of assets throughout their life cycles
  - by ensuring asset management decisions are responsive to performance measurement and monitoring
  - by producing costed options for the delivery of asset services.
- To contribute to economic growth:
  - by appropriate matching of assets to meet service delivery demands
  - by ensuring that all asset management decisions are made within the context of Council's overall resource allocation and management framework
- To assign responsibility and accountability:
  - by clearly defining ownership and control of assets through asset information systems that meet both government and management decision making requirements
  - by determining and communicating accountability and reporting responsibilities throughout each step of the integrated approach to asset management
- To promote balance between development and sustainability:
  - by balancing the demand for new assets through the use of non-asset service delivery alternatives where appropriate
  - by making asset decisions that consider and protect the needs of future generations
  - through consideration of asset renewal and rehabilitation options wherever feasible
- To minimise risks to the community and to Council's financial viability:
  - through the application of risk assessment and reduction strategies
  - by regular condition audits consistent with the criticality of the various asset categories
  - through the delivery of appropriate asset maintenance and renewal programs

This report aims at providing Council with an overview on the state of Council's major infrastructure asset classes (i.e. Roads, Pathways, Bridges, Drainage, Buildings, Open Space), an insight into the challenges faced in managing these assets and an outlook on the future status of these assets.

This report is the third of its kind developed specifically for Warrnambool City Council with significant changes summarised above. Council's Strategic Asset Management unit endeavours to progressively improve the quality and presentation of information contained within this report to allow Council to obtain a clearer view of the 'State of its Assets'.

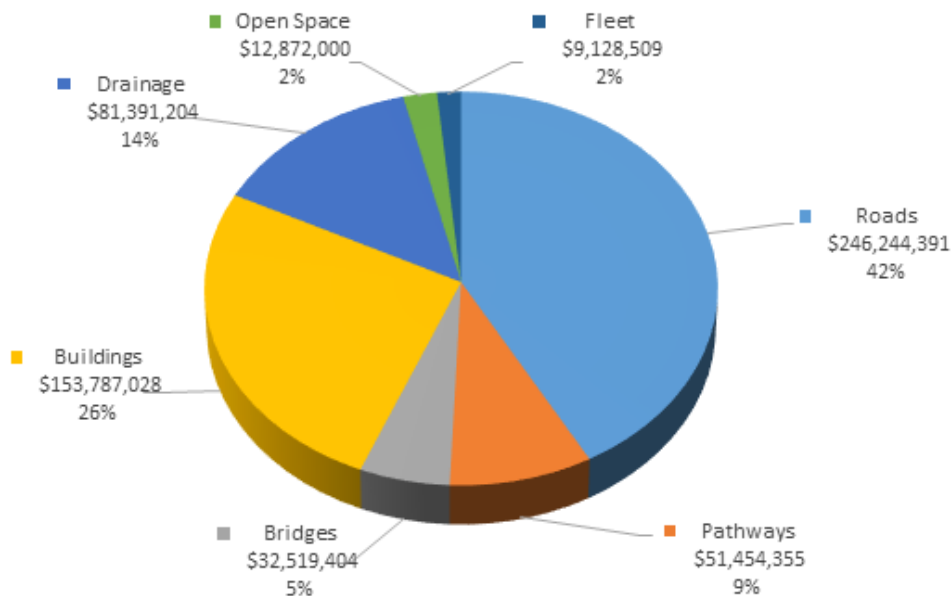
Council is in the process of developing updated Asset Management Plans for each asset class which will provide council with a holistic approach to effectively manage Council's assets.



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Asset Management Plan	Status	Year
Roads	Scheduled	2019/20
Bridges	<b>Adopted by Council</b>	<b>2016/17</b>
Building	Scheduled	2019/20
Pathway	<b>Adopted by Council</b>	<b>2017/18</b>
Drainage	Commenced	2018/19
Sporting Facility	TBC	
Open Space Asset Management Plan	Scheduled	2018/19
Information Communication Technology	TBC	
Plant and Fleet	<b>Endorsed by MEG</b>	<b>2017/18</b>
Street & Reserve Trees	Scheduled	2019/20
Collections and Heritage	TBC	
Land	TBC	
Port of Warrnambool	<b>Adopted by Council</b>	<b>2018/19</b>

The current values of assets in the annual report as of 30 June 2018 are shown in the chart below. Note that due to accounting standard constraints, these may not reflect the actual cost to replace these assets and may therefore be lower than the values used in renewal forecasting.



Through the asset management planning processes, it has been identified that Council currently has approximately \$31M worth of assets (5%) in poor or very poor condition (indicating renewal works would be required), these are summarised as:

- 8% of roads, valued at \$20,826,254
- 3% of pathways, valued at \$1,306,956
- 16% of bridges, valued at \$5,177,044
- 7% of buildings, valued at \$7,079,667
- 2% of drainage, valued at \$1,512,075
- 7% of open space, valued at \$1,065,000



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**ISSUES**

Summary of Asset Management review for all infrastructure asset classes:

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Recently adopted Bridge Asset Management Plan and Pathway Asset Management Plan.</li> <li>• Strong utilisation of available software and asset data.</li> <li>• Infrastructure Design Manual supports asset standard for new assets.</li> <li>• Assets on average are currently in good condition.</li> </ul>	<ul style="list-style-type: none"> <li>• Missing opportunities to treating assets proactively.</li> <li>• Shortfall in funding for asset maintenance and renewal works.</li> <li>• Significant deterioration in asset condition expected in the coming 15 years.</li> <li>• Condition data availability and low recurrent condition assessment funding.</li> <li>• Projections in renewal requirement are entirely in today's dollars (not indexed) and do not take into consideration of future additions to the asset base which is only going to increase this future liability.</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Community engagement regarding future service level requirements</li> <li>• Review of existing technologies.</li> <li>• Investigating external funding prospects.</li> <li>• Optimising treatment timing and selection.</li> <li>• Investigation innovative options for asset treatment and condition data collection.</li> </ul>	<ul style="list-style-type: none"> <li>• Climate change implications for infrastructure.</li> <li>• Limited drainage condition knowledge risking failures and asset performance issues.</li> <li>• Increasing demand on Council's existing infrastructure (population growth, heavy vehicle increases, etc.).</li> <li>• Rate capping (funding increases not tracking with renewal and maintenance requirement).</li> </ul>

In the past 15 years, Council officers have drafted a number of Asset Management Plans.

With the Victorian Government establishing the Fair Go Rates System (FGRS), which is a framework limiting the maximum amount councils may increase rates in a year without seeking additional approvals, understanding the status of asset management and the condition and performance of infrastructure assets is now more critical than ever.

## FINANCIAL IMPACT

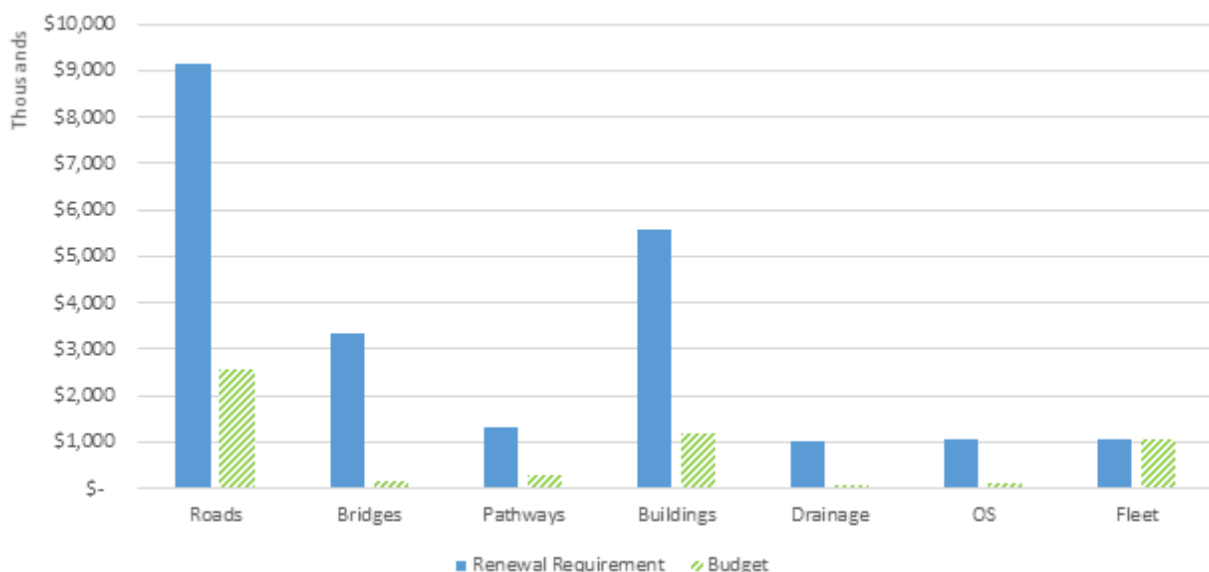
### Renewal Gap

Council invests in the renewal of its assets to account for the deterioration over the asset's life. Once an asset deteriorates to a condition which does not sufficiently allow a service to operate at its required level (typically "poor" or "very poor" condition), Council must conduct appropriate works to restore it to its original service level, or otherwise accept the lower level of service. Good or fair condition assets may be replaced before reaching their end of life due to other factors such as a change in use/function or becoming over capacity.

Council has a total renewal requirement of approximately \$22,511,754 for the 2019/2020 year (Including unfunded backlog projects), of which, the draft budget for renewal capital works of \$5,481,299 only covers 24%. This equates to a renewal gap of \$17,030,455

Asset Class	Renewal Requirement	Funded Renewal	% of Requirement Funded	Renewal Gap
Roads	\$9,144,001	\$2,562,719	28%	\$6,581,282
Bridges	\$3,333,797	\$166,577	5%	\$3,167,220
Pathways	\$1,306,956	\$291,339	22%	\$1,015,617
Buildings	\$5,582,000	\$1,193,000	21%	\$4,389,000
Drainage	\$1,021,000	\$73,664	7%	\$947,336
Open Space	\$1,065,000	\$135,000	13%	\$930,000
Plant & Fleet	\$1,059,000	\$1,059,000	100%	\$ -
<b>TOTAL</b>	<b>\$22,511,754</b>	<b>\$5,481,299</b>	<b>24%</b>	<b>\$17,030,455</b>

**2019/20 Renewal requirement vs budget**



The renewal gap (or backlog of works) represents the assets which have been identified for renewal, but following the development of the works program, are deferred due to insufficient





budget. These assets remain untreated and rapidly decline unless intensive and costly maintenance is provided.

The cost of the backlog can quickly change over time, even though quantities of assets may not. This is due to changing the scope of the project, fluctuating supply costs, new methodologies becoming available or the use of a temporary treatment to get a few extra years out of the asset.

Managing the backlog is one of the more challenging issues facing asset managers, hence information availability and confidence is critical to assist with the prioritisation of the poor condition assets to be fixed and the poor condition assets to be deferred.

There are two methods to prioritise backlog works:

1. "Optimised Decision Making" – By intervening or treating early, cheaper treatments can be used (eg: resealing a road before potholes form or lining a pipe before it collapses). This means the worse condition assets may need to remain in a poor state until resources are available.
2. "Worst First"– Focuses on those assets already above intervention. The poor condition assets, which generally require full replacement, are funded.

Council has historically uses the Worst First method. This is undertaken because the poor condition assets generate community complaints, the consequence of this is that funding is not available for preventative works which would keep other assets in good condition. In an environment of significant renewal gap, this method continues the cycle of overall asset condition decline. However, as more data, knowledge and software applications become available, Optimised Decision Making is being used for more asset classes.

Council's renewal backlog is a form of debt; the value of this debt can be accurately measured and requires careful monitoring and management to avoid transferring an inequitable amount of debt to future generations.

Assets approaching the end of useful life commonly require significantly more maintenance expenditure than newer assets, this compounds the overall funding shortfall over time as backlog assets (overdue for replacement) consume more and more maintenance funds as the backlog grows. When there is an asset renewal backlog there is less maintenance for all other assets which can lead to premature asset failure, and the effect spirals.

### **Asset Data**

The acquisition of asset data can be relatively expensive, ranging from \$5,000 to over \$100,000 for condition assessments on some asset classes. It has been estimated that Council would require annual allocations of at least \$150,000 to ensure up to date and accurate data for all asset classes.

Currently \$50,000 is budgeted. The remaining \$100,000 is proposed to be taken from capital budget allocations to allow necessary asset management activity to be undertaken. By doing so, reduces the effectiveness of the capital budget allocation.

Planning for and allocating funds for asset condition surveys forms an additional financial challenge for Council in conducting and programming asset renewals.





## **Renewal Gap vs Infrastructure Gap**

The focus of this report and the associated attachments is on 'renewal' infrastructure and does not include asset upgrade, expansion or new assets, referred to as the 'Infrastructure Gap'. The 'Infrastructure Gap' will be identified for each asset class through the updated Asset Management Plans by compiling all the required upgrade and new asset projects that have been documented in existing Council strategies.

New & Upgrade projects aim to treat functional and capacity issues of the asset performance and affect the asset network rather than an individual asset. The recent Pathways Asset Management Plan identifies over \$18 million in new and upgrade projects required in the future to meet the level of service currently documented.

## **Long-Term Financial Plan**

Council's long-term financial plan forecasts the expected revenue and expenditure over a period of ten years. The current LTFP does not fully fund asset renewal which will continue to contribute to renewal backlog over the coming years.

Funding strategies for additional maintenance and renewal as outlined in the Council adopted Pathways and also Bridges, Asset Management Plans have at this stage not been funded in the draft Council budget for 2018/19. This means that the desired service levels outlined in these plans will not be achieved.

Consideration of the information presented in this report and attachments for the inclusion within long-term financial planning should be investigated.

**Appendix 1** of this report provides each asset summary and details the amount required to spend on capital renewal to maintain the current service expectations against what Council is budgeting to spend on asset renewal. The consequence of a cumulative separation of these two amounts has been presented in a projection of the amount of assets in poor or very poor condition over the next 15 years.

Various limitations exist in ensuring available and accurate asset data to draw reliable conclusions. These include not having conducted condition surveys (condition of 92% of the drainage network is unknown), reliance on some relatively old asset data, absence of important data fields being collected or evaluated (function and capacity), and undocumented service levels.

Council's Strategic Asset Management unit plans to further Council's ability by collecting, managing, analysing and presenting information such as that contained within this report with the vision of attaining full adherence with the National Asset Management Assessment Framework and International Infrastructure Management Manual and eventual certification with international standards for asset management (ISO55000).



## **LEGISLATION / POLICY / COUNCIL PLAN CONTEXT**

### **3 Maintain and improve the physical fabric of the City**

3.3 Build Infrastructure that best meets current and future community needs.

3.5 Maintain and enhance existing Council Infrastructure.

### **5 Practice good governance through openness and accountability**

5.1 Strategic Resource Plan

5.2 Annual Budget

5.3 Council Plan

5.4 Community Plan

5.5 Reporting to the Community.

5.8 Ensure financial sustainability through effective use of Councils resources and assets and prudent management of risk.

### **Fair Go Rates System**

Central to the FGRS and a key emphasis in the current review of the Local Government Act 1989 is the promotion of good long-term financial planning. It has continuously been emphasised that applications for a higher cap must demonstrate that the need for additional funds is based on and supported by rigorous and robust long-term financial planning, which includes:

- Good asset management plans that identify cost-effective outlays based on properly considered and documented risk management practices;
- Annual baseline information with integrated information on services, assets and financials;
- Budget baseline information which demonstrates the links across services, asset management, underlying financial position and council rating practices;

A number of councils put forward a rate cap variation based on increasing its effort to address asset renewal requirements, consistent with its long-term strategy and asset management plans. Hence, development of asset management plans, the data they are based on and the levels of service requirements they aim to respond to are all part of the asset management process.

## **COMMUNITY IMPACT / CONSULTATION**

This report is for information only and seeks to inform Council and the community on the state of the assets. This information should be used when discussing service levels and budget allocations.

Community consultation is carried out through the development of Asset Management Plans and other strategic documents referred to in this report.

## **LEGAL RISK / IMPACT**

- Asset management is used to plan for future asset performance. This is achieved by understanding the community's needs, understanding the risks associated with the delivery of those needs and developing appropriate mitigation to those risks to deliver safe and reliable asset performance.



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- Exercises in planning and reporting on asset status, similar to the information contained in this report, assist council in understanding the level in which assets shall deteriorate in conjunction with renewal funding shortfalls and the associated service level and risk consequences.
- Integrating risk management practices within the system of asset management plays an important role in optimising the decision making of Council. In addition, planning for the risks involved with an asset is essential in providing appropriate levels of service.
- The development of risk controls are to be documented in asset management plans, where each risk identified shall be further evaluated for opportunities to introduce management processes and controls which shall reduce Council's overall exposure to risk.
- Also covered by asset management plans are critical assets, those assets which would result in a high consequence of failure.

## CONCLUSION

Asset renewal requirement is modeled based on current levels of service believed to be accepted by the community, however replacement with modern day equivalent infrastructure may increase the level of service. Neither of these are met by current budgets (except for fleet), causing Council's renewal backlog to slowly increase. This intergenerational inequity should be cause for discussion around appropriate levels of service and budget allocations.