

Asset Management Plans and Strategy Methodology

The Asset Management Strategy and Asset Management Plans have been developed in line with Council's Revised 2017/18 to 2026/27 Long Term Financial Plan Version 2. Two Scenarios are outlined from the Revised 2017/18 to 2026/27 Long Term Financial Plan Version 2:

Scenario 1 – This represents council's base case position (rate peg only). The future sustainability of council is dependent upon generating sufficient funds to meet the costs of maintaining and renewing assets to deliver services. Under Scenario 1, Council is not generating sufficient funds to continue providing current service levels or renew its assets when required for the General Fund.

Scenario 2 – This represents Council's Achieve Financial Sustainability and Asset Sustainability scenario. This scenario is our Base case Scenario (Scenario 1) PLUS a Section 508(A) Special Rate Variation (SRV) of 8% each year for three (3) years (including an actual rate peg of 2.3% for 2018/19 and an assumed rate peg of 2.5% p.a. for 2019/20 and 2020/21) commencing 2018/19 to 2020/21. The cumulative SRV increase over the 3 years of 25.97% in the general rate (including an actual rate peg of 2.3% for 2018/19 and an assumed rate peg of 2.5% p.a. for 2019/20 and 2020/21) is to be retained permanently in Council's rate base. This option will provide Council over the 3 years from 2018/19 to 2020/21 with an additional \$10.298 million above the rate peg (actual rate peg of 2.3% for 2018/19 and an assumed rate peg of 2.5% p.a. for 2019/20 and 2020/21). These funds are to be used to improve Council's General Fund financial sustainability and asset sustainability (asset renewals only from 2018/19 to 2020/21, and asset renewals and asset maintenance from 2021/22 onwards) as per the table below:

Clarence Valley Council Revised Asset Management Strategy 2017-2027 VERSION 2

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Sum of 10 Years
<i>Income</i>											
Proposed SRV income above rate peg	-	1,631,648	3,372,788	5,293,485	5,425,822	5,561,467	5,700,504	5,843,016	5,989,091	6,138,820	44,956,641
<i>Operating Balance</i>											
Change in Operating Result due to proposed SRV (Financial Sustainability)	-	1,631,648	3,372,788	5,293,485	5,075,822	5,154,467	4,935,364	4,362,573	3,779,039	3,184,567	36,789,753
<i>Operating Expenses</i>											
Road Pavements and Surfacing Maintenance and Rehabilitation	-	-	-	-	350,000	407,000	765,140	1,480,443	1,738,195	2,472,959	7,213,737
Footpaths and Cycleways Maintenance	-	-	-	-	-	-	-	-	64,856	66,153	131,009
Kerb and Gutter Maintenance	-	-	-	-	-	-	-	-	243,154	248,017	491,171
Culverts and Drainage Maintenance	-	-	-	-	-	-	-	-	163,847	167,124	330,971
Annual Total	-	-	-	-	350,000	407,000	765,140	1,480,443	2,210,052	2,954,253	8,166,888
Cumulative Total	-	-	-	-	350,000	757,000	1,522,140	3,002,583	5,212,635	8,166,888	
<i>Capital Expenditure</i>											
Road Pavements and Surfacing	-	1,281,243	2,138,614	1,459,325	3,227,922	3,292,788	3,358,962	2,347,393	2,487,053	1,833,755	21,427,055
Culverts and Drainage Renewal	-	350,405	714,542	1,045,881	866,000	705,000	359,000	366,180	150,000	150,000	4,707,008
Shoulder Grading and Widening	-	-	-	386,034	700,000	637,000	600,000	612,000	624,240	636,725	4,195,999
Flood Mitigation	-	-	19,632	316,700	117,000	116,000	96,000	72,000	87,000	92,000	916,332
Sports Facilities	-	-	500,000	650,000	-	-	-	-	-	-	1,150,000
Open Spaces Optimal Renewals Program	-	-	-	-	385,000	366,315	438,211	241,613	615,133	257,087	2,303,359
Buildings Optimal Renewals Program	-	-	-	-	342,000	635,000	285,000	256,000	263,000	212,000	1,993,000
Swimming Pools Optimal Renewals Program	-	-	-	-	16,000	25,000	33,000	17,000	3,000	3,000	97,000
Annual Total	-	1,631,648	3,372,788	3,857,940	5,653,922	5,777,103	5,170,173	3,912,186	4,229,426	3,184,567	36,789,753
Cumulative Total	-	1,631,648	5,004,436	8,862,376	14,516,298	20,293,401	25,463,574	29,375,760	33,605,186	36,789,753	
<i>Other Use of Proposed SRV Income</i>											
Transfer to Asset Renewal Reserve	-	-	-	1,435,545	-	-	-	450,387	-	-	1,885,932
Transfer from Asset Renewal Reserve	-	-	-	-	(578,100)	(622,636)	(234,809)	-	(450,387)	-	(1,885,932)
Annual Total	-	-	-	1,435,545	(578,100)	(622,636)	(234,809)	450,387	(450,387)	-	-
Cumulative Total	-	-	-	1,435,545	857,445	234,809	-	450,387	-	-	
Total Use of Proposed SRV Income	-	1,631,648	3,372,788	5,293,485	5,425,822	5,561,467	5,700,504	5,843,016	5,989,091	6,138,820	44,956,641
Difference Between Additional SRV Income and Uses	-	-	-	-	-	-	-	-	-	-	-

The Asset Management Plans and Asset Management Strategy have been prepared based on Scenario 2. A comparison of the two scenarios against key financial indicators has been included below.

There are four key indicators for asset management and sustainability utilised in the Asset Management Plans and Strategy:

1. Asset Sustainability Ratio	Estimated Capital Renewal LTFP / Projected capital renewal Exp. AMP
2. Long Term – Life Cycle Indicator	Life cycle expenditure / life cycle cost
3. Medium Term – 10 Year Financing Indicator	LTFP Budget Exp. / 10 year Projected Exp.
4. Short Term – 5 Year Financing Indicator	LTFP Budget Exp. / 5 year Projected Exp.

Life cycle costs (or whole of life costs) are the average costs that are required to sustain the service levels over the longest asset life. Life cycle costs include operating and maintenance expenditure and asset consumption (depreciation expense). Life cycle costs can be compared to life cycle expenditure to give an indicator of sustainability in service provision.

Life cycle expenditure includes operating and maintenance expenditures plus capital renewal expenditure. Life cycle expenditure will vary depending on the timing of asset renewals.

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 the life cycle cost there is a '**life cycle gap**' and it is most likely that outlays will need to be increased or cuts in services made in the future.

The Asset Sustainability Ratio is the most important indicator and reveals whether projected capital renewal and replacement expenditure are able to be financed in the long-term financial plan. Council's Financial Planning Policy outlines a target range of between 90% - 110%. The 4 key indicators are detailed in the following table for the General Fund assets only:

	Scenario 1 - Base Case	Scenario 2 - Base Case Plus SRV
<i>SUSTAINABILITY INDICATORS</i>		
Asset Sustainability Ratio		
Asset Sustainability Ratio	74%	95%
Long Term - Life Cycle Costs		
Life Cycle Cost [average 10 years projected ops, maintenance expenditure and depreciation.]	\$51,924	\$51,924
Life Cycle Expenditure [average 10 years LTFP budget ops, maintenance & capital renewal expenditure]	\$39,934	\$44,697
Life Cycle Gap [life cycle expenditure – life cycle cost (-ve = gap)]	(\$11,990)	(\$7,229)
Life Cycle Indicator [life cycle expenditure / life cycle cost]	77%	86%
Medium Term - 10 year financial planning period		
10 year Operations, Maintenance & Renewal Projected Expenditure	\$47,726	\$47,726
10 year Operations, Maintenance & Renewal LTFP Budget Expenditure	\$39,934	\$44,696
10 year financing shortfall [10 year projected expenditure - LTFP Budget expenditure]	(\$7,792)	(\$3,031)
10 year financing indicator [LTFP Budget expenditure / 10 year projected expenditure]	84%	94%
Short Term – 5 year financial planning period		
5 year Operations, Maintenance & Renewal Projected Expenditure	\$42,138	\$42,138
5 year Operations, Maintenance & Renewal LTFP Budget Expenditure	\$36,174	\$39,229
5 year financing shortfall [5 year projected expenditure - LTFP Budget expenditure]	(\$5,964)	(\$2,909)
5 year financing indicator [LTFP Budget expenditure / 5 year projected expenditure]	86%	93%

Scenario 1 – Base Case, No SRV

The medium term projected expenditure for Scenario 1 is \$47.7M per year per the General Fund Asset Management Plans (average operations and maintenance expenditure plus projected renewals required over 10 years).

The medium term LTFP budgeted expenditure over the 10 year planning period is \$39.9M per year (average operations and maintenance plus capital renewal budgeted expenditure in the LTFP over 10 years).

The financing shortfall is \$7.8M per year, a medium term (10 year) financing indicator of 84%. This scenario is not financially sustainable in the long term. Infrastructure renewals aren't performed when required under this scenario, generating a backlog of renewal works. With the ageing infrastructure, asset conditions will deteriorate which significantly increases levels of risk and potential of failure. Levels of service will have to decrease to sustain available funding.

The Asset Sustainability Ratio indicates Council will have 74% of the funds required for the optimal renewal and replacement of its assets, this is outside Council's target range of 90% to 110%. The

ratio indicates assets are deteriorating at a greater rate than the budgeted capital expenditure on renewals and replacements.

Scenario 2 – Base Case PLUS Section 508(A) SRV 8% p.a. (inclusive of an actual rate peg of 2.3% for 2018/19 and an assumed rate peg of 2.5% p.a. for 2019/20 and 2020/21), from 2018/19 to 2020/21, which is a cumulative increase of 25.97% inclusive of rate peg to be retained permanently in Council's rate base

The medium term projected expenditure for Scenario 1 is \$47.7M per year per the General Fund Asset Management Plans (average operations and maintenance expenditure plus projected renewals required over 10 years).

The medium term LTFP budgeted expenditure over the 10 year planning period is \$44.7M per year (average operations and maintenance plus capital renewal budgeted expenditure in the LTFP over 10 years).

The financing shortfall is \$3.0M per year, a medium term (10 year) financing indicator of 94%. This scenario is financially sustainable in the long term. Council will be able to maintain the condition of infrastructure assets in a sustainable fashion. Performing renewals as they are required will stop the deterioration and failure of assets reducing the levels of risk. Levels of service can be maintained at current levels.

The Asset Sustainability Ratio indicates Council will have 95% of the funds required for the optimal renewal and replacement of its assets, this is within Council's target range of 90% to 110%. The ratio indicates optimised budgeted capital expenditure assisting in minimising the life cycle costs of the assets.

The following Asset Management Plan summaries have been prepared on Scenario 2 from the Revised 2017/18 to 2026/27 Long Term Financial Plan Version 2: