

Issues Paper

Asset Management

Issue

Asset management involves the provision of infrastructure that is relevant to the community's needs, appropriately maintained, and for which replacement or renewal arrangements have been made. Financial decisions relating to assets form part of the asset management process, as does consultation that leads to the determination of a level of service appropriate to the community's needs.

Background

Asset management in Hornsby is underpinned by plans prepared for the following six key asset classes: Roads, Stormwater Drainage, Foreshore Facilities, Public Buildings, Open Spaces and Leisure Facilities. Effective financial management supports the life cycle management approach in respect of the commissioning, operation, maintenance, renewal and eventual disposal of an asset.

Asset Management Plans have been prepared for each of the six asset classes and enable the technical and financial management of Council's assets at an agreed level of service, having regard to the available funds. The Asset Management Plans formalise the process of managing the financial and physical requirements for the life of the plan (typically 20 years), and cover the following:

- Level of Service
- Future Demand
- Life Cycle Management
- Financial Forecasts
- Monitoring and Improvement

Lifecycle management enables Council to undertake planned actions that will ensure that the asset operates at the agreed and desired level of service throughout its effective life. The application of appropriate maintenance strategies at selected stages of the asset's life enables its useful life to be extended over a considerably longer period than would otherwise be possible.

Current Status

The Australian Local Government Association (ALGA) released its report on the financial sustainability of Australia's councils in November 2006. The report found, amongst other things:

- that up to 30 percent of Australia's councils face viability issues
- financial risks are typically caused by a failure to renew and maintain ageing infrastructure
- access to a new pool of funding to support community infrastructure is warranted

Hornsby Shire Council (HSC) currently holds assets with a carrying value of \$1.707 billion (Note 9 to HSC Financial Statements at 30/06/09). Of these assets, the infrastructure that primarily consumes maintenance, upgrade, renewal and new creation expenditure comprises:

Roads, bridges & footpaths:	\$167M
Stormwater drainage:	\$ 77M
Buildings:	\$88M
Community land:	\$1,170M

(particularly that part being sportsgrounds, parks & reserves).

The current estimated shortfall to bring these assets up to a satisfactory standard is \$25.825M, with stormwater drainage recording the largest degree of shortfall at \$12M (as per Special Schedule No.7 – Condition of Public Works contained in Councils external Financial Statements). While Council's relative shortfall compares favourably to that calculated in the Allan Report for all NSW councils, the bad news is that Council is not targeting the closure of the gap and the gap itself is set to grow substantially.

An unsatisfactory condition of infrastructure carries with it contingent liabilities. From a financial perspective alone, if for no other reason, maintaining assets in a satisfactory condition must be a core objective. (See Allan Report: Executive Summary p.13).

Development contributions (s94 levies) cannot be utilised for the purpose of asset renewal as renewal relates to existing not new facilities. Council will have to fund any shortfall not attributable to growth from other sources. With our income highly dependant on rates which is not keeping pace with increases to expenditure may result in reduced asset renewal and capital expenditure works.

While the CPI has grown by 42.5% between 1992 and 2006, Works Division has calculated the increase in construction costs in the same period as 122%.

Key Considerations

There are a number of issues associated with the provision of infrastructure assets throughout the Shire:

- Increasing community expectations, where the community demands a higher level of service or the provision of a new service
- Changing community expectations, where there is pressure on Council to provide services or facilities that were not previously the responsibility of local government
- Escalating costs of the provision, maintenance and replacement of the asset
- The ageing of much of the built infrastructure assets in the Shire
- Increasing environmental standards
- Changes in technology that either renders assets obsolete, or prompts upgrades ahead of pre-determined schedules
- Changes to long-established funding arrangements arising from the withdrawal of State or Commonwealth funding

Road assets are currently being maintained to a relatively high level of service with the funds available to Council being supplemented by the Federal Government's Roads to Recovery program. The loss of this funding will have an adverse effect on current levels of maintenance.

Stormwater drainage assets are generally being maintained to an acceptable level of service with available funding, however significant funds are required to make residential and industrial properties flood free for a 1 in 100 year storm event. This work is currently unfunded.

Foreshore facilities are currently being maintained at a safe level of service, however a long term replacement program must be considered if the safe level is to be maintained.

Public buildings are currently provided at a safe and functional level of service with the funds available; however upgrades are not possible with current funding levels. Utilization of some of these assets is considered less than optimal.

Open space (including bushland) facilities are currently being maintained at a safe level of service, but changing weather conditions and increased intensity of usage is having an adverse impact on the long term value of these assets. Upgrades of ageing and inadequate infrastructure are not possible with current funding levels.

Leisure facilities generally require major expenditure to meet community expectations, with the Hornsby Aquatic Centre nearing the end of its effective life.

Unfunded infrastructure projects requested by the community include:

Hornsby Aquatic Centre	\$15 million +
Old Mans Valley Open Space	\$10 million +
Brickpit Stadium extension	\$4 million
Berowra Learn to Swim facility	\$2.5 million
Unfunded open space	\$15.5 million
Refurbishment of Epping and Galston Aquatic Centres	No estimate available
Replacement of the Hornsby pedestrian overbridge	No estimate available
Drainage construction and amplification programme	No estimate available
Community buildings	No estimate available

Conclusions

The current levels of service provided for the infrastructure assets have been based on corporate goals, available funding, traditional methods of service delivery at a standard developed on the basis of historical community expectation and legislative requirements. Changing environmental and community expectations have also influenced Council practices.

Recommendations

1. That Council continue to manage its infrastructure assets in accordance with the asset management plans it has prepared, having regard for community expectations, the environment and available funds.
2. That Council act now to improve the Shire's ageing infrastructure and facilities to meet the changing needs of the community.