



Financial Management of Long-Life Assets

**Balancing Benefits &
Whole of Life Cycle Costs**

The Why, What, How?

- **Why Does it matter:** An organisation is sustainable if its infrastructure and financial capital is able to be maintained over the long term. Sound financial management of our long life assets drives sustainability, as well as providing services for the community
- **What is it:** Financial management for long life infrastructure is about achieving the right balance between cost, risk and performance of assets in the provision of services required by our community.
- **How:** Our Infrastructure is a vessel in which these services are provided to the community.





Service Levels

- The shires infrastructure provides services to the community, for example, our roads provide the service of safe travel through the community, Our leisure centre provides the service of health and entertainment etc, the East Kimberley Regional airport provides the service of accessibility etc.
- Service levels is the measurement of the total service that our asset(s) provide.

Service Level Risks

- **Service Level Ceiling & Opportunity Cost** - There is an upper limit of services that the Shire can provide dictated by our available resources. Money spent on one asset, reduces the amount of resources available for other assets.
- **Service Level Degradation** - Occurs when assets aren't renewed as they fall due. Results in assets becoming expensive, whilst providing lower economic benefits.



Asset Life Cycle Cost

The Real Cost of an Asset

The total life cycle cost of an asset can be calculated as

Acquisition Cost (Point A)

Operation Costs (Operating Expenditure)

Maintenance (Operating Expenditure)

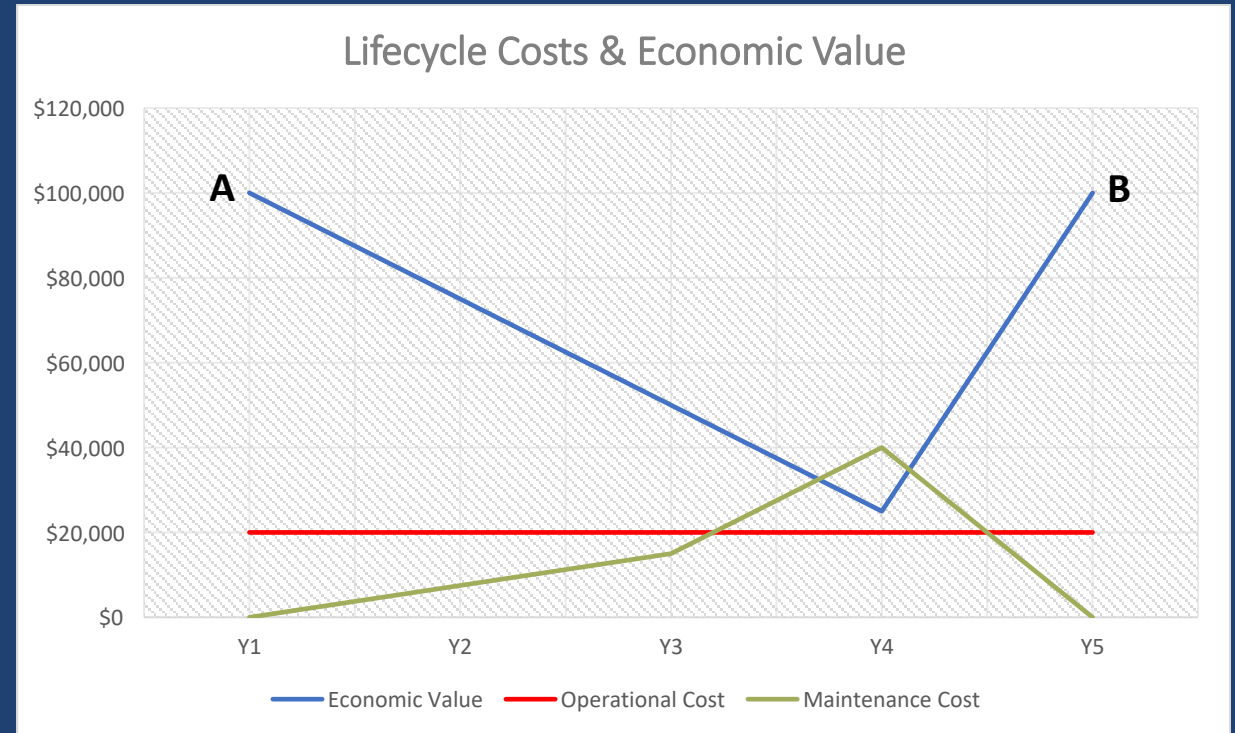
Renewal (Point B)

$$\text{Total Life Cycle Cost} = A + O + M + R$$



Strategic Impact of Life Cycle Costs

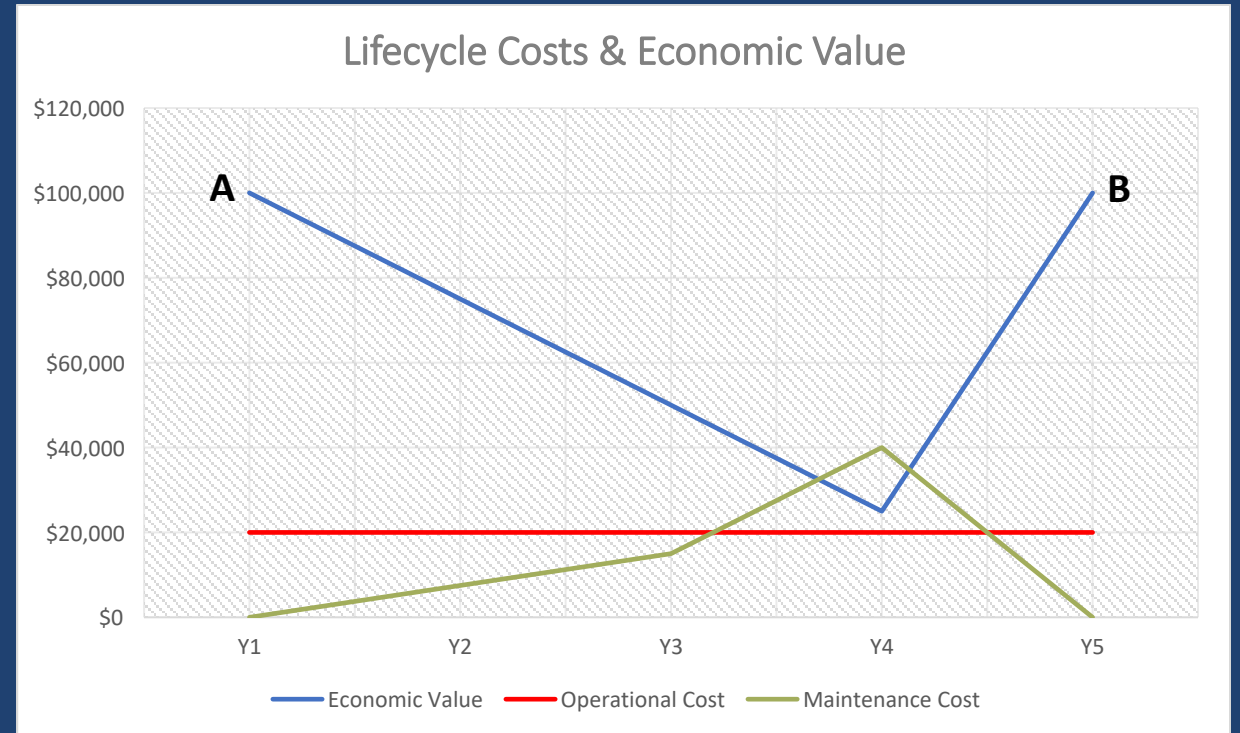
- Depreciation represents the reduction in an assets economic value.
- This occurs over time as it is used/consumed.
- As the asset ages, the service levels it provides decreases, whilst the maintenance costs increase.
- The service level of an asset is at its highest at **A**. This represents the **Acquisition**.
- The asset will continue to become less efficient until it is **Renewed**, this is shown at **B**



Strategic Impact of Life Cycle Costs

WHAT DOES THIS MEAN

- As an asset ages, it provides less benefit to the community
- At the same time it becomes more expensive to run, due to increases in maintenance costs (efficiency is reduced)
- This is known as **Asset Degradation**



When Should We Renew?

- Depreciation is an indicator of how much money that should be allocated each year towards renewing the Shires assets
- Depreciation does not account for the costs involved for operating and maintaining our assets.
- It is an indicator only, other factors such as natural disasters and current market prices can influence the real amount required



Our Situation

Our 23/24 Depreciation figure was \$ 9,287,024, whilst our rates revenue was \$11,638,591. That indicates that 80% of our rates revenue should be allocated to renewal each year. When we consider our other revenue and expenses, the actual cash available for renewals can be calculated as

Operating Surplus/(Deficit)	(\$ 3,840,682)
Add Depreciation	\$ 9,791, 370
<u>Equals Cash from Operations</u>	<u>\$5, 950, 688</u>

Add,

Capital Grants Available for Operations (asset maintenance)
(Roads 2 Recovery, Regional Roads Group) \$ 1,750, 000

Cash Available for Renewals

\$ 7,700,688

*Figures from our 23/24 AFS



Our Situation

We can then Calculate our renewal shortfall by

Cash Available for Renewals	\$ 7,700,688
Less Depreciation	(\$ 9,791,370)
Renewal Shortfall	(\$ 2,090,682)

It is currently estimated that the Shires total renewal shortfall is approximately \$50m.

It is forecasted with our current capital works project that this figure could reach as high as \$85m by 2034 **not accounting for CPI**



Solution

- **Continue works on Local Government Sustainability** by advocating for a funding model that allows us to renew our assets when they fall due
- **Improve Communications & Develop financial metrics that aim to**
 - Identifies assets that align with our strategic and community goals,
 - Adequately considers all asset lifecycle costs
 - Identify poorly performing assets – and consider actions
 - Assess Renewal Stress that new projects may cause.
- **Assess the long term costs** of proposed projects against the long term rates requirement
- **Prioritise asset renewals** to reduce the burden of maintenance costs.

