



Institute of
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Australia



AUSTRALIAN INFRASTRUCTURE FINANCIAL MANAGEMENT GUIDELINES



Version 1.3 – 2012

The Australian Infrastructure Financial Management Guidelines is a joint initiative of the Institute of Public Works Engineering Australia's National Asset Management Strategy committee (NAMS.AU) and the National Local Government Financial Management Forum. The Guidelines were developed with both public sector and private industry input from throughout Australia. They have been developed to promote best asset and financial management practice for all infrastructure assets regardless of ownership or location.

Important Note to Readers

This is Update 3 to the first version of the Australian Infrastructure Financial Management Guidelines.

For amendments, corrections and updates to this Version, please visit www.ipwea.org.au/AIFMG.

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Updates

Minor updates and corrections to the Guidelines will be available in PDF format for download free of charge from the Guidelines web site www.ipwea.org.au/AIFMG.

Major updates will be published as a new Version of the Guidelines. Information on purchase and availability of major updates will be available from the Guidelines web site www.ipwea.org.au/AIFMG.

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GLOSSARY

Accounting policies

The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Accounting standards

A set of rules that govern the way in which financial statements are prepared to ensure that these statements are comparable through time for an entity and across similar entities.

Accrual accounting

Recognition of assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework for the Preparation and Presentation of Financial Statements. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of the obligations to pay cash in the future and of resources that represent cash to be received in the future.

Activity

An activity is the work undertaken on an asset or group of assets to achieve a desired service outcome. The activity is the level at which services are identified in a Program, Sub-Program, Activity based budgeting system.

Advanced asset management (AAM)

Asset management which employs predictive modelling, risk management and optimised decision-making techniques to establish asset lifecycle treatment options and related long term cashflow predictions (See also Core Asset Management)

Amortisation

The systematic allocation of the depreciable amount of an *intangible* asset over its useful life.

Annual Plan

A document produced annually by an organisation to inform stakeholders of its objectives, intended activities, performance, income, and expenditure required for a period of one financial year. It may also indicate anticipated future short-term income and expenditure (See also Management Plan and Operational Plan).

Annual service cost (ASC)

- 1) Reporting actual cost
The annual (accrual) cost of providing a service including operating, maintenance, depreciation, finance/opportunity and disposal costs less revenue.
- 2) For investment analysis and budgeting
An estimate of the cost that would be tendered, per annum, if tenders were called for the supply of a service to a performance specification for a fixed term. The Annual Service Cost includes operating, maintenance, depreciation, finance/opportunity and disposal costs, less revenue.

Asset

A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. Infrastructure assets are a sub-class of property, plant and equipment which are non-current assets with a life greater than 12 months and enable services to be provided.

Asset – Property Plant & Equipment

A tangible item that is:

- held for use in the production or supply of goods or services, for rental to others, or for administration purposes, and
- expected to be used during more than one period.

Asset category

Sub-group of assets within a class hierarchy for financial reporting and management purposes.

Asset class

A group of assets having a similar nature or function in the operations of an entity, and which, for purposes of disclosure, is shown as a single item without supplementary disclosure.

Asset condition assessment

The process of continuous or periodic inspection, assessment, measurement and interpretation of the resultant data to indicate the condition of a specific asset so as to determine the need for some preventative or remedial action.

Asset consumption ratio

The average proportion of 'as new condition' left in assets. The ratio shows the depreciated replacement cost of an entity's depreciable assets less their residual value relative to their depreciable amount.

Asset hierarchy

A framework for segmenting an asset base into appropriate classifications. The asset hierarchy can be based on asset function or asset type or a combination of the two.

Asset management (AM)

The combination of management, financial, economic, engineering and other practices applied to physical assets with the objective of providing the required level of service in the most cost-effective manner.

Asset management coordinator

The person appointed by an organisation to ensure the corporate asset management goals, objectives and legal obligations are met. The asset management coordinator may also be required to lead the asset management team.

Asset management information system

An asset management system is a combination of processes, data and software applied to provide the essential outputs for effective asset management such as reduced risk and optimum infrastructure investment.

Asset management plan

A plan developed for the management of one or more infrastructure assets that combines multi-disciplinary management techniques (including technical and financial) over the lifecycle of the asset in the most cost effective manner to provide a specified levels of service. A significant component of the plan is a long-term cashflow projection for the activities.

Asset management strategy

A strategy for asset management covering the development and implementation of plans and programmes for asset creation, operation, maintenance, rehabilitation/replacement, disposal and performance monitoring to ensure that the desired levels of service and other operations objectives are achieved at optimum cost.

Asset management team

The team appointed by an organisation to review and monitor the corporate asset management improvement programme and ensure the development of integrated asset management systems and plans consistent with organisational goals and objectives.

Asset register

A record of asset information considered worthy of separate identification including inventory, historical, condition, construction, technical and financial information about each.

Asset renewal funding ratio (ARFR)

The ratio of the net present value of asset renewal and replacement funding accommodated over a 10 year period in a long term financial plan relative to the net present value of projected asset capital renewal and replacement expenditure identified in an asset management plan for the same period [AIFMG Financial Sustainability Indicator No 4].

Asset sustainability ratio (ASR)

The ratio of asset replacement expenditure relative to depreciation for a period. It measures whether assets are being replaced at the rate they are wearing out [AIFMG Financial Sustainability Indicator No 3].

Australian Accounting Standards Board (AASB)

The AASB is an independent agency of the Australian Government with responsibility to make accounting standards under section 334 of the Corporations Act, to formulate accounting standards for other purposes and to participate in and contribute to the development of a single set of international accounting standards for worldwide use. The Chairman of the AASB reports to the Minister for Superannuation and Corporate Law regarding the organisation's operations.

Australian Equivalents to International Financial Reporting Standards

Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are equivalent to Standards and Interpretations that are issued by the International Accounting Standards Board (IASB).

Average annual asset consumption (AAAC)

The amount of an organisation's asset base consumed during a reporting period (generally a year). This may be calculated by dividing the depreciable amount by the useful life (or total future economic benefits/service potential) and totalled for each and every asset OR by dividing the carrying amount (depreciated replacement cost) by the remaining useful life (or remaining future economic benefits/service potential) and totalled for each and every asset in an asset category or class.

Backlog

The term 'backlog' is not used in these guidelines. See preferred term - Unfunded renewals.

Balance Sheet

A financial statement that presents assets, liabilities and equity of an entity at a given point of time (Alternatively referred to as the Statement of Financial Position).

Bargain purchase option

A clause in the lease agreement allowing the lessee to purchase the asset at the end of the lease for a preset amount, significantly less than the expected residual value at the end of the lease term.

Benefit-cost ratio (B/C)

The sum of the present values of all benefits (including residual value, if any) over a specified period, or the lifecycle, of the asset or facility, divided by the sum of the present value of all costs.

Borrowings

A borrowing or loan is a contractual obligation of the borrowing entity to deliver cash or another financial asset to the lending entity over a specified period of time or at a specified point in time, to cover both the initial capital provided and the cost of the interest incurred for providing this capital. A borrowing or loan provides the means for the borrowing entity to finance outlays (typically physical assets) when it has insufficient funds of its own to do so, and for the lending entity to make a financial return, normally in the form of interest revenue, on the funding provided.

Brookes Law

A method of assessing tenders for contracts where tenders are assessed solely on non-price (quality) attributes, and price negotiations are entered into with the highest attribute scorer.

Brownfield asset values

See under Valuation.

Brownfield valuation

See under Valuation.

Business Plan

A plan produced by an organisation (or business units within it) which translates the objectives contained in an Annual Plan into detailed work plans for a particular, or range of, business activities. Activities may include marketing, development, operations, management, personnel, technology and financial planning.

Capital expenditure

Relatively large (material) expenditure, which has benefits, expected to last for more than 12 months. Capital expenditure includes renewal, expansion and upgrade. Where capital projects involve a combination of renewal, expansion and/or upgrade expenditures, the total project cost needs to be allocated accordingly.

Capital expenditure - expansion

Expenditure that extends the capacity of an existing asset to provide benefits, at the same standard as is currently enjoyed by existing beneficiaries, to a new

group of users. It is discretionary expenditure, which increases future operating, and maintenance costs, because it increases the organisation's asset base, but may be associated with additional revenue from the new user group, eg. extending a drainage or road network, the provision of an oval or park in a new suburb for new residents.

Capital expenditure - new

Expenditure which creates a new asset providing a new service/output that did not exist beforehand. As it increases service potential it may impact revenue and will increase future operating and maintenance expenditure.

Capital expenditure - renewal

Expenditure on an existing asset or on replacing an existing asset, which returns the service capability of the asset up to that which it had originally. It is periodically required expenditure, relatively large (material) in value compared with the value of the components or sub-components of the asset being renewed. As it reinstates existing service potential, it generally has no impact on revenue, but may reduce future operating and maintenance expenditure if completed at the optimum time, eg. resurfacing or resheeting a material part of a road network, replacing a material section of a drainage network with pipes of the same capacity, resurfacing an oval.

Capital expenditure - upgrade

Expenditure, which enhances an existing asset to provide a higher level of service or expenditure that will increase the life of the asset beyond that which it had originally. Upgrade expenditure is discretionary and often does not result in additional revenue unless direct user charges apply. It will increase operating and maintenance expenditure in the future because of the increase in the organisation's asset base, eg. widening the sealed area of an existing road, replacing drainage pipes with pipes of a greater capacity, enlarging a grandstand at a sporting facility.

Capital funding

Funding to pay for capital expenditure.

Capital grants

Revenues received generally from other spheres of government that are tied to specific projects or purposes, which are often for capital upgrade and/or expansion or new investments.

Capital income

See under Income.

Capital investment expenditure

See Capital expenditure definition.

Capitalisation threshold

The value of expenditure on non-current assets above which the expenditure is recognised as capital expenditure and below which the expenditure is charged as an expense in the year of acquisition.

Carrying amount

The amount at which an asset is recognised in the balance sheet after deducting any accumulated depreciation / amortisation and accumulated impairment losses.

Cash

Includes cash on hand, currency, cheques, money orders or electronic transfer that a bank will accept as a deposit and demand deposits.

Cash equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flow

Cash flows are inflows and outflows of cash and cash equivalents.

Cash flow statement

See Statement of Cash Flows.

Cash-generating unit (CGU)

The smallest identifiable group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets.

Closed circuit television (CCTV)

The use of video cameras to transmit a signal to a specific place or limited set of television monitors. CCTV methods are used to inspect pipeline assets by sending a mobile video camera along the length of the pipe to visually record the interior.

Complex asset

A physical item of property plant and equipment that is capable of disaggregation into significant components.

Component (of an asset)

Specific parts of an asset having independent physical or functional identity and having specific attributes such as different life expectancy, maintenance regimes, risk or criticality.

Component (of an entity)

Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

Condition-based preventive maintenance

Preventive maintenance initiated as a result of knowledge of an item's condition from routine or continuous monitoring.

Condition monitoring

Continuous or periodic inspection, assessment, measurement and interpretation of the resultant data, to indicate the condition of a specific component so as to determine the need for some preventive or remedial action.

Control

The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Core asset management

Asset management which relies primarily on the use of an asset register, maintenance management systems, job resource management, inventory control, condition assessment, simple risk assessment and defined levels of service, in order to establish alternative treatment options and long-term cashflow predictions. Priorities are usually established on the basis of financial return gained by carrying out the work (rather than detailed risk analysis and optimised decision-making).

Corrective maintenance

The remedial actions performed as a result of failure, to restore an item to a specified condition. Corrective maintenance may or may not be programmed.

Cost of an asset

The amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction, including any costs necessary to place the asset into service. This includes one-off design and project management costs.

Costs of disposal

The incremental costs directly attributable to the disposal of an asset or a group of assets, excluding finance costs and income tax expense.

Critical assets

Assets for which the financial, business or service level consequences of failure are sufficiently severe to justify proactive inspection and rehabilitation. Critical assets have a lower threshold for action than non-critical assets.

Current assets

Those assets which the entity either:

- (a) intends to sell or consume in its normal operating cycle; or,
- (b) holds primarily for the purpose of trading; or,
- (c) expects to realise the asset within twelve months after the reporting date; or
- (d) holds and are cash or a cash equivalent (and are not restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period).

Current liability

A liability that the entity either:

- (a) expects to settle in its normal operating cycle; or,
- (b) holds primarily for the purpose of trading; or,
- (c) is due to be settled within twelve months after the end of the reporting date; or
- (d) does not have an unconditional right to defer settlement of for at least twelve months after the reporting date.

Current replacement cost (CRC)

The cost the entity would incur to acquire the asset on the reporting date. The cost is measured by reference to the lowest cost at which the gross future economic benefits could be obtained in the normal course of business or the minimum it would cost, to replace the existing asset with a technologically modern equivalent new asset (not a second hand one) with the same economic benefits (gross service potential) allowing for any differences in the quantity and quality of output and in operating costs.

Data warehouse

A system that is used to centralise a group of disparate databases in an organisation to facilitate access into each of those databases.

Decommission

Activities required to take an asset out of service.

Deferred maintenance

The shortfall in rehabilitation work undertaken relative to that required to maintain the service potential of an asset.

Delphi approach

A group decision-making technique where a number of people are asked their opinions, which are then analysed to produce a best fit result.

Demand management

The active intervention in the market to influence demand for services and assets with forecast consequences, usually to avoid or defer capital expenditure. Demand management is based on the notion that as needs are satisfied, expectations rise

automatically and almost every action taken to satisfy demand will stimulate further demand.

Depreciable amount

The cost of an asset, or other amount substituted for its cost, less its residual value.

Depreciated replacement cost (DRC)

The current replacement cost (CRC) of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

Depreciation / amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

Depreciation method

The method used to allocate the depreciable amount of an asset over its useful life. This includes, for example the straight-line, diminishing balance or units of production methods.

Deprival value

The value of an asset to the present owner, if the owner were deprived of the asset. Assets are valued at an amount that represents the entire loss that might be expected to be incurred if the entity were deprived of the service potential or future economic benefits of particular assets at the reporting date. If an entity no longer requires, or no longer intends, to provide a service, the nature of the asset changes and the measurement of the asset's deprival value may change. But the concept of deprival value remains applicable to the asset. This is a valuation basis that includes the non-market concept of the value in use of assets as part of a going concern.

Deterioration rate

The rate at which an asset approaches failure.

Discounted cash flow analysis

A method of valuing a project, company, or financial asset or liability based on the concept of the time value of money. All future cash flows and their timing are estimated and discounted to give them a present value. The discount rate used is generally the appropriate cost of capital, and may incorporate judgments of the uncertainty (riskiness) of the future cash flows.

Discounting

A technique for converting cash flows that occur over time to equivalent amounts at a common point in time.

Discount rate

A rate used to relate present and future money values, e.g. to convert the value of all future dollars to the value of dollars at a common point in time, usually the present (see also Effective interest rate).

Disposal

Activities necessary to dispose of decommissioned assets.

Economic life

The period over which an asset is expected to be economically useable by one or more users or the number of production or similar units expected to be obtained from the asset by one or more users.

Economic value

The value of an asset deriving from its ability to generate income which is measured by discounting the net cashflow of the asset by an appropriate risk adjusted discount rate. For non-cash generating assets, the economic value is the value of the goods and services produced or provided to meet the entity's objectives.

Effective interest rate

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the asset to the net carrying amount of that asset or liability.

Entity

Any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives.

Equity

The residual interest in the assets of the entity after deducting all of its liabilities.

Expenditure

The spending of money on goods and services. Expenditure includes recurrent and capital outlays.

Expenses

Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or increases in liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Facilities audit

The physical audit of a facility, usually required for valuation, life-cycle cost analysis, short-term maintenance planning and long-term planning purposes.

Facility

A complex comprising many assets (e.g. a hospital, water treatment plant, recreation complex, etc.) which represents a single management unit for financial, operational, maintenance or other purposes.

Failure Modes, Effects and Criticality Analysis (FMECA)

A technique for analysing and evaluating a maintenance strategy or life-cycle strategy to ensure that the application has the desired reliability characteristics by obviating those critical failure modes through employment of redundancy, providing alternate modes of operation, de-rating, or any other means.

Fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arms length transaction.

Finance lease

A lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Financial asset

Cash or an equity instrument of another entity or a contractual right or similar that can readily be converted to cash. For example, financial assets include cash deposits, fixed deposits, receivables and investments.³

Financial liability

A contractual obligation to deliver to another entity cash or similar that can readily be converted to cash. For example financial liabilities include bank overdrafts, accounts payable, borrowings and amounts owing under finance leases but exclude liabilities for taxes, operating leases and provisions for outstanding employee entitlements.⁴

Financial plan

A long-term financial plan is a plan for generating, spending and saving future income and raising and repaying borrowings as appropriate. It will cover a period of at least 3 years but preferably longer and will highlight the financial implications of an entity's proposed activities and anticipated events.

³ Refer AASB 132 *Financial Instruments: Presentation* for a more comprehensive definition.

⁴ Refer AASB 132 *Financial Instruments: Presentation* for a more comprehensive definition.

Financial Report (statements)

The financial report consists of a statement of financial position (balance sheet), statement of comprehensive income (income statement), a statement of cash flows, a statement of changes in equity and notes which are an integral part of the financial statements. The objective of financial statements is to provide information about the financial position, performance and cash flows that is useful to a wide range of users for making economic decisions.

Financial Reporting Council (FRC)

Responsible to the Minister for Superannuation and Corporate Law, the FRC provides broad strategic direction and advice to the AASB and AUASB and has oversight of the process for setting accounting standards in Australia. The FRC appoints Board members to the AASB and AUASB various terms.

Financial sustainability for local governments

A local council is sustainable if its infrastructure capital and financial capital is able to be maintained over the long term. Financial sustainability for local governments is being able to manage likely developments and unexpected financial shocks in future periods without having at some time to introduce substantial and economically significant or socially destabilising revenue or expenditure adjustments.

Financing gap

A financing gap exists whenever an entity has insufficient capacity to finance asset renewal and other expenditure necessary to be able to appropriately maintain the range and level of services its existing asset stock was originally designed and intended to deliver. The service capability of the existing asset stock should be determined assuming no additional operating revenue, productivity improvements, or net financial liabilities above levels currently planned or projected. A current financing gap means service levels have already or are currently falling. A projected financing gap if not addressed will result in a future diminution of existing service levels.

Focus group

A method of consulting with representative customers/stakeholders. A focus group typically comprises 6 to 8 people, invited to participate in a discussion about a specified topic, product or service.

Framework

The “Framework for the Preparation and Presentation of Financial Statements” is a pronouncement of the Australian Accounting Standards Board that sets out: the objective of financial statements; assumptions and qualitative

characteristics underlying financial reports; elements of financial reports and recognition criteria for these elements.

Future economic benefit

The future economic benefit embodied in an asset is the potential to contribute directly, or indirectly, to the flow of cash or cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows. For not-for-profit entities, whether in the public or private sector, the future economic benefits are also used to provide goods and services in accordance with the entity’s objectives. Future economic benefits are synonymous with the notion of service potential and are used as a reference also to service potential. Future economic benefits can be described as the scarce capacity to provide benefits to the entities that use them and is common to all assets irrespective of their physical or other form.

Future reinstatement cost

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs whether the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during the period.

Gain on disposal of asset

When the consideration received on the disposal of an asset is greater than the carrying amount of the asset in the accounts of the selling entity.

Gap analysis

A method of assessing the gap between a business's current asset management practices and the future desirable asset management practices. Also called needs analysis.

Generally Accepted Accounting Principles (GAAP)

Approved financial reporting standards so far as those standards apply to a particular entity; or, where there are no approved standards, accounting policies that are appropriate to the entity and have authoritative support within the accounting profession.

General Purpose Financial Report

A financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

Geographic Information System (GIS)

Software which provides a means of spatially viewing, searching, manipulating, and analysing an electronic database.

Going concern

An assumption made by accountants in preparing financial statements that the entity is expected to continue in operation for the foreseeable future.

Greenfield valuation

See under Valuation.

Heritage asset

An asset with historic, artistic, scientific, technological, geographical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it.

Impairment Loss

The amount by which the carrying amount of an asset exceeds its recoverable amount.

Income

Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants (contributed capital). The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent. Gains represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of the entity. Gains represent increases in economic benefit and include, for example, those arising on the disposal of non-current assets.

- **Capital income** includes gain on disposal of non-financial assets, grants and contributions received specifically for new or upgraded assets and physical resources received free of charge, e.g. from a developer.
- **Operating Income** is income shown in the Statement of Comprehensive Income other than capital income.

Inflation rate

A rate of increase applied to costs incurred at a future date to reflect the comparative purchasing power of money relative to a particular time, usually the present.

Infrastructure assets

Physical assets that contribute to meeting the needs of organisations or the need for access to major economic and social facilities and services, eg. roads, drainage, footpaths and cycleways. These are typically large, interconnected networks or portfolios of composite assets. The components of these assets may be separately maintained, renewed or replaced individually so that the required level and standard of service from the network of assets is continuously sustained. Generally the components and hence the assets have long lives. They are fixed in place and are often have no separate market value.

Intangible Asset

An identifiable non-monetary asset without physical substance.

Interest cover ratio

The proportion of day-to-day income used to pay interest on loans net of interest income. The ratio indicates the extent to which an entity's operating income is committed to meet interest expense.

Interest rate implicit in the lease rate

The discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor.

Internal rate of return (IRR)

The discount (or interest) rate which will equate the present value of the net cash inflows from a project with its initial cash outlay. The internal rate of return is the true yield and is expressed as the average rate of return per annum or other chosen period.

International Financial Reporting Standards (IFRSs)

Are Standards and Interpretations adopted by the International Accounting Standards Board (IASB) (Refer to Australian equivalents to IFRS).

Inventories

Assets held for sale in the ordinary course of business, in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Investment property

Property held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Key performance indicator

A qualitative or quantitative measure of a service or activity used to compare actual performance against a standard or other target. Performance indicators commonly relate to statutory limits, safety, responsiveness, cost, comfort, asset performance, reliability, efficiency, environmental protection and customer satisfaction.

Lease

An agreement whereby the lessor conveys to the lessee in return for a series of payments the right to use an asset for an agreed period of time

Lease term

The non-cancellable period for which the lessee has contracted to lease the asset, together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Level of service

The defined service quality for a particular service/activity against which service performance may be measured. Service levels usually relate to quality, quantity, reliability, responsiveness, environmental impact, acceptability and cost.

Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Life

A measure of the anticipated life of an asset or component; such as time, number of cycles, distance intervals, etc.

Life-cycle

The cycle of activities that an asset (or facility) goes through while it retains an identity as a particular asset ie from planning and design to decommissioning or disposal.

Life cycle cost

1. **Total LCC** The total cost of an asset throughout its life including planning, design, construction, acquisition, operation, maintenance, renewal and disposal costs.
2. **Average LCC** The life cycle cost (LCC) is average cost to provide the service over the longest asset life cycle. It comprises average operations, maintenance expenditure plus asset consumption expense, represented by depreciation expense projected over 10 years. The Life Cycle Cost does not indicate the funds

required to provide the service in a particular year.

Life-cycle cost analysis

Any technique which allows assessment of a given solution, or choice from among alternative solutions, on the basis of all relevant economic consequences over the service life of the asset.

Life Cycle Expenditure

The Life Cycle Expenditure (LCE) is the average operations, maintenance and capital renewal expenditure accommodated in the long term financial plan over 10 years. Life Cycle Expenditure may be compared to average Life Cycle Cost to give an initial indicator of affordability of projected service levels when considered with asset age profiles.

Loans / borrowings

See Borrowings.

Lowest price conforming (LPC)

A method of assessing tenders for contracts where the lowest priced tender that passes a minimum set standard for non-price attributes is accepted.

Maintainability

A characteristic of design and installation usually identified by the time and effort that will be required to retain an asset as near as practicable to its new or desired condition within a given period of time.

Maintenance

All actions necessary for retaining an asset as near as practicable to an appropriate service condition, including regular ongoing day-to-day work necessary to keep assets operating, eg road patching but excluding rehabilitation or renewal. It is operating expenditure required to ensure that the asset reaches its expected useful life.

- **Planned maintenance**
Repair work that is identified and managed through a maintenance management system (MMS). MMS activities include inspection, assessing the condition against failure/breakdown criteria/experience, prioritising scheduling, actioning the work and reporting what was done to develop a maintenance history and improve maintenance and service delivery performance.
- **Reactive maintenance**
Unplanned repair work that is carried out in response to service requests and management/supervisory directions.
- **Specific maintenance**
Replacement of higher value components/sub-components of assets that is undertaken on a regular cycle including repainting, replacement

of air conditioning equipment, etc. This work generally falls below the capital/ maintenance threshold and needs to be identified in a specific maintenance budget allocation.

- **Unplanned maintenance**

Corrective work required in the short-term to restore an asset to working condition so it can continue to deliver the required service or to maintain its level of security and integrity.

Maintenance expenditure

Recurrent expenditure, which is periodically or regularly required as part of the anticipated schedule of works required to ensure that the asset achieves its useful life and provides the required level of service. It is expenditure, which was anticipated in determining the asset's useful life.

Maintenance managed item (MMI)

Either an asset or a component of an asset. The MMI level establishes the lowest level of asset that should be recognised and maintained individually.

Maintenance plan

Collated information, policies and procedures for the optimum maintenance of an asset, or group of assets.

Maintenance standards

The standards set for the maintenance service, usually contained in preventive maintenance schedules, operation and maintenance manuals, codes of practice, estimating criteria, statutory regulations and mandatory requirements, in accordance with maintenance quality objectives.

Management plan

See Annual plan.

Market value

The estimated amount at which an asset would be exchanged on the date of valuation, between a willing buyer and a willing seller, in an arm's length transaction and when the parties have each acted knowledgeably, prudently and without compulsion. Market value is based on highest and best use of the asset and not necessarily the existing uses.

Materiality

The notion of materiality guides the margin of error acceptable, the degree of precision required and the extent of the disclosure required when preparing general purpose financial reports. Information is material if its omission, misstatement or non-disclosure has the potential, individually or collectively, to influence the economic decisions of users taken on the basis of the financial report or affect the discharge of accountability by the management or governing body of the entity.

Minimum lease payments

The payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) for a lessor, a residual value guaranteed to the lessor.

Modern equivalent asset

Assets that replicate what is in existence with the most cost-effective asset performing the same level of service. It is the most cost efficient, currently available asset which will provide the same stream of services as the existing asset is capable of producing. It allows for technology changes and, improvements and efficiencies in production and installation techniques.

Net financial liabilities

A measure of net financial liabilities occurs when the value of financial liabilities exceeds the value of financial assets, a measure which is consistent with the terminology of accounting standards. However, these Guidelines follow the conventional practice used in public sector financial reporting and measure net financial liabilities as the difference between total liabilities less financial assets. Hence, this conventional measure of performance will include the impact of the value of non-financial liabilities such as employee benefits payable and liabilities for taxes payable.

Net financial liabilities ratio (NFLR)

The significance of net amount owed by an entity compared to its operating income for the period. The ratio expresses an entity's net financial liabilities at the end of a period as a percentage of its operating income (excluding amounts received specifically for new/upgraded assets and donated assets) for the period [AIFMG Financial Indicator No. 2.]

Net present value (NPV)

The value to the organisation of the cash flows associated with an asset, liability, activity or event calculated using a discount rate to reflect the time value of money. It is the net amount of discounted total cash inflows after deducting the value of the discounted total cash outflows arising from eg the continued use and subsequent disposal of the asset after deducting the value of the discounted total cash outflows.

Net realisable value

The estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

New asset

Creation of a new asset to meet additional service level requirements, eg a new building.

Network assets

A network asset is a grouping of assets or components that are individually below the entity's capitalisation policy threshold. Network assets are a practical way of ensuring many small value assets are recognised but as a single asset.

Non-cancellable lease

A lease that is cancellable only upon the occurrence of some remote contingency, or with the permission of the lessor, or if the lessee enters into a new lease for the same or an equivalent asset with the same lessor, or upon payment by the lessee of such an additional amount that, at the inception of the lease, makes the continuation of the lease reasonably certain.

Non-current assets

All assets other than current assets, including assets held but not traded by a business in order to carry out its activities. Such assets are intended for use, not exchange, and normally include physical resources such as land, buildings, drains, parks, water supply and sewerage systems, furniture and fittings.

Non-revenue generating investments

Investments for the provision of goods and services to sustain or improve services that are not expected to generate any savings or revenue to the entity, eg, parks and playgrounds, footpaths, roads and bridges, libraries, etc.

Non-specialised assets

Non-specialised assets include commercial and general purpose buildings and other assets for which there is a secondary market.

Not-for-profit entity

An entity whose principal objective is not the generation of profit. A not-for profit entity can be a single entity or a group of entities comprising the parent and each of the entities that it controls.

Operational plan

See Annual plan.

Operations

Regular activities to provide services such as public health, safety and amenity, eg street sweeping, grass mowing and street lighting.

Operating deficit

An operating deficit occurs when the value of operating income less operating expenses is

negative and operating income is therefore not sufficient to cover all operating expenses.

Operating expenditure

Recurrent expenditure, which is continuously required to provide a service. In common use the term typically includes, eg power, fuel, staff, plant equipment, on-costs and overheads but excludes maintenance and depreciation. Maintenance and depreciation is on the other hand included in operating expenses.

Operating expense

The gross outflow of economic benefits, being cash and non-cash items, during the period arising in the course of ordinary activities of an entity when those outflows result in decreases in equity, other than decreases relating to distributions to equity participants.

Operating expenses

Recurrent expenses continuously required to provide a service, including power, fuel, staff, plant equipment, maintenance, depreciation, on-costs and overheads.

Operating income

See under Income.

Operating lease

A lease other than a finance lease.

Operating surplus

The excess of operating income (excluding amounts received specifically for new/upgraded assets and donated assets) over operating expenses.

Operating surplus ratio (OSR)

The operating result expressed as a percentage of total operating income. [AIFMG Financial Indicator No. 1.]

Operations, maintenance and renewal financing ratio

Ratio of estimated budget to projected expenditure for operations, maintenance and renewal of assets to achieve/maintain specified service levels over a defined time (e.g. 5, 10 and 15 years).

Operations, maintenance and renewal gap

Difference between budgeted expenditures in a long-term financial plan (or estimated future budgets in absence of a long-term financial plan) and projected expenditures for operations, maintenance and renewal of assets to achieve/maintain specified service levels, totalled over a defined time (e.g. 5, 10 and 15 years).

Optimised decision-making (ODM)

Two definitions are:

1. ODM is a formal process to identify and prioritise all potential solutions with consideration of financial viability, social and environmental responsibility and cultural outcomes.
2. An optimisation process for considering and prioritising all options to rectify existing or potential performance failure of assets. The process encompasses NPV analysis and risk assessment.

Optimised depreciated replacement cost (ODRC)

The optimised replacement cost after deducting an allowance for wear or consumption to reflect the remaining economic or service life of an existing asset. ODRC is the surrogate for valuing assets in use where there are no competitive markets for assets, or for their services or outputs.

Optimised deprival value (ODV)

This is a set of rules, rather than a valuation approach, which describe the value boundaries for specified assets employed in monopoly markets. The rules are a combination of a cost based approach (ODRC) and the economic value where the ODV is taken to be the lowest of these.

Optimised replacement cost (ORC)

The minimum cost of replacing an existing asset with modern equivalent assets offering the same level of service. The optimisation process adjusts the value for technical and functional obsolescence, surplus assets or over-design.

Pavement management system (PMS)

A systematic process for measuring and predicting the condition of road pavements and wearing surfaces over time and recommending corrective actions.

PMS score

A measure of condition of a road segment determined from a pavement management system.

Property, plant and equipment

Tangible (physical) assets held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and which are expected to be used during more than one accounting period.

Rate of annual asset consumption

The ratio of annual asset consumption relative to the depreciable amount of the assets. It measures the amount of the consumable parts of assets that are consumed in a period (depreciation) expressed as a percentage of the depreciable amount.

Rate of annual asset renewal

The ratio of asset renewal and replacement expenditure relative to depreciable amount for a period. It measures whether assets are being replaced at the rate they are wearing out with capital renewal expenditure expressed as a percentage of depreciable amount (capital renewal expenditure/DA).

Rate of annual asset upgrade/new

A measure of the rate at which assets are being upgraded and expanded per annum with capital upgrade/new expenditure expressed as a percentage of depreciable amount (capital upgrade/expansion expenditure/DA).

Real cost of capital

The cost of capital is equal to the total cost of raising each element of capital (equity plus debt). It can be measured in either before or after tax terms. The real cost of capital is the actual costs adjusted for price increases which may be either the general level of prices (measure of inflation) or specific prices. The real cost of capital may be used as a hurdle rate for investment analysis. For local governments, the real cost of capital is the long term government bond rate adjusted by a local government price increase index.

Recognition

The process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense.

Recoverable amount

The higher of an asset's fair value less costs to sell and its value in use.

Recurrent expenditure

Relatively small (immaterial) expenditure or that which has benefits expected to last less than 12 months. Recurrent expenditure includes operating and maintenance expenditure.

Recurrent funding

Funding to pay for recurrent expenditure.

Rehabilitation

See capital expenditure - renewal.

Remaining useful life

The time remaining until an asset ceases to provide the required service level or economic usefulness. Age plus remaining useful life is useful life.

Renewal/refurbishment

Restores, rehabilitates, replaces existing asset to its original capacity, eg gravel resheets. See Capital expenditure - renewal.

Repairs and maintenance

Costs of day-to-day servicing of property, plant and equipment that are primarily labour and consumables, and may include the cost of small parts.

Replacement cost

See Current replacement cost.

Residual value

The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Revaluation decrement (increment)

The amount by which the revalued carrying amount of a non-current asset as at revaluation date is less than (exceeds) its previous carrying amount.

Revaluation model

An item of property, plant and equipment is carried at its revalued amount when its fair value can be reliably measured. The revalued amount is the fair value at date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses.

Revenue

The gross inflow of economic benefits e.g. sales, during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants (contributed capital).

Revenue generating investments

Investments for the provision of goods and services to sustain or improve services to the community that are expected to generate some savings or revenue to offset operating costs, eg public halls and theatres, childcare centres, sporting and recreation facilities, tourist information centres, etc.

Risk cost

The assessed annual cost or benefit relating to the consequence of an event. Risk cost equals the costs relating to the event multiplied by the probability of the event occurring.

Risk management

The application of a formal process to the range of possible values relating to key factors associated with a risk in order to determine the resultant ranges of outcomes and their probability of occurrence.

Routine corrective maintenance

Corrective maintenance, excluding emergency corrective and programmed corrective maintenance.

Routine maintenance

Day-to-day operational activities to keep the asset operating (replacement of light bulbs, patching potholes, repairing leaks, etc.) and which form part of the annual operating budget, including preventive maintenance.

Section or segment

A self-contained part or piece of an infrastructure item.

Sensitivity analysis

Testing of the variations in the outcome of an evaluation by altering the values of key factors about which there might be uncertainty.

Service maintenance

Service undertaken seasonally or annually to enable the required level of service to be delivered.

Service potential

The total future service capacity of an asset. It is normally determined by reference to the operating capacity and economic life of an asset. A measure of service potential is used in the not-for-profit sector/public sector to value assets, particularly those not producing a cash flow.

Specialised assets

Specialised assets are assets designed for a specific limited purpose. Specialised assets include buildings such as schools, hospitals, court houses, emergency services buildings (police fire, ambulance and emergency services), specialised buildings to house infrastructure (pump stations, etc.), some heritage properties and most infrastructure assets.

Special Purpose Financial Report

A financial report other than a general purpose financial report. A financial report tailored to meet the specific information needs of a defined user or group of users.

Statement of cash flows

Disclosure of cashflows from all sources relating to the operating, financing, and investing activities of the entity, encompassing all funds maintained by the entity.

Statement of changes in equity

A reconciliation of the equity of an entity at the beginning of a period with the equity at the end of that period. Changes in equity disclosed may include movements in retained earnings for the period, items of income and expense recognised directly in equity, and movements in each class of share and each reserve.

Statement of comprehensive income (alternatively referred to as a statement of financial performance, income statement, operating statement or statement of profit and loss)

A report on the net surplus/deficit, and its components, arising from activities or events during a given period, that are significant for the assessment of both past and future financial performance.

Statement of cost of services

Disclosure of the costs incurred for each significant activity by the reporting entity.

Statement of financial position (alternatively referred to as a balance sheet)

Disclosure of all assets and liabilities of the entity, appropriately classified including resources, financing structure and contingencies.

Statement of objectives

A formal expression of the mission and overall objectives of the reporting entity.

Statement of resources

A description in physical terms of the major resources held by the reporting entity.

Statement of service performance

A report for each significant activity undertaken by the reporting entity, on the degree of success achieved in meeting agreed targets, in qualitative and quantitative terms.

Strategic longer-term plan

A plan covering the term of office of councillors (4 years minimum) reflecting the needs of the community for the foreseeable future. It brings together the detailed requirements in the Council's longer-term plans such as the asset management plan and the long-term financial plan. The plan is prepared in consultation with the community and details where the Council is at that point in time, where it wants to go, how it is going to get there, mechanisms for monitoring the achievement of the outcomes and how the plan will be resourced.

Sub-component

Smaller individual parts that make up a component part.

Substance over form

The financial statements will reflect the underlying economic reality of transactions and other events, and not necessarily their legal form.

Unfunded renewals

The value of asset renewals projected to occur prior to the reporting date. The value of unfunded renewals is reflected in current levels of service.

Unit of Account

The unit in which prices are quoted and accounts are kept for items of non-current physical (infrastructure) assets. The unit of account for infrastructure assets is the component.

Useful life

Either:

- (a) the period over which an asset is expected to be available for use by an entity, or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

It is estimated or expected time between placing the asset into service and removing it from service, or the estimated period of time over which the future economic benefits embodied in a depreciable asset, are expected to be consumed by the entity.

Upgrade/Improvements

Enhancements to an existing asset to provide higher levels of service, eg widen a sealed road.

Valuation

The process of determining the worth of an asset or liability. Different valuation methods may be appropriate in different circumstances (see also Fair Value).

Valuation (2)

There are two definitions for 'greenfield' and 'brownfield' valuation

- **Brownfield Valuation (A – Accounting)**
Valuation method where the initial recognition and subsequent recognition of assets involves expensing those costs that are considered to be 'sunk' one-off costs for assets that are expected to have an unlimited life such as earthworks and formation for roadworks.
- **Brownfield Valuation (B - Asset Management)**
Valuation Method where the unit valuation rates are based on the cost to replace the asset in its existing developed or built up location.
- **Greenfield Valuation (A - Accounting)**
Valuation method where the initial recognition and subsequent revaluation of assets involves the capitalisation of *all* costs including those for assets that are expected to have an unlimited life such as earthworks and formation for roadwork.
- **Greenfield Valuation (B - Asset management)**
Valuation method where the unit valuation rates are based on the cost to acquire/construct the asset in a 'green field' (undeveloped) location.

Value in Use

The present value of future cash flows expected to be derived from an asset or cash generating unit. It is deemed to be depreciated replacement cost (DRC) for those assets whose future economic benefits are not primarily dependent on the asset's ability to generate net cash inflows, where the entity would, if deprived of the asset, replace its remaining future economic benefits.

Value management

An evaluation process which addresses the technical and functional dimensions at the early stages of a project (i.e. establishment of project objectives, preparation of project brief and consideration of concept/design options) to ensure a fully integrated approach has been taken, the project is consistent with strategic goals, and non-build solutions (including demand management) have been properly assessed.

Weighted attribute method

A method of assessing tenders for contracts where attributes relating to both quality and price are weighted according to the requirements of the business.

Weighted average cost of capital

The weighted average cost of capital (WACC) is the rate that an entity is expected to pay to finance its assets. WACC is calculated by multiplying the cost of each capital component (common equity, preferred equity, straight debt, convertible debt, exchangeable debt, warrants, options, pension liabilities, executive stock options, governmental subsidies, etc) by its proportional weight and then summing.

ABBREVIATIONS

AAAC	Average annual asset consumption	LGA	Local Government Act
AAS	Australian Accounting Standard	LOS	Level of Service
AASB	Australian Accounting Standards Board	LPC	Lowest Price Conforming
AAM	Advanced Asset Management	LUR	Land under Roads
AIFRS	Australian equivalent of International Financial Reporting Standards	MEA	Maintenance Engineering Analysis
AM	Asset Management	MMI	Maintenance Managed Item
AMIS	Asset Management Information System	MMS	Maintenance management system
AMP	Asset Management Plan	NAASRA	National Association of Australian State Road Authorities
AMS	Asset Management Strategy	NAMS.AU	National Asset Management Strategy Australia
AMT	Asset Management Team	NFLR	Net Financial Liabilities Ratio
ARFR	Asset Renewal Funding Ratio	NPV	Net Present Value
ARI	Average recurrence interval	O&M	Operations and maintenance
ASC	Annual Service Cost	ODM	Optimised decision making
ASR	Asset Consumption Ratio	ODRC	Optimised depreciated replacement cost
AUASB	Australian Auditing and Assurance Standards Board	ODV	Optimised deprival value
B/C	Benefit/Cost	OPEX	Operating Expenses
BCR	Benefit cost ratio	ORC	Optimised Replacement Cost
BOD	Biochemical (biological) oxygen demand	OSR	Operating Surplus Ratio
BOO	Build, Own, Operate	PCI	Pavement condition index
BOOT	Build, Own, Operate, Transfer	PFI	Private Finance Initiative
CAD	Computer Aided Design	PMS	Pavement Management System
CAPEX	Capital Expenditure	PPP	Public Private Partnership
CCTV	Closed Circuit Television	PV	Present Value
CGU	Cash Generating Unit	RCM	Reliability Centered Maintenance
CRC	Current replacement cost	ROT	Rehabilitate, operate, transfer
CWMS	Community wastewater management systems	RUL	Remaining useful life
DA	Depreciable amount	RV	Residual value
DCF	Discounted cash flow	SAC	Statement of Accounting Concepts
DRC	Depreciated replacement cost	SCADA	Supervisory Control and Data Acquisition System
EF	Earthworks/formation	SCRIM	Sideways-force Coefficient Routine Investigation Machine
FMECA	Failure Mode, Effects and Criticality Analysis	SLA	Service Level Agreement
FMM	Facilities Maintenance Management	SMART	Specific Measurable Achievable Relevant Timebound
FRC	Financial Reporting Council	SPFS	Special Purpose Financial Statements
GAAP	Generally Accepted Accounting Principles	SS	Suspended solids
GDP	Gross Domestic Product	STEDS	Septic tank effluent drainage scheme
GIS	Geographic Information System	vph	Vehicles per hour
GPFS	General Purpose Financial Statements	WACC	Weighted average cost of capital
HVAC	Heating Ventilation Air Conditioning		
IASB	International Accounting Standards Board		
IFRS	International Financial Reporting Standards		
IIMM	International Infrastructure Management Manual		
IMS	Information management system		
IPWEA	Institution of Public Works Engineering Australia		
IRMP	Infrastructure risk management plan		
IRR	Internal Rate of return		
KPI	Key Performance Indicator		