

## “ Assumptions and risks

There are many ways to capture information on financial assumptions and risks, and your organisation may well have an established method for doing so. The following is some high-level commentary and examples of how the CODC addressed this information requirement in their AMP.

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## 7.4 Investment Scenarios

Three high level funding scenarios were provided to Councillors.

These options were:

- High-risk programme: Flat-lined funding with a minor increase every three years – with a higher risk to level of service, customer outcomes and asset condition.
- Low-risk programme: Budget fully escalated to BERL forecasts, with most demands for additional funding to deliver increased level of service included, and low risk asset renewal and maintenance strategies.
- Optimised, Managed-risk programme: Budgets for 2018 to 2021 were based on actual expected costs, with no escalation applied other than where increased costs are known. BERL escalation has been applied from 2021-22. Adoption of a managed-risk approach for asset renewal and maintenance strategies as part of core activities. Investment in levels of service increases as part of an ‘enhanced’ programme have been restricted to specific known projects only.

Council agreed to adopt the optimised program based on a review of existing programs, costs and performance. This profile includes current costs, or an estimate of future needs for some activities where changes have been identified as appropriate to meet levels of service requirements, manage risk, or ensure cost effective work practises. This includes increases in expenditure on sealed and unsealed road renewals, urban pavement rehabilitation and bridges.

The optimised option also includes allowances for some identified efficiencies in work practises across Council’s programmes – with changes in the management of both drainage renewals and environmental maintenance. A managed level of service reduction in some lower risk areas (where existing performance is currently at a high level) will continue through the 2018-21 AMP cycle. This reduction in investment will usually be targeted to fall within the lowest classification of roads (with the exception of surface renewals work on tracks).

It also allows for replacement of some bridge assets with more cost-effective options, which will be developed further as part of Council’s bridging strategy during the 2018-21 period.

“ The CODC’s AMP incorporates a programme optimised effectively for scope, quantity, timing, cost and deliverables. The level of investment and type of work undertaken provides value for money and keeps services affordable for the community.

Prior to developing its AMP, the CODC considered high-level funding scenarios before agreeing on an optimised programme with a managed risk approach for service increases, and asset renewal and maintenance strategies. They then planned optimised approaches for the full range of services – sealed and unsealed roads, bridges, drainage, signs, guardrails, street lighting, footpaths and carparks.

The CODC’s AMP also identifies some forecasting assumptions, as below.

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## 7.10 Overall Forecasting Assumptions

### Escalation

Budgets have been prepared based on July 2017 rates and costs, with BERL escalation forecasts applied from 2021/22 to 2027/2028. Escalation of 2% per annum has been applied for years 11 to 30 of the Infrastructure Strategy.

Escalation has not been applied to years 1 to 3 as the current escalation rate has a negligible impact on the budgets and is considered to be within the margin of forecasting error.

### NZTA Co-investment

NZTA approve co-investment on a three-year cycle to tie in with the Council long term plan cycle. The NZTA co-investment rate is 51% for funding in the 2018-21 AMP programme, with the exception of:

- Emergency Works, which may attract a higher subsidy dependant on qualifying criteria.
- State Highway street cleaning and some components of the urban drainage maintenance programme, which are subsidised at a co-investment rate of 30%.

The program of work and the financial plan to fund this work have been prepared based on the draft 2018 Government Policy Statement. This recognises that NZTA is operating in a constrained funding environment. The maintenance and renewals programs have been held at minimum levels, and linked to the ONRC levels of service to reduce the risk of work not being funded by NZTA.

The only improvements that have been included within planned investments are a modest Low-Cost/Low Risk Improvements Programme as it is recognised that other projects will not meet current criteria for co-investment.

The level of funding proposed by Council was adjusted by NZTA for 2015/16, 2016/17, and 2017/18 as shown in Table 7.4.

| NZTA Work Category |                   | 2015/16         | 2016/17         | 2017/18         | 2018/19     | 2019/20     | 2020/21     |
|--------------------|-------------------|-----------------|-----------------|-----------------|-------------|-------------|-------------|
| Work Category 1    | CODC Requested    | \$3,521,519     | \$3,579,439     | \$3,550,222     | \$3,741,800 | \$3,838,900 | \$3,795,000 |
|                    | NZTA Approved     | \$3,511,000     | \$3,514,000     | \$3,456,000     | ■           | ■           | ■           |
|                    | <b>Difference</b> | <b>\$10,519</b> | <b>\$65,439</b> | <b>\$94,222</b> | ■           | ■           | ■           |
|                    |                   | <b>-0.3%</b>    | <b>-1.8%</b>    | <b>-2.7%</b>    | ■           | ■           | ■           |
| Work Category 2    | CODC Requested    | \$3,237,839     | \$3,259,517     | \$3,220,080     | \$3,651,000 | \$3,891,000 | \$3,891,000 |
|                    | NZTA Approved     | \$3,227,000     | \$3,216,000     | \$3,162,000     | ■           | ■           | ■           |
|                    | <b>Difference</b> | <b>\$10,839</b> | <b>\$43,517</b> | <b>\$58,080</b> | ■           | ■           | ■           |
|                    |                   | <b>-0.3%</b>    | <b>-1.3%</b>    | <b>-1.8%</b>    | ■           | ■           | ■           |

**Table 7.4 Difference in the Subsidised Program Requested by Council and Approved by NZTA**

Source: Central Otago District Council Transportation AMP 2018-2021

Work Category 1 is used by the NZTA to describe Council's Maintenance and Operational expenditure, with Work Category 2 comprising of all of Council's road Renewals activities. Subsidised Capital Improvements are budgeted for under Work Category 3.

### Asset Data Knowledge

While Council has a comprehensive asset register (RAMM) for roading assets, there are gaps and inaccuracies within this data which could influence financial forecasts.

These gaps have been identified in Section 5 of this AMP and actions to correct these are included in the improvement plan.

In general the gaps in asset data are of low significance and will not impact significantly on the financial forecasts in this plan.

### Asset Life

Assumptions have been made regarding the expected life of the assets.

The lives have been assessed by reviewing the condition of the existing assets, and historical construction and renewals information. A number of changes were made to the asset lives for the 2014 valuation, which have remained applicable for subsequent valuations.

### Programming of Work

The financial forecasts have been prepared on the assumption that similar work within the different areas of the network will be undertaken at the same time where this is financially prudent, to reduce establishment costs. If work is programmed at different times for other reasons then this will affect the cost estimates for work.

### Accuracy of Cost Estimates

Cost estimates have been based on historic and current costs for undertaking similar work. Contingencies have not been included in the estimates.

“ A critical aspect of CODC's asset management strategy involves proactively identifying issues and communicating them through the AMP and the documented improvement plan. This aligns with the focus that both the Transport Agency and REG place emphasis on, ensuring that improvement plans are aligned with an organisation's strategic goals. The Transport Agency and REG also stress the importance of measuring performance in the delivery of improvements. Something to keep in mind as you shape your organisation's AMP. ”