

# Glossary

**Accounting Lives** - the period over which the cost of an asset is allocated for the purpose of calculating depreciation. See *also* “Economic Lives”.

**Asset** - A store of future service potential controlled by the entity as a result of a past transaction or other past events (Australian Accounting Standard 27 para. 12). Infrastructure is a subset of asset, see “infrastructure”.

**Asset System** - A complex asset such as a facility or a network which consists of a number of essential but separable components which may be separately replaced to maintain the function of the system. The smallest aggregate of components that provides a distinct service outcome. Infrastructure assets are asset systems.

**Capital Expansion** - Investment in new assets designed to extend the same standard and type of service currently provided to ratepayers to a greater number of ratepayers, e.g. extending a drainage or a road network, or the provision of standard facilities in a new suburb. Extension is a function of population growth.

**Capital Renewal** - - Extending the functionality of an infrastructure asset by piecemeal replacement of individual components as they age or become obsolete. Ensuring that ratepayers continue to receive the benefits of existing infrastructure assets. Capital investment in renewal extends the period of service potential but does not change the total capital replacement value, thus it does not increase the size of the infrastructure asset portfolio. (see “component”; “infrastructure asset”).

**Capital Upgrade**. Investment in new assets designed to improve the type of service provided to existing ratepayers. For example, widening the pavement and sealed area of an existing road, replacing drainage pipes with higher capacity pipes to provide a better service, building a grandstand at a sporting facility, or the provision of any new service to existing ratepayers.

**Component** - An essential part of an asset which may be separately removed and replaced to extend the life of the asset. (e.g. road seal as a component of a road asset; or a roof as a component of a building asset).

**Condition Based Depreciation** - A method of estimating the depreciation or run down in service potential of an infrastructure asset (its change in condition) by the amount it costs to restore that service potential. This is calculated as an annuity over a forward renewal cash flow, hence it is also referred to as the “renewal annuity” method.

**Current Replacement Cost (CRC)** - The cost, in today’s dollars, of replacing the assets concerned. See *also* “Written down current replacement cost”.

**Current Replacement Value (CRV)** - see “Current Replacement Cost”.

**Depreciation** - Loss of service potential through wear and tear and/or general obsolescence. Estimated in the balance sheets by application of a formula involving the Current Replacement Cost and the assumed Accounting Lives. But see *also* “Condition Based Depreciation”.

**Design Life** - Period during which an asset can be expected to remain of acceptable physical quality and perform its intended function without repair.

**Economic Life** - The period from the acquisition of an asset to the time when the asset, while it may be still physically capable of providing a service, ceases to be the lowest cost alternative to satisfy a particular need. The economic life, at a maximum, is equal to the physical life; however obsolescence will often ensure that the economic life is less than the physical life. See *also* “design life”.

**Effort** - see “Management Effort”

**Expansion** - see “Capital Expansion”.

**Growth Assets**- Investment in assets that increases the size of the asset portfolio. Growth includes “extension” related to population growth (see “extension” ) and “upgrade”, an increase in service levels (see “upgrade”). Cf “reinvestment”.

**Infrastructure Assets** - Assets that are not replaced as a whole, but rather renewed piecemeal by the replacement of individual components whilst maintaining the function of the asset as a whole. Infrastructure assets have indefinite lives. Economic lives are assigned to components of an infrastructure asset. (see “economic lives”; “component”)

**Infrastructure Spending Gap** - The difference between the “default” renewal expenditure projections and the current level of renewal expenditures.

**Maintenance** - General definitions such as those in Standards Australia “Glossary of Building Terms” include all actions necessary to retain the intended function of the asset (including restoration).

This study has defined maintenance in an activity sense as “Expenditure on an asset which maintains the asset in use but does not increase its service potential or life, e.g. repairing a pothole in a road, repairing the decking on a timber bridge, repairing a single pipe in a drainage network, repairing the fencing in a park, repair work to prevent early failure of an asset or a portion of an infrastructure network”.

In practice, this is close to the accounting treatment of maintenance as “all of those actions to preserve the use of the asset that are deemed to be expendable within the accounting period”. This, however, varies between councils.

**Management Effort** - Although measured in terms of the gap between current and future levels of capital spending (mostly that required for renewal), management effort represents all of the management avenues for closing the gap, i.e. reducing costs through greater efficiency, rationalisation, demand management, etc, making future provisions, and innovative funding.

**Reinvestment** - Capital investment in renewal of infrastructure assets or replacement of non-infrastructure assets. Re-investment does not increase the size of the asset portfolio. (see “replacement”; “renewal” ) See “Growth Assets”.

**Renewal** see “Capital Renewal”.

**Replacement** - the complete removal of an asset or a component of an asset and the use of another in its place. (see “component”).

**Service Delivery** - the purpose for which an asset is held, measured in terms of service outputs or outcomes, e.g. road access, travel time, hours of library access, etc.

**Strategic Asset Management Plan** - A plan showing future changes to the asset portfolio (renewal, acquisition, disposal) to ensure that the asset portfolio stays aligned with the Corporate Strategy. It is supported by a full analysis of options, justified in terms of outputs/outcomes.

**Sustainment** - the cost of maintaining the function of an infrastructure asset portfolio by day to day maintenance and periodic replacement of components (“renewal”). (see “infrastructure asset”, “maintenance”, “replacement”, “components”).

**Upgrade Assets** - see “Capital Upgrade”.

**Written Down Current Replacement Cost** - The Current Replacement Cost less Accumulated Depreciation calculated on the basis of accounting lives.