

A Department of Local Government Position Paper

Asset Management Planning for NSW Local Government



ACCESS TO SERVICES

The Department of Local Government is located at:

Levels 1 & 2

5 O'Keefe Avenue
NOWRA NSW 2541
Phone 02 4428 4100
Fax 02 4428 4199
TTY 02 4428 4209

Locked Bag 3015
NOWRA NSW 2541

Level 9, 323 Castlereagh Street
SYDNEY NSW 2000
Phone 02 9289 4000
Fax 02 9289 4099

Locked Bag A5045
SYDNEY SOUTH NSW 1235

Email dlg@dlg.nsw.gov.au

Website www.dlg.nsw.gov.au

OFFICE HOURS

Monday to Friday

8.30am to 5.00pm

(Special arrangements may be made if these hours are unsuitable)

All offices are wheelchair accessible.

ALTERNATIVE MEDIA PUBLICATIONS

Special arrangements can be made for our publications to be provided in large print or an alternative media format. If you need this service, please contact our Executive Branch on 02 9289 4000.

© NSW Department of Local Government 2006

ISBN 1 920766 56 1



Recommendations

The recommendations presented in this paper have been developed in conjunction with the NSW Infrastructure Task Force. The recommendations are as follows:

1. Strategic long term asset management and financial plans be included as essential components of an integrated planning and reporting framework across NSW local government.
2. Legislative amendments requiring long-term strategic asset management planning be introduced into the *Local Government Act 1993*.
3. Councils adopt asset management planning systems and practices that are consistent with the *Local Government Financial Sustainability Frameworks*, and where applicable and practical, the International Infrastructure Management Manual.
4. A basic (core) approach to asset management planning be the agreed minimum level for all NSW councils.
5. An asset management improvement program be implemented to progressively raise asset management planning to a level appropriate for each council.
6. Legislative amendments requiring ten year financial planning be introduced into the *Local Government Act 1993*.
7. An industry wide capacity building program including a range of training, tools, templates and guidelines be introduced.

Implementation

Success in implementing the recommendations in this paper relies on a capacity building program. The Department of Local Government is committed to working with stakeholders to provide guidance to build the capacity of local government to respond to its future planning and reporting obligations. Stakeholder groups represented on the NSW Infrastructure Task Force are committed to working with their constituents and the department to make this achievable.

Your Feedback

An important part of assessing the recommendations in this paper relies upon your feedback. Councils, agencies, industry groups and other interested individuals are welcome to make written submissions on this position paper. Consultation on the paper will continue until **13 July 2007**.

SECTION 1 BACKGROUND

1.1 Introduction

Local government in NSW is responsible for assets worth approximately \$50 billion. Infrastructure assets include roads, water and sewerage assets, drains, bridges, footpaths and public buildings. A strong and sustainable local government system requires a robust planning process to ensure that those assets are maintained and renewed in the most appropriate way on behalf of local communities. As custodian, local government is responsible to effectively account for and manage these assets and to have regard to the long-term and cumulative effects of its decisions. This is a core function of councils and is reflected in the Charter, in section 8 of the *Local Government Act 1993* (NSW).

Given the value and importance of infrastructure assets, it is essential that they are well managed to ensure their future sustainability. Failure to adequately manage infrastructure assets is a key risk that could prevent local councils from achieving their strategic goals. An existing and urgent concern is that many councils have not established asset management systems and practices that will allow them to identify and respond to this challenge.

1.2 What is asset management?

The term “asset management” is used to describe the process by which councils manage physical assets to meet current and future levels of service. Under the *Asset Management Standard PAS 55*¹, asset management is defined as the systematic and coordinated activities and practices through which an organisation optimally manages its physical assets, and their associated performance, risks and expenditures over their lifecycle for the purpose of achieving its organisational strategic plan.

All councils, irrespective of size or location, need to ensure that the sustainable management of assets is a ‘whole of council’ responsibility, and recognised as such at all levels within council.

1.3 Context of position paper

1.3.1 A New Direction for Local Government

As part of its commitment to continuing reform of local government, the NSW Department of Local Government has released for comment a position paper entitled *A New Direction for Local Government*. This position paper can be accessed through the department’s website <http://www.dlg.nsw.gov.au>.

The position paper sets out seven elements of a strong local government system as follows:

- Good governance
- Representative democracy and community support
- Sound policy
- Sufficient resources

¹ PAS 55 is published by the British Standards Institute

- Meaningful planning
- Connectedness
- Strong leadership.

Under each element, the position paper outlines a number of proposed reform initiatives.

This is the second paper to be released in support of the overarching New Directions position paper, and relates to the fourth element – sufficient resources. Under this element a new asset management framework is proposed for local councils. The *Asset Management Planning* position paper explores this topic in more detail.

In November 2006, an options paper on *Integrated Planning and Reporting* was released by the department. This paper relates to the fifth element – meaningful planning. It addresses the strategic planning and reporting framework for local government in New South Wales, and can be accessed through the department's website <http://www.dlg.nsw.gov.au>

1.3.2 A National Framework for local government financial sustainability

In recognition of the challenges that some rural and remote councils face to remain financially sustainable, the NSW Minister for Local Government invited representatives from all jurisdictions to a special Roundtable held in Sydney in May 2006. The Roundtable endorsed the view that sustainable asset management is key to local government sustainability. The Roundtable recommended to the Local Government and Planning Ministers' Council (LGPMC) that nationally consistent approaches be established for: asset planning and management; financial planning and reporting; and criteria for assessing financial sustainability.

At its meeting on 4 August 2006, the LGPMC agreed to a nationally consistent approach to asset planning and management, financial planning and reporting and assessing financial sustainability. On 20 October 2006, the LGPMC endorsed the draft National Frameworks for Financial Sustainability in Local Government as a basis for consultation. On 21 March 2007 the LGPMC endorsed the Frameworks for implementation in the context of their relationships with their local government sectors. It was noted that NSW has not completed the consultation phase due to the electoral cycle and will consider the matter out of session. This position paper comprises the consultation with the sector. Jurisdictions will report on progress of their application of the Frameworks in 2008.

The National Frameworks consist of three main components as follows:

1. *Asset Planning and Management* - This framework consists of seven elements which each State and Territory are expected to adopt as follows:
 - Development of an asset management policy - Each state/territory is expected to develop an asset management policy, which provides high-level guidance to assist councils in developing their own asset management policy.
 - Strategy and Planning – Councils should be provided with guidance from the State on developing an asset management strategy, which is designed to support and implement its asset management policy;
 - Governance and Management Arrangements – Councils should be encouraged to apply and effect good governance and management arrangements which link asset management to service delivery and include assigning roles and

responsibility for asset management between the CEO, the Council and senior managers;

- Defining Levels of Service – mechanisms should be established that include community consultation to define the levels of service councils are expected to provide from their asset base;
- Data and Systems – a framework for collection of asset management data should be established;
- Skills and Processes – the asset management framework should contain a continuous improvement program;
- Evaluation – the asset management framework should contain a mechanism to measure its effectiveness.

2. *Financial Planning and Reporting* - Focuses on local government's financial management at both the strategic and operational levels. The framework requires the preparation of:

- A long term strategic plan which includes a financial component, demonstrating how the outcomes of the plan will be funded.
- An annual budget format comparable with the audited financial statements, linked to strategic objectives, which at a minimum should include:
 - Estimates of revenue and expenditure
 - An explanation of how revenue will be applied
 - An explanation of the financial performance and position of the council.
- Annual financial statements and annual report, which should include:
 - A report on council's operations during the financial year
 - An explanation to the community on variations between the budget and the actual results and how this may impact on the strategic plan
 - Audited financial statements for the financial year (prepared and audited in accordance with Australian Accounting and Auditing Standards).

3. *Criteria for Assessing Financial Sustainability.*

The National Frameworks define a council's long-term financial performance and position as sustainable when planned long term services and infrastructure standards are met without unplanned increases in rates and charges, or disruptive cuts to services. The frameworks provide a range of financial sustainability indicators, however they stress that the usefulness of indicators is not in the numbers themselves but the analysis of what is driving the indicator.

1.3.3 *NSW State Plan A New Direction for NSW*

The management of infrastructure is also addressed as a critical issue in the *NSW State Plan - A New Direction for NSW*. During the consultation process on the plan, the community emphasised the need to properly maintain existing infrastructure and invest for the future.

The State Plan identifies maintenance and investment in infrastructure as a priority for growing prosperity across NSW. This position paper is consistent with the State Plan.

1.4 Purpose of position paper

This paper outlines proposals for a robust asset management system for NSW councils. This position has been informed by a review and evaluation of current asset management practice in the NSW local government sector, and other jurisdictions in Australia. The elements and practices applicable and beneficial to the NSW local government sector have been identified.

The NSW Infrastructure Task Force was established by the Department of Local Government as a forum to engage stakeholders in discussion throughout this process. Key stakeholder groups represented on the Task Force include the Local Government and Shires Associations of NSW, Institute of Public Works Engineering Australia, Local Government Managers Australia (NSW Division), Local Government Audit Association, Roads and Traffic Authority and the Department of Energy, Utilities and Sustainability. The Department of Local Government is appreciative of the contribution made by the Task Force members throughout this process.

The purpose of the position paper is to develop an approach that is consistent with the National Frameworks, and will assist councils to develop the asset management and long-term financial planning tools they need to better manage their community's future.

SECTION 2 ASSET MANAGEMENT PRACTICES IN NSW LOCAL GOVERNMENT SECTOR

2.1 Current asset management planning requirements

Section 8 of the *Local Government Act 1993* (NSW) specifies that councils are to have regard to the long term and cumulative effects of their decisions, and are to bear in mind that the councils are the custodians and trustees of public assets and must effectively account for and manage the assets for which they are responsible.

The only specific obligation that requires councils to undertake asset management planning is included in the Department of Energy, Utilities and Sustainability *Best Practice Management of Water Supply and Sewerage Guidelines, 2004*. These guidelines direct councils to undertake this planning only in relation to water supply and sewerage assets.

2.2 Current reporting requirements

Councils must prepare their annual financial reports in accordance with the requirements of the:

- *Local Government Act 1993* (NSW) & *Local Government (General) Regulations 2005* (NSW)
- *Local Government Code of Accounting Practice & Financial Reporting* and the *Asset Accounting Manual*.

2.2.1 *Local Government Act 1993* (NSW) (Reporting on the condition of public works)

Section 428 2(d) of the *Local Government Act 1993* (NSW) requires councils to report on the condition of the public works under the control of the council as at the end of that year, together with:

- (i) An estimate (at current values) of the amount of money required to bring the works up to a satisfactory standard;
- (ii) An estimate (at current values) of the annual expense of maintaining the works at that standard; and
- (iii) The council's program of maintenance for that year in respect of the works.

Council's reporting obligations arising from section 428 2(d) are currently addressed through the completion of a schedule to the annual financial statements, referred to as Special Schedule 7.

2.2.2 *Local Government Code of Accounting Practice & Financial Reporting*

The *Local Government Code of Accounting Practice and Financial Reporting* (the Code) prescribes the form of the financial statements, as approved by the Department of Local Government. The Code applies to each council in respect of council's general purpose and special purpose financial reports. The Code is intended to facilitate the practical and effective implementation of Australian Accounting Standards, and in particular the adoption of Australian equivalents to International Financial Reporting Standards.

The Code requires each council to prepare and report Special Schedule 7 as part of its annual financial statements. This reporting requirement is specific to NSW local government, and the format of Special Schedule 7 is prescribed by the Code. The schedule reports on the condition of public works and the extent to which councils are able to maintain those public assets. Councils are required to provide information on asset condition so that it is possible for users of this information to make an informed judgment about the condition of public assets.

The accounting treatment of infrastructure is determined in accordance with the accounting standard *AASB 116 Property, Plant and Equipment*. This accounting standard provides a number of alternative methods for the valuation of assets. The Department of Local Government determined that local government infrastructure, property, plant and equipment would be valued at deemed cost for the 2005/06 financial year. However from 2006/07 onwards, a transition period commences, during which the department requires councils to revalue all assets using fair value methodology. The purpose of introducing fair value is to ensure that asset values reported on council's balance sheet more closely reflect their true value.

2.2.3 *Asset Accounting Manual and the Australian Infrastructure Financial Management Guidelines*

The *Asset Accounting Manual* was introduced by the Department of Local Government to assist councils with the identification, classification, measurement, depreciation and reporting of assets, in accordance with applicable accounting standards. The most recent update of the manual occurred in June 1999.

More recently, the need for a national approach to financial reporting of infrastructure was identified at the National Local Government Financial Management Forum. This resulted in a project to develop the *Australian Infrastructure Financial Management Guidelines*. This project is being undertaken as a joint effort between the Forum members and the National Asset Management Strategy Committee (a committee of the Institute of Public Works Engineering Australia). To date, a series of 8 position papers have been released as background to the guidelines. The Local Government Accounting Advisory Group has requested feedback on the position papers from the sector.

The department will review the *Asset Accounting Manual* following the completion of the *Australian Infrastructure Financial Management Guidelines*.

2.3 Current planning and reporting practices in NSW councils

2.3.1 *Promoting Better Practice Program findings*

The Local Government *Promoting Better Practice Program* is part of the Local Government Reform Program. The program aims to improve the sustainability of councils through a review process, which acts as a health check for councils, giving them confidence about what is being done well and helping to focus attention on key priorities.

Recent findings from this program indicate that while some NSW councils have well established and integrated asset management practices, these are in the minority. Where progress has been made, the challenge for the majority of councils is to establish the link

between asset management practices and other council planning and reporting processes, and to ensure that adequate information systems are in place to advance its planning and implementation efforts. Where practice has lagged, some councils have experienced a detrimental impact upon their financial sustainability, an increased risk of failure of major infrastructure, and increasing conflict over allocation of limited resources between competing priorities.

2.3.2 Independent Inquiry into the Financial Sustainability of NSW Local Government

The findings from the *Promoting Better Practice Program* are similar to those identified in a research report prepared for the independent Inquiry into the Financial Sustainability of NSW Local Government. This Inquiry was commissioned by the Local Government and Shires Associations of NSW. The Infrastructure Sustainability & Practice Report (Jeff Roorda & Associates, 2006), found that only 20% of councils have adopted asset management plans, 30% of councils intend to have asset management plans completed within the next one to two years, and the remaining 50% have no intention to prepare plans.

2.3.3 Department's financial performance reviews

The Department of Local Government regularly reviews the financial performance of all councils against a range of performance indicator benchmarks, and undertakes a closer monitoring of councils as required. The findings from these reviews reinforce that a key challenge facing Local Government is the maintenance and renewal of its existing assets. As evidenced by Special Schedule 7, the estimated cost to bring assets to a satisfactory standard far exceeds any provisions set aside for this purpose. Additionally, annual maintenance expenditure continues to fall below the required annual maintenance expenditure.

Councils that have strategic, asset management and long term financial plans in place are best positioned to respond to future maintenance and renewal requirements, and demonstrate their capacity to deliver the services to their communities over the long term.

2.3.4 Infrastructure Reporting

Findings from the LGSA Inquiry into the Financial Sustainability of NSW Local Government suggest that the current infrastructure accounting and reporting requirements for NSW Local Government are interpreted differently between councils and are therefore not consistently applied across the sector. This concern has been reinforced through audit issues raised with the NSW Infrastructure Task Force, which indicate that inconsistent and inadequate practices have been identified in the following areas:

- Maintenance of fixed asset registers (eg inadequate detail in register; register not properly/adequately reconciled on a regular basis)
- Calculating the estimated cost to bring to satisfactory condition and the estimated maintenance expenditure
- Assessing the useful lives of infrastructure assets
- Identifying the component parts of infrastructure assets (e.g. roads, water supply assets)

- The treatment of replaced/renewed infrastructure assets (e.g. assets not removed from fixed assets register)
- Condition assessment practices.

Although Special Schedule 7 is a financial report in nature, the integrity of Special Schedule 7 also relies upon well established asset management practices and processes. For example, the following mechanisms would support the preparation of Special Schedule 7:

- A framework for assessing asset condition and service standards
- A process of consultation which identifies what service levels the community considers are satisfactory
- The development of asset management plans for all major classes of assets.

2.3.5 Integrated planning and special variation applications

Each year councils can apply under section 508(2) or 508A of the *Local Government Act 1993* (NSW) for a special variation to increase their general income. Section 508(2) enables the Minister for Local Government to approve a percentage increase for a specified year that is greater than the general variation percentage approved under section 506 of the Act. While an increase under section 508(2) is for a specific year, the period for which the increase is to apply may be fixed or ongoing.

Through the special variation application process, a number of councils have demonstrated the capacity to integrate strategic, asset management and financial planning processes. This achievement, along with a demonstration of community consultation and support for its application, has contributed to councils extending their revenue generating capacity through a successful application under Section 508A of the *Local Government Act 1993* (NSW).

2.4 Summary of current reporting and planning practices

Some NSW councils have demonstrated the capacity to integrate strategic, asset management and financial planning processes. However, they are by no means the majority, with the evidence suggesting that many councils do not plan well for the long-term management of their assets. This limitation, when combined with the emergence of unsatisfactory asset accounting and reporting practices, may inhibit decision makers and other users of reported information from making informed judgments about the condition of local government infrastructure.

SECTION 3 ASSET MANAGEMENT PRACTICES IN OTHER JURISDICTIONS

3.1 Asset management practices in other jurisdictions

The department has undertaken a review of the various programs and approaches in other jurisdictions (Victoria, South Australia, Western Australia, Queensland, Tasmania and New Zealand) to identify any applicable lessons for asset management in New South Wales. An overview of each jurisdiction is provided in Appendix 1.

From this review it was evident that while each jurisdiction appears to have developed its own approach to achieving improvements in asset management, the approaches adopted in Western Australia, Queensland and Tasmania are essentially modelled on the *Step Program*, which is well established in Victoria. By comparison, South Australia has developed its own program, which has similarities to the approach adopted in New Zealand.

A comparison of the Victorian and South Australian approaches is provided in **Table 1** below.

Victoria	South Australia
<ul style="list-style-type: none"> • There is no requirement in the <i>Local Government Act 1989</i> (Vic) for the preparation of asset management plans or long term financial plans. However, road management plans required under the <i>Road Management Act 2004</i> (Vic). These provide a focus on risk and maintenance management rather than strategic asset management. • The principal objective of the Victorian <i>Step Program</i> is to assist councils to achieve a minimum standard of asset management practice. • The Victorian <i>Step Program</i> assesses councils against a best practice asset management framework. The assessment is achieved through six monthly visits by consultants to benchmark a council against minimum criteria, and measure of their progress against an agreed improvement plan. • A more recent focus on measuring the funding gap has been introduced into the program. 	<ul style="list-style-type: none"> • The <i>Local Government (Financial Management and Rating) Amendment Act 2005</i> (SA) requires that all councils prepare long term financial plans and infrastructure asset management plans, for periods of at least ten years. • The legislation is not prescriptive, however guidelines, tools and templates are being provided and are expected to set the minimum standards. • A key aspect of the South Australian approach is a capacity building program that provides industry templates and guidelines with training and support to assist councils prepare their asset management and long term financial plans. This will be implemented through a combination of regional workshops, peer support and direct face-to-face assistance. • Specific training and awareness programs are proposed for elected members, asset managers and finance managers.

The potential application of these approaches for implementation in NSW is considered in the following section .

SECTION 4 A WAY FORWARD FOR NSW LOCAL GOVERNMENT

4.1 Context of position

A strong and sustainable local government system requires a robust planning process to ensure that assets are maintained and renewed in the most appropriate way on behalf of local communities. It is evident that while some NSW councils have well established integrated asset management practices, this practice is not common throughout NSW local government. Accordingly, there is a clear need to develop a framework which supports a consistent approach to asset management across the sector.

The members of the NSW Infrastructure Task Force are in support of adopting a similar approach to improving asset management in NSW local government, to that used in South Australia, with some of the supporting components from other jurisdictions, particularly Victoria. The following approach is recommended:

- A focus on the integration of long term strategic, asset management and financial plans. *This focus is consistent with the direction promoted through the department's Integrated Planning and Reporting options paper (planning option 3).*
- The introduction of a general legislative obligation² that requires all councils to prepare long-term strategic asset management plans and long term (ten year) financial plans. *This approach provides flexibility for councils to carry out appropriate asset management and financial planning practices which match their requirements. This approach will also encourage a focus on outcomes rather than compliance.*
- Sector leadership provided to set minimum requirements for asset management. *This approach will build upon the leadership shown by some NSW councils and professional bodies operating within the sector.*
- Sector-led capacity building program that provides templates and guidelines, with training and support to assist councils prepare their asset management and long term financial plans. *This approach also builds upon work either undertaken or being considered by key stakeholder groups including the Institute of Public Works Engineering Australia, Local Government Managers Australia (NSW Division), Local Government and Shires Associations of NSW, and the Local Government Finance Professionals.*

4.2 Proposed position for NSW

The proposed position for NSW local government is that:

1. Strategic long-term asset management and financial plans be included as essential components of an integrated planning and reporting framework across NSW local government.
2. Legislative amendments requiring strategic long term asset management planning be introduced into the *Local Government Act 1993*.

² This obligation applies to councils' non-water supply and sewerage assets. With regard to water supply and sewerage, councils are expected to comply with the *Best-Practice Management of Water Supply and Sewerage Guidelines, 2004*.

3. Councils adopt asset management planning systems and practices that are consistent with the *Local Government Financial Sustainability Frameworks*, and where applicable and practical, the International Infrastructure Management Manual.
4. A basic (core) approach to asset management planning be the agreed minimum level for all NSW councils.
5. An asset management improvement program be implemented to progressively raise asset management planning to a level appropriate for each council.
6. Legislative amendments requiring ten year financial planning be introduced into the *Local Government Act 1993*.
7. An industry wide capacity building program including a range of training, tools, templates and guidelines be introduced.

These principal components are discussed in more detail in the following sections.

4.3 Integrated planning

Recommendation 1 – “Strategic long term asset management and financial planning are included as essential components of an integrated planning and reporting framework across NSW local government”.

As discussed in section 1.3, the department’s *Integrated Planning and Reporting* options paper provides three corporate planning models for consideration and feedback. The final model (option 3) describes a reshaping of the current local government planning framework to strengthen a strategic focus, and streamline planning and reporting processes. The model promotes the integration of long-term asset management and financial planning as essential components of a strategic planning framework for NSW local government. It proposes that each council adopt a ten-year Community Strategic Plan setting out its long term priorities, which would be supported by a four-year Delivery Program and an annual Operational Plan.

In the context of this planning option, the integration of the proposed long-term strategic asset management and financial planning are represented below. As can be seen in **Figure 1** (below) it is proposed that the long-term financial plan and asset management strategy be included as components of the 10 year Community Strategic Plan. Similarly a 4 year budget and asset management delivery plan (capital works and maintenance programs) would be part of the 4 year Delivery Program, and the annual budget included in the Operational Plan.

Following consultation, the sector has given ‘in principle’ support to option 3 subject to further assessment of the detail



Figure 1

4.4 Legislative requirements

Recommendation 2 – “Legislative amendments requiring strategic long term asset management planning be introduced into the *Local Government Act 1993*”.

A review of practices across jurisdictions suggests that an immediate focus on asset management may be achieved through legislation.

In South Australia, the requirements introduced through section 122 of the *Local Government (Financial Management and Rating) Amendment Act 2005 (SA)*, are as follows:

- (1a) A council must, in conjunction with the plans required under subsection (1), develop and adopt-
- (a) a long term financial plan for a period of at least ten years; and
 - (b) an infrastructure and asset management plan, relating to the management and development of infrastructure and major assets by the council for a period of at least

ten years, (and these plans will also be taken to form part of the council's strategic management plans).

Similar legislative amendments to the *Local Government Act 1993* (NSW) have been suggested by the Task Force. It is expected that legislation would:

- Facilitate early implementation of appropriate asset management strategies and plans by councils as part of the Community Strategic Plan and associated Delivery Program
- Create the momentum for lagging councils to undertake such practices
- Establish strategic long term asset management and financial planning functions as an integral part of councils' planning responsibilities
- Legitimise the allocation of resources to such activities within councils.

4.5 Asset management requirements

Recommendation 3 – “Councils adopt asset management planning systems and practices that are consistent with the *Local Government Financial Sustainability Frameworks*, and where applicable and practical, the *International Infrastructure Management Manual*”.

Recommendation 4 – “A basic (core) approach to asset management planning be the agreed minimum level for all NSW councils”.

Recommendation 5 – “An asset management improvement program be implemented to progressively raise asset management planning to a level appropriate for each council”.

The recommendation for NSW local government to adopt practices consistent with the National Frameworks would require councils to demonstrate how their asset portfolios will meet the service delivery needs of their communities into the future, as supported by:

- An asset management policy;
- An asset management strategy;
- Asset management delivery plans; and
- Overarching good governance principles and procedures

Each of these elements is discussed in more detail below.

4.5.1 Development of an Asset Management Policy

States and Territories should develop an asset management policy, which provides high-level guidance to assist councils to develop their own asset management policy. The council asset management policy should:

- Establish the objectives for asset management providing a platform for service delivery;
- Integrate asset management with council corporate and financial planning;
- Assign accountability and responsibility for service delivery together with asset management; and
- Broadly take account of whole of life costing, service levels and financing options.

4.5.2 Asset management strategies

A council's asset management strategy should support and implement its asset management policy. The development of an asset management strategy will enable councils to show how their asset portfolio supports the service delivery needs of their communities into the future, and will enable council's asset management policy to be achieved.

At a minimum, an asset management strategy should address the following:

- What is the current situation with regard to a council's assets and their management?
- Where do we want to be? A council's asset management strategy should fit with the goals and objectives of its strategic plan.
- How will we get there? This would include a comparison between the current situation and future objectives to highlight where strategies will need to be developed to cater for any changes.

4.5.3 Developing asset management delivery plans

The *International Infrastructure Management Manual* is a useful tool available to assist local government in developing its asset management systems and practices. As all councils, irrespective of size or location, have asset management responsibilities it is recommended that each council develop an asset management delivery plan for all assets. The delivery plan should be integrated with the council's 4 year delivery program supporting the Community Strategic Plan. As illustrated through the *International Infrastructure Management Manual*, plans would typically include the following content:

- The purpose of the plan, relationship with other planning documents & timeframe of plan
- A description of the asset group and the services delivered
- An outline of the type of information available on assets, information systems used and key standards & guidelines which influence asset management activities
- Levels of service (current and desired) and a system for performance measures
- Factors influencing future demand and impact of changing demand on assets
- Management of risk
- Summary of lifecycle management strategies (operations, maintenance and renewal/disposal of assets)
- Financial summary - long term cash flow projections for each significant asset group
- Links to long term strategic and financial plans, capital works and maintenance programs.

Given that currently there is significant variation in asset management practices between councils, initially, a basic approach to asset management is required to bring all NSW councils to an agreed minimum level. An initial basic (core) approach is consistent with the recommendations of the *International Infrastructure Management Manual*.

The two approaches to asset management covered in the manual (as briefly described below) demonstrate that asset management systems and practices can be shaped according to the capacity of the council.

A core approach

Using elements of the approach prescribed in the *International Infrastructure Management Manual*, core asset management plans should include:

- Best available information and random condition/performance sampling
- A simple risk assessment to identify critical assets
- Existing levels of service
- Long term cash flow predictions for asset maintenance, rehabilitation and replacement, based on local knowledge of assets and options for meeting current levels of service
- Financial and critical service performance measures against which trends and asset management plan implementation and improvement can be monitored.

An advanced approach

Councils that have sufficient capacity, or have established asset management practices, may progress to the advanced level of asset management. Under the advanced approach information is gathered on individual assets to support the optimisation of activities and programs to meet agreed service standards. Advanced planning criteria include:

- Systematic monitoring and analysis of physical condition of all assets
- The integration of asset risk management with corporate risk management processes
- Adoption by council of levels of service developed in consultation with the community, and linked to council's long term strategic and financial plan
- An improvement program that outlines key performance indicators for monitoring asset management improvements.

4.5.4 Overarching good governance principles and processes

When developing the asset management framework the following principles and processes need to be complied with:

- *Governance and Management Arrangements* – Good governance and management arrangements must be in place that link asset management to service delivery. Service delivery needs and defined service levels must be established in consultation with the community. Quality and cost standards for services need to be established, and services must be regularly reviewed in consultation with the community to determine the financial impact of any change in services;
- *Data and Systems* – Systems must be established that allow for collection of asset management data to enable the measurement of asset performance over time, identify infrastructure funding gaps, and enable benchmarking within the sector.

- *Skills and Processes* – A continuous improvement program must be incorporated. This would include developing a best practice framework; developing and providing ongoing training for councillors, council management and officers on asset management; and providing best practice guides on asset management topics.
- *Evaluation* – The framework should contain a mechanism that measures its effectiveness and achievements.

4.6 Long term financial planning and asset management

Recommendation 6 – “Legislative amendments requiring ten year financial planning be introduced into the *Local Government Act 1993*.”

The National Frameworks propose that a council’s strategic and asset management delivery plans are supported by a long-term financial plan, which demonstrates how the outcomes of the plans will be funded.

In South Australia, the Local Government Association is assisting councils with the requirement to prepare long term financial plans in accordance with section 122 of the *Local Government (Financial Management and Rating) Amendment Act 2005* (SA). The Local Government Association has released the *Long Term Financial Plans* information paper, that explains the role of long term financial planning in supporting financial sustainability. This paper has been drawn upon in the following discussion.

4.6.1 The purpose of long term financial planning

The purpose of a long-term financial plan is to state in financial terms the activities that a council proposes to undertake over the medium to longer term to achieve the stated objectives in its strategic plan. It is similar to, but usually less detailed than the annual budget. Like the budget it is a guide for future action, but additionally its preparation requires the council to think about the long-term impact of revenue and expenditure proposals. Without a long-term financial plan councils are at risk of taking on additional services and expenditure on new capital items, without careful consideration of the implications for their financial sustainability.

When setting the annual budget, a council is exposed to financial risk over the longer term if little regard is given to both revenue and expense implications beyond the budget period. Long-term financial planning is arguably more critical for councils than many other organisations, since all councils have very large stocks of assets relative to their revenue base. In addition councils face continuing expectations and pressures to expand service levels and keep rate rises to moderate levels.

4.6.2 Linking strategic, financial plans and asset management plans

As noted in section 4.3, it is critical that a council’s strategic asset management plan (incorporating an asset management policy, strategy and delivery plan) and long-term financial plan form part of and be integrated into the council’s Community Strategic Plan and associated Delivery Program. Initiatives proposed in both the long-term financial plan and strategic asset management plan must be appropriate for the pursuit of the council’s objectives and strategic plan outcomes as stated in its Community Strategic Plan.

A strategic asset management plan should identify new and renewal infrastructure needs to meet future community service expectations and the expected associated maintenance costs based on expert technical assessment. Costs identified in draft asset management delivery plans need to be fed into a draft long-term financial plan to ensure the projected expenditure can be accommodated without detriment to a council's financial sustainability. If cuts need to be made to the strategic asset management plan, then a withdrawing or deferral of new assets, or rationalisation of existing assets may assist with this process.

4.6.3 Elements of a long-term financial plan

An effective long-term financial plan should include at a minimum, the following elements:

- Projected Balance Sheet, Operating & Cash Flow Statements
- Projected key ratios (debt service ratio, unrestricted current ratio, rates and charges outstanding, current ratio)
- An explanation of underlying assumptions (cost increases, revenue sources, rate peg/strategic special variation increases, fees and charges, interest rates, debt, investment and dividend policies and proposed undertakings etc across all business activities of council)
- The integration of asset management planning outputs including:
 - How the maintenance, renewal, and replacement of existing assets will be undertaken
 - How the costs of maintenance, renewal and replacement of existing assets will be funded
 - Identification of what additional asset capacity is required
 - How the provision of additional asset capacity will be undertaken
 - The estimated costs and funding sources for additional asset capacity
 - Projected cash flows from asset managements plans
 - Detailed long term capital works (new and renewals) and maintenance programs
 - Proposed asset disposals
- Updated contribution plans under section 94 of the *Environmental Planning and Assessment Act 1979* and section 64 of the *Local Government Act 1993*.

4.6.4 Rating considerations

A council's rate revenue expectations are an important consideration in the content of the long-term financial plan. An outcome of developing a long-term financial plan may be that a council will determine that a review of its rating strategies and structure, including an application for a special variation may be required. A well developed long-term financial plan, integrated with an asset management plan, should provide valuable evidence in support of any such application.

Recommendation 7 – “An industry wide capacity building program including a range of training, tools, templates and guidelines be introduced.”

4.7 What reporting requirements are currently under consideration?

In response to the previously discussed infrastructure accounting and reporting issues, the following actions are currently underway.

Special Schedule 7 is currently being reviewed in consultation with the sector through the Local Government Accounting Advisory Group. Any changes to this reporting requirement will be incorporated into the *Local Government Code of Accounting Practice & Financial Reporting*. Consideration will also be given to introducing other asset performance and renewal performance indicators in the annual financial statements, commentary on council's progress against its plan to bring assets up to a satisfactory standard, and its strategy to address the funding gap.

4.8 Capacity building program

An important part of successfully implementing the recommendations in this paper relies upon a capacity building program. The Department of Local Government will continue to work with stakeholders to provide guidance that builds the capacity of local government to respond to its future planning and reporting obligations. Key stakeholder groups including the Institute of Public Works Engineering Australia, Local Government Managers Australia (NSW Division), Local Government and Shires Associations of NSW, Local Government Auditors Association, NSW Local Government Finance Professionals, Roads and Traffic Authority and the Department of Energy, Utilities and Sustainability are committed to working with the Department of Local Government to make this achievable.

4.9 Where to from here?

4.9.1 Consultation timetable

This position paper forms the next stage of consultation and review. Consultation will continue until **13 July 2007**, and will be conducted with the Integrated Planning and Reporting consultation process. The consultation process for the *Integrated Planning and Reporting* options paper can be accessed through the department's website <http://www.dlg.nsw.gov.au>.

4.9.2 Making a written submission

Councils, agencies, industry groups and other interested individuals are welcome to make written submissions on this position paper. A feedback form is provided below, or you may wish to prepare a more detailed response.

Written submissions should be directed to:

Asset Management Planning Position Paper
Department of Local Government
Locked Bag 3015
NOWRA NSW 2541

Or *email* to:

assetplanning@dlg.nsw.gov.au

The closing date for submissions is **13 July 2007**

APPENDIX 1 – Asset management practices in other jurisdictions

A1.1 Victoria

There are no current requirements within the *Local Government Act 1989* (Vic) for councils to complete long-term asset management planning across their entire range of assets. However road management plans are required under the *Road Management Act 2004* (Vic).

The Department for Victorian Communities (DVC) has worked jointly with the Municipal Association of Victoria (MAV), Vic Roads, the Victorian Audit Office on a range of asset management projects directed at developing the capacity and expertise of local government over a three to five year period.

In 2002 the MAV launched the *Step Asset Management Program* to provide councils with a whole of organisation perspective and a best practice framework aimed at integrating continuous improvement into councils' asset management practices. The program involved visits by asset management experts to each council. In its early stages, the *Step Program* focused on assisting councils with road asset management practices, including the introduction of road management plans to comply with new legislation introduced by the Victorian Government (*Road Management Act 2004* (Vic)). All 79 Victorian councils have been ongoing participants in the *Step Program*.

In 2005 the Renewal Gap project (a *Step Program* initiative) provided councils with comprehensive data on their capital funding liability for all asset classes. Victorian councils are now completing detailed asset management plans that will provide input into future council annual budget processes.

In 2006 an *Advanced Step Program* was introduced by the MAV. This program is designed to incorporate an assessment of council practices by external experts, who will report back to each council in confidence. This will enable councils to continually assess and improve their asset management capacity and capabilities. Representatives from local, state and federal government will be appointed to the board.

The Victorian Office of Local Government has assisted in building the capacity of local government to undertake asset management through development of the following guidelines:

- Reporting and measuring the condition of road assets
- Developing an asset management policy, strategy and plan
- Fair value asset valuation methodologies
- Local government asset investment guidelines
- Good governance guide.

A1.2 South Australia

An independent inquiry into the financial sustainability of local government in South Australia was commissioned by the Local Government Association of SA (LGA) in February 2005. In August 2005, the Inquiry Board released its final report entitled "*Rising To The Challenge: Towards Financially Sustainable Local Government in South Australia*". In general terms the inquiry found that councils in South Australia have in recent years, put community needs and demands for services ahead of maintaining their financial sustainability. The inquiry identified that the sector has low levels of debt, but is carrying almost \$10billion of community infrastructure that is deteriorating due to a shortfall in maintenance and renewal works. The

inquiry's final report includes sixty-two recommendations, which the LGA Executive Committee resolved to support in full or in principle.

Following the inquiry, the LGA established the Financial Sustainability Advisory Committee (FSAC) and the *Financial Sustainability Program*, to assist with the implementation of the inquiry recommendations. The FSAC includes state and local government representatives, and provides advice to the LGA on the implementation of the *Financial Sustainability Program*. The *Financial Sustainability Program* involves the provision of a range of materials including information papers, standards, codes, manuals and guidelines incorporating more technical detail, which will assist councils to respond to the challenges presented in the inquiry findings.

An Asset Management Working Group (reporting to the FSAC) was formed to drive the *Financial Sustainability Program* "Sustainable Asset Management" project. The project work focuses on building councils capability to achieve sustainable service delivery, and to meet the requirements of the *Local Government (Financial Management and Rating) Amendment Act 2005* (SA).

The Local Government (Financial Management and Rating) Bill was passed by the South Australian Parliament in November 2005. The *Local Government (Financial Management and Rating) Amendment Act 2005* (SA) requires all councils to incorporate long term financial plans and asset management plans in their strategic plans, establish audit committees, and to consult with their communities on annual programs and budgets.

The *Sustainable Asset Management* project has involved:

- A pilot test with a small number of councils to identify improvements needed
- The development of a training and support program (delivery to commence in 2007)
- An early starters program to give guidance and support to those councils that have already commenced, or wish to commence, the preparation of their infrastructure and asset management plans (currently underway).

Through the *Sustainable Asset Management* project, the LGA has been working with the Institute of Public Works Engineering Australia on the development of models, templates and guidelines. These will assist councils with the preparation of their asset management policy and plans, in accordance with the International Infrastructure Management Manual.

The tools developed to date are as follows:

- Sustainable service delivery capability gap analysis model
- Asset management policy
- Infrastructure and asset management plan templates and guidelines
- New assets from growth model
- Asset renewal model
- Financial cash flow model
- Assessment of asset condition and economic life template
- Infrastructure risk management plan template and guidelines
- Infrastructure risk register template.

A1.3 Queensland

There is no current requirement within the *Local Government Act 1993* (Qld) for councils to complete long-term asset management planning across their entire range of assets.

In June 2005 the local government sector³ signed a memorandum of agreement, which gave rise to a coordinated program known as *From the Backroom to the Boardroom*. A key feature of this initiative is an asset management mentoring and improvement program titled *LG Asset*. The key aim of *LG Asset* is to raise awareness of the need for a whole of organisation approach to asset management, provide the tools and a best practice framework to enable continuous improvement of councils' asset management practices and processes.

LG Asset is a two-year program which involves one or more pre-qualified and trained consultants visiting council on four separate occasions, as well as conducting two regional workshops for all councils undertaking the program. At these council and regional visits the consultant works through the five step *LG Asset Framework*, providing tools and expertise, with the aim of improving councils asset management practices over time.

A1.4 Tasmania

In Tasmania, State and local government have worked together to develop a high level strategic infrastructure policy framework to guide the management of existing infrastructure, and the priority and delivery of new infrastructure to achieve the best economic development outcomes for the state. In 2004/05 the Local Government Association of Tasmania launched the *Tasmanian Asset Management Improvement Program* (TAMI). Based largely on the *Victorian Step Program*, TAMI seeks to provide councils with a better understanding of their asset base, its characteristics and ongoing maintenance requirements. Whole of life considerations, priorities of spending and service level agreements with the community form part of the tool set available under TAMI. To date nine councils have participated in the program.

A1.5 Western Australia

There is no specific legislative requirement in Western Australia for councils to develop asset management or long term financial plans. However, in May 2006 the Department of Local Government & Regional Development promoted a new program to improve asset management practices across the sector.

The *Western Australian Asset Management Improvement Program* is based on the programs implemented in Victoria, Tasmania and Queensland. The program aims to improve asset management knowledge and skills of both council staff and elected members. A steering group with representatives from the Department of Local Government and Regional Development, the Local Government Association of Western Australia, Local Government Managers Australia (WA) and the Institute of Public Works Engineering Australia (WA Division) has been convened to drive the implementation of the program. The four organisations have signed a memorandum of understanding that establishes the role and responsibilities of the parties in implementing the program for local government in Western

³ Local Government Association of Queensland, Department of Local Government, Planning and Sport and Recreation and Local Government professional bodies.

Australia. To assist with the implementation of the program in rural local governments, the Department of Local Government and Regional Development sponsored an initial visit and workshop.

Recent amendments to the *Local Government Act 1995* (WA) replaced a previous requirement to prepare a plan of principal activities with a provision that councils develop a plan for the future. The provisions are broad with respect to the content of the plan (*Local Government Act 1995* (WA), section 5.56). Regulations require that the future plan cover a minimum period of two years and be reviewed every two years, and that the electors and ratepayers be consulted during the development and review of the plan. The council is to have regard to the contents of the future plan where preparing and adopting its annual budget.

A1.6 New Zealand

The driver for legislation in New Zealand was a Government commitment to establish management practices across the local government sector. The mandatory requirement for asset management has had a range of positive impacts, including definition of and consultation on service levels; a better understanding of demand and asset constraints; the building of asset registers and a better understanding of asset life cycles; and a structured approach to funding asset maintenance, renewal, enhancement and acquisition. The *Local Government Amendment Act 1996* (NZ) also requires the preparation of a long-term (ten year) financial strategy that is reviewed every three years.

The asset management provisions prescribed under schedule 10 of the New Zealand *Local Government Act 2002* (NZ) requires local government to develop a long term community plan which incorporates asset management planning outputs. This involves the identification of:

- Assets required to support the activities undertaken by the council
- How the local authority will assess and manage the asset management implications of changes to:
 - demand for, or consumption of relevant services
 - service provision levels and standards
- What additional asset capacity is required
- How the provision of additional asset capacity will be undertaken
- The estimated costs of additional asset capacity
- How the costs of the provision of additional asset capacity will be met
- How the maintenance, renewal, and replacement of assets will be undertaken
- How the costs of the maintenance, renewal, and replacement of assets will be met.

FEEDBACK FORM



Asset Management Planning for NSW Local Government Position Paper

Organisation _____

Contact Person _____

Contact No. _____

Comments: