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18 July 2007

Mr Ross Woodward
Deputy Director General
Department of Local Government
Locked Bag 3015
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Dear Mr Woodward

LGSA Submission on DLG Asset Management Planning Position Paper

The Local Government and Shires Associations of NSW are pleased to provide their submission on the NSW Department of Local Government's position paper entitled Asset Management Planning for NSW Local Government.

The Associations commend the Department for preparing the position paper and appreciate the opportunity to comment. The Associations also commend the Department for establishing the NSW Infrastructure Task Force to provide an avenue for participation and consultation during the preparatory phase of the paper.

The position paper was developed in consultation with the NSW Infrastructure Task Force which comprised a range of stakeholders including the Associations, The Institute of Public Works Engineering Australia (IPWEA), the Local Government Managers Australia (NSW Division) (LGMA), the Local Government Auditors Association, the Roads and Traffic Authority and the Department of Water and Energy. The Associations, through their representatives were fully involved in the preparation of the position paper.

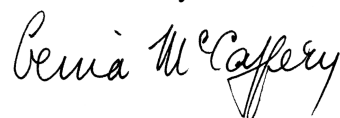
Accordingly, the Associations in their attached submission focus on general comments (I) and the need for a comprehensive capacity building program (II).

The Associations strongly support the introduction of long term asset management and financial planning as essential components of the proposed integrated strategic planning and reporting framework. However, technical and financial support needs to be available for councils who struggle with the implementation.

If supported by the whole sector, the introduction of strategic planning, asset management and financial planning should not be just another compliance exercise but turn out to be for the long term benefit of councils and their communities. Such frameworks will enable councils to better prioritise services and infrastructure provision over the long term and thereby avoid making short term, wasteful decisions. They will improve the understanding of and support by the community, councillors and staff of long term goals, the trade-offs involved in achieving them, and the necessity of setting priorities.

The Associations are looking forward to working with the Department and other stakeholders on the development of an implementation plan for the proposed framework of asset management and financial planning.

Yours sincerely



Cr Genia McCaffery
President
Local Government Association of NSW



Cr Bruce Miller
President
Shires Association of NSW

LGSA Submission on DLG Asset Management Planning Position Paper

I. General comments

The Association support the objectives of the position paper which proposes a new asset management and financial planning framework for councils in NSW including:

- Strategic long term asset management and financial planning become essential components of an integrated strategic planning framework;
- Legislative amendments requiring long term asset management and 10-year strategic and financial planning be introduced in into the *Local Government Act 1993* (NSW);
- Councils to adopt asset management systems and practices which are consistent with the national framework for financial sustainability and asset management and IPWEA's International Infrastructure Management Manual;
- Establishment of a financial reporting framework for asset management that is embedded in the strategic planning process. This framework would significantly improve current reporting requirement, particularly Special Schedule 7;
- An initial basic (core) approach to asset management as an agreed minimum level for all NSW councils; and
- An improvement and capacity building program to progressively raise asset management including a range of training, tools, and guidelines.

The position paper represents an important step towards long term asset management and financial planning as essential components of the integrated strategic planning and reporting process. It addresses NSW Local Government's need to catch up in the area of asset management to the level that exists in other states.

The position paper takes up the issues identified by the Independent Inquiry into the Financial Sustainability of NSW Local Government which found that only 20 per cent of councils have adequate asset management systems and practices in place and recommended that all councils – with technical and financial support from the NSW Government - adopt adequate asset management systems with consistent asset accounting practices (recommendation 6).

The Inquiry also found that councils running an annual infrastructure renewal gap of \$500 million which has accumulated to a present infrastructure renewal backlog of \$6.3 billion and concluded that it was essential for councils to have adequate asset management and financial management system in place to identify and address their backlogs.

It is the Associations view that, if effective asset management systems are introduced, the quantum of infrastructure funding shortfall will be clearly identified and Local Government will then be able to present a compelling argument (supported by essential data) to the NSW Government and the Commonwealth Government for additional infrastructure funding.

The Associations would like to emphasise that any financial planning, management and reporting framework for assets should be guided by and consistent with the first national infrastructure financial management guidelines currently being developed by the National Asset Management Strategy Committee. Accordingly, the Associations support the related introduction of the fair value methodology for the valuation of non-current assets as a first step towards more adequate and consistent valuation and depreciation data.

II. Capacity building program

Even though promoting a comprehensive, sector wide capacity building program, the paper falls short of making suggestions as to the funding of such a program. Although, there are councils who do asset management and financial planning well, many councils, particularly in regional and rural areas, struggle or will struggle to implement asset management and financial planning systems for a lack of strategic guidance, technical expertise and financial resources.

It is important to realise that the introduction of mandatory asset management and financial planning frameworks needs to be accompanied by a program that enables councils to introduce and apply these frameworks in a meaningful way and not only as “just another compliance exercise”.

It is critical for the success of the proposed framework that a NSW-wide capacity and skills building program be rolled out – a program that promotes a “whole of council” approach to asset management and financial planning as components of the strategic planning process where elected members, managers, engineers and finance professionals work together.

The program needs to emphasise the stewardship role elected members have for the council’s assets and aim at improving their capacity to take a long term view on assets, the level of service they can and should provide, and – importantly – the resources necessary to maintain, renew, and, if necessary, upgrade them or provide new infrastructure. It should focus on enabling councillors to assess priorities and trade-off and make decisions that most effectively and efficiently use council’s asset portfolio and can be funded over the long term from council resources.

The program needs to assist managers, engineers and finance professionals with implementing meaningful asset management and financial planning systems that provide relevant information to elected members. To do so, the program needs to include tools, templates and training. It also needs to include readily available on-site support by specialists. In this respect it is very important that any experts or consultants engaged with on-site support do not write the asset management plans but help councils to write them by themselves. Only that way, corporate knowledge and ownership can be established and maintained.

Capacity and skills building programs are being rolled out in other states and initial consultancy based programs in Queensland (LG Asset) or Victoria (STEP Program) required funding of at least \$2 to \$3 million.

The Associations and other peak industry bodies have therefore, in a joint media release of 17 May 2007, commended the NSW Government and the Department for this important initiative and called on the Government to invest an modest initial amount of \$3 million to develop and roll out an asset management capacity building program to enable NSW councils to adequately manage \$68 billion worth of NSW infrastructure.