



Local Excellence

Councils Working Together for Communities

Financial Sustainability

Information Paper 6

Infrastructure and Asset Management

Revised January 2012



Introduction

This Information Paper is one of a series of Information Papers about Financial Sustainability and Financial Governance in Local Government.

The series of Information Papers was originally published in 2006 to 2011 as part of the Financial Sustainability Program. The history of that program and a complete list of Information Papers and other resources, including a glossary of terms and abbreviations, is provided on the LGA's "Financial Sustainability" web page: <http://www.lga.sa.gov.au/goto/fsp>.

The entire series of Papers was revised in early 2012 to take account of legislative changes and other developments. These Papers are addressed to, and written primarily for the benefit of Council Members and staff, but they are also available as a resource for the general public and students of Local Government.

Assets – an overview

Councils in South Australia are the custodians of over \$18 billion of infrastructure and other assets on behalf of their communities. They have an obligation to ensure that assets they control are managed efficiently and effectively and that decisions regarding the acquisition of new assets and the sale and maintenance of existing assets are undertaken in an open and transparent fashion.

Relative to annual operating revenue, the South Australian Local Government sector is three times more asset intensive (i.e. value of assets/operating revenue) than the State Government and nine times more asset intensive than the Commonwealth Government. It follows that asset management is a more critical responsibility for Councils than it is for other spheres of government. Sound asset management is the key to the financial sustainability of every Council.

Each Council is required to develop and adopt an infrastructure and asset management plan (I&) covering a period of at least 10 years. In addition each Council is required to adopt a long-term financial plan also covering a period of at least 10 years.¹ There is a direct link between the development and implementation of these two plans. The two plans also need to be consistent. That is to say, the long-term financial plan must reflect the optimal level of proposed asset maintenance, renewal and replacement outlays necessary to achieve the Council's specified service levels, while minimising whole-of-life-cycle asset costs, as specified in the Council's I&. To achieve this it is often necessary to review proposed service levels² upon which the infrastructure and asset management plan is based and/or revenue raising proposals and forecasts specified in the long-term financial plan.

What is Asset Management?

Councils expend considerable funds on the acquisition and management of assets. They may be exposed to financial risk over the longer term if their budget processes have little regard for ongoing costs associated with the maintenance of these assets beyond the annual budget. It is incumbent on Councils to carefully consider information about their stock of infrastructure and other assets, and the financial contribution that current ratepayers are

¹ Both of these plans form part of Councils' strategic management plans, under section 122 of the [Local Government Act 1999](#).

² See Financial Sustainability Information Paper No. 26: *Service Range and Levels* at <http://www.lga.sa.gov.au/goto/fsp>

making to offset the consumption of assets (i.e. the gradual erosion of the remaining service potential of the assets).

Simple but soundly based asset management and financial plans allow Councils to ascertain sustainable service levels,³ affordable asset acquisition strategies, cost-effective maintenance regimes and corresponding funding requirements.

The 2005 [Independent Inquiry into the Financial Sustainability of Local Government](#) found that unless Councils addressed these issues they would be leaving a considerable financial legacy to future Councils and their communities. Coupled with the challenges of scarcity of resources and increasing costs, Councils face challenges in managing their infrastructure and other assets as a result of issues such as increasing community expectations, development growth, population drift (especially to coastal areas), replacement of ageing infrastructure, new legislative requirements and the growing demands of an ageing population.

The term "asset management" is used to describe the process by which Councils manage physical assets to meet current and future levels of service.⁴

"Asset Management is a systematic, structured process covering the whole life of an asset. The underlying assumption is that assets exist to support program delivery."⁵

"The goal of infrastructure asset management is to meet a required level of service, in the most cost effective manner, through the management of assets for present and future customers."⁶

There are three key phases in the cycle of the management of Councils' assets as outlined below:

1. Acquisition:

- identification of needs, including any financial constraints;
- planning;
- costs and expected economic life;
- assessment of requirements;
- feasibility study;
- acquire/construct;
- asset identification and recording.

2. Ownership:

- planned maintenance;
- unplanned maintenance;
- maintenance of asset records;
- condition assessment (to review maintenance needs).

³ See Financial Sustainability Information Paper No. 26: *Service Range and Levels* at <http://www.lga.sa.gov.au/goto/fsp>

⁴ See Financial Sustainability Information Paper No. 26: *Service Range and Levels* at <http://www.lga.sa.gov.au/goto/fsp>

⁵ Commonwealth of Australia (1996), *Asset Management Handbook*, Australian National Audit Office, <http://www.anao.gov.au/>

⁶ Association of Local Government Engineering NZ Inc, Institute of Public Works Engineering Australia (2006), *International Infrastructure Management Manual - International Edition*, New Zealand.

3. Disposal:

- condition assessment and likely income to be derived (to determine optimal timing of replacement/disposal);
- determination of method of disposal;
- site rehabilitation (where applicable);
- other environmental considerations (where applicable).

Council Members determine the policy framework within which existing assets are managed, new assets are acquired and the overall program for maintenance and disposal of assets. This policy framework will typically have regard to the link between the purchase, upgrade and disposal of assets, the delivery of services to communities and consultation processes required to ensure communities are well informed and able to influence the decisions of their Councils.

The role of Council staff is to assist the elected body to translate its asset management policy objectives into plans that will enable Councils to efficiently and effectively manage their asset portfolios and address issues such as:

- overall objectives for asset management having regard to the implications for service levels, financial, legal and regulatory matters;
- management of asset information systems, addressing issues such as location, condition, performance, capacity/utilisation, risk, lifecycle costs, maintenance history etc.;
- risk identification, assessment and control in the short and long term.

The purpose of an I& is to recognise asset consumption and ascertain likely future asset maintenance and renewal needs and the need for new additional assets to meet future community service expectations. The costs inherent in an I& need to be reflected in a Council's long-term financial plan⁷ and both of these documents are integral to, and will be heavily influenced by, the strategic management plans of a Council. Where financial constraints prevent the accommodation of identified asset management outlay needs, a Council needs to revisit proposed service levels upon which its I& is based. It needs to determine service levels that are compatible with its long-run revenue raising capacity and achievement of responsible financial indicator targets.⁸

With establishment of appropriate policy and planning mechanisms, staff can put in place operational controls and procedures to meet a Council's objectives so as to:

- ensure that assets are properly managed and maintained;
- create and maintain suitable information and decision support systems to allow for the systematic establishment of service levels⁹ and the appropriate solutions to provide for those service levels;
- monitor the condition and performance of existing assets to meet the required service levels;
- ensure that appropriate records of assets are created and maintained;

⁷ See Financial Sustainability Information Paper No. 8: *Long-Term Financial Plans* at <http://www.lga.sa.gov.au/goto/fsp>.

⁸ See Financial Sustainability Information Paper No. 9: *Financial Indicators* at <http://www.lga.sa.gov.au/goto/fsp>.

⁹ See Financial Sustainability Information Paper No. 26: *Service Range and Levels* at <http://www.lga.sa.gov.au/goto/fsp>

- ensure that a system of internal controls safeguards assets from misuse or misappropriation;¹⁰
- monitor the achievement of plans;
- provide regular reports on the achievement of plans; and,
- regularly review both the asset management plan and the long-term financial plan.

What does the Act require?

The [Local Government Act 1999](#) and its regulations require each Council to:

- have an I&, covering the management of infrastructure and other major assets of the Council for a period of at least 10 years;¹¹
- have a long-term financial plan covering a period of at least 10 years;¹²
- maintain prudential management policies, practices and procedures for the assessment of all projects;¹³
- prepare and consider a specially-commissioned report on the prudential aspects of a contemplated major asset acquisition or construction project (not required for road construction/maintenance or drainage);¹⁴
- have a policy on the sale and disposal of assets;¹⁵
- adopt an internal control policy which safeguards assets;¹⁶
- maintain accounting records of assets;¹⁷
- maintain a register of community land;¹⁸
- maintain a register of public roads;¹⁹
- regularly estimate its “asset sustainability ratio” and include the updated estimate in its:
 - long-term financial plans;²⁰
 - annual budget,²¹ and
 - mid-year budget review;²² and
- regularly revalue its material non-current assets in accordance with the requirements of Australian Accounting Standards.²³

The [Local Government Act 1999](#) does not prescribe any particular form, content or approach for the preparation of an I&. Clearly though in order to help both decision-makers and stakeholders to understand and make use of the document, the I& should specify the desired and intended service levels sought to be generated from various classes (and

¹⁰ See Financial Sustainability Information Paper No. 21: *Internal Financial Controls* at <http://www.lga.sa.gov.au/goto/fsp>

¹¹ [Local Government Act 1999](#) Section 122 (1a)(b)

¹² Section 122 (1a)(a) These two documents need to be consistent. That is to say, the long-term financial plan must take account of the cost of maintaining, renewing and replacing assets as specified in the infrastructure and asset management plan.

¹³ [Local Government Act 1999](#) Section 48 (aa1). See also Financial Sustainability Information Paper No. 27: *Prudential Management* at <http://www.lga.sa.gov.au/goto/fsp>

¹⁴ Section 48(1) and 48 (3)

¹⁵ Section 49 (1)(d)

¹⁶ Section 125

¹⁷ Section 124(1)(a)

¹⁸ Section 207(1)

¹⁹ Section 231(1)

²⁰ [Local Government \(Financial Management\) Regulations 2011](#) Regulation 5(c)

²¹ Regulation 7(d)

²² Regulation 9(2)

²³ Regulation 12

sub-classes) of assets.²⁴ It needs to also include details of outlays estimated to be required each year for:

- maintenance of existing assets;
- renewal or replacement of existing assets;
- maintenance of new, additional assets;
- acquisition of new, additional assets.

Many Councils find it useful to prepare an I& for each asset class and this is not discouraged. Where this approach is adopted a Council must still nevertheless prepare an overall infrastructure and asset management plan providing summarised information and clearly setting out outlay forecasts as described above aggregated for all classes of assets.

What are the issues for Councils?

When developing an infrastructure and asset management plan, a Council should consider the following key issues:

1. Assets exist to support the delivery of a range and level of services to achieve a set of outcomes determined in consultation with the community.²⁵
2. Asset management is a subset of strategic planning and, as such it is an integral consideration in the creation of strategic management plans.
3. In evaluating alternatives for asset acquisition, the life-cycle costs and benefits of assets need to be considered and compared with the outcomes required to be produced by the asset.
4. Assets are not always renewed. Furthermore, acquiring more assets is not necessarily the solution to increased service demand.
5. Asset performance must be monitored and action taken to renew (including upgrade/rehabilitate) or retire assets that do not provide appropriate service levels and outcomes.
6. Each asset must be assigned to a person who has the responsibility to achieve service levels and outcomes with the asset.

It is communities, through their elected bodies of Council Members, who have the pre-eminent role in setting the service levels required to meet their needs.

CEOs and their management teams, working with their Council Members and communities, must ensure that assets are acquired, maintained, renewed and replaced in a manner that meets the service needs of their communities (whilst being mindful of the 'duty of care' that Councils have towards their communities) and in accordance with their adopted strategic management plans and budgets (including appropriate affordability and financial sustainability considerations).

²⁴ Classes or categories of assets should be determined by each Council relative to its circumstances and information needs. Consideration needs to be had though to a Council's financial reporting requirements in determining asset classes. See the discussion *Determining 'Classes' of Assets* in the [LGA SA Model Financial Statements 2011](#) at page 75.

²⁵ See Financial Sustainability Information Paper No. 26: *Service Range and Levels* at <http://www.lga.sa.gov.au/goto/fsp>

The following steps set out the process for good asset management in support of a Council's asset management policies.

1. In consultation with the community, define the outcomes to be achieved and the affordable service levels that will best achieve those outcomes.
2. Ensure proposed service levels, as a minimum, satisfy Council's duty of care obligations.
3. Incorporate the service level and outcomes into a Council's strategic management plans, but have regard to the financial implications into the long term, and a Council's financial sustainability considerations before settling service standards and modify proposed service standards as necessary.
4. Assess alternative methods of providing the service levels (including lower cost assets and non-asset methods where possible) and decide on the best solution. This would include an assessment of the full life-cycle costs and benefits for each of the alternatives.
5. If appropriate, acquire the assets to meet the required service levels.
6. Operate and maintain the assets to achieve up-to-date required service levels and minimise life-cycle costs.
7. Review asset performance and condition.
8. Renew assets that will continue to be required to meet community needs.
9. Dispose of surplus assets or assets no longer able or required to meet community needs.

Supporting the above steps are two key elements:

- Information – about a range of matters:
 - community needs;
 - service levels;
 - financial sustainability considerations;
 - asset performance and condition;
 - financial performance targets;
 - financial indicators;²⁶
 - impact on future operating budgets (i.e. maintenance and depreciation costs).
- a decision support system which can perform:
 - life-cycle costing;
 - modelling of proposed solutions;
 - trend analysis;
 - forecasting – short and long term.

Resources

The degree of complexity of asset management will differ according to an individual Council's corporate needs. The Local Government Association recommends that Councils have

²⁶ See Financial Sustainability Information Paper No. 9: *Financial Indicators* at <http://www.lga.sa.gov.au/goto/fsp>

regard to the [International Infrastructure Management Manual](#) (IIMM 2011) issued by the [Institute of Public Works Engineering Australia](#) (IPWEA) in the preparation of their infrastructure and asset management policies and plans.

Typically Councils will start at a core level (focusing on current practices) and develop to a more advanced level identifying strategies to reduce life-cycle costs through improved practices and new technology. Deciding on the level at which a Council is aiming is a key strategic decision to be made by individual Councils.

Asset management will evolve in a continuous cycle of review and improvement so the quality of outputs matches the changing business needs of Councils.

Many Councils make use of the extensive range of materials prepared by [IPWEA](#) in undertaking their asset management responsibilities. They do this by subscribing to one of two programs:

- [National Asset Management Strategy](#) (NAMS.PLUS); or
- [Asset Management for Small, Rural or Remote Communities](#) (AM4SRRC)

These programs provide the tools and guidance to assist Councils write their own asset management plans based on the two approaches outlined in the IIMM – either 'core' or 'advanced'. Support material includes templates for the preparation of infrastructure and asset management policies and plans.

To assist with the integration of an I& into a Council's long-term financial plan²⁷ and asset accounting and asset management activity, Councils are also encouraged to have regard to the [Australian Infrastructure Financial Management Guidelines](#) (AIFMG, updated 2011) also issued by [IPWEA](#).

A note on depreciation

Depreciation measures the consumption of an asset over a particular accounting period. The consumption of an asset is part of the cost of providing a service. The full cost of providing any service needs to be considered by communities and a Council in deciding to provide or continue services. In order to maintain financial and service level sustainability, the full cost of providing the service needs to be funded.²⁸

Accounting standards require that assets with finite lives be depreciated over their useful lives. Asset values, useful lives and depreciation rates used to:

- maintain asset registers, and
- prepare financial statements, and
- forecast timing and cost of asset replacement/renewal in an I&

should all be consistent with each other.

Acknowledgement

This project has been assisted by the [Local Government Research and Development Scheme](#).

²⁷ See Financial Sustainability Information Paper No. 8: *Long-Term Financial Plans* at <http://www.lga.sa.gov.au/goto/fsp>.

²⁸ See Financial Sustainability Information Paper No. 17: *Depreciation and Related Issues* at <http://www.lga.sa.gov.au/goto/fsp>.