



Financial Sustainability Program

Information Paper 6
**Infrastructure and Asset
Management**
(Policy and Planning)

August, 2006



Introduction

Councils in South Australia are the custodians of over \$10b of infrastructure and assets on behalf of their communities. They have an obligation to ensure that current assets are managed efficiently and effectively and that decisions regarding the acquisition of new assets and the sale and maintenance of current assets are undertaken in an open and transparent fashion.

Relative to annual income the South Australian Local Government sector is 3 times more asset intensive (i.e. value of assets/income) than the State Government and 9 times more asset intensive than the Commonwealth Government. It follows that asset management is a more critical responsibility for Councils than for other spheres of government. Sound asset management is key to the financial sustainability of every Council.

This information paper is one of a number being developed as part of the LGA's Financial Sustainability Program. It is designed to provide an overview of the role of Asset Management in Councils' operations.

Recent amendments to the Local Government Act will require all Councils to develop and adopt infrastructure and asset management plans covering a period of at least 10 years. In addition Councils will be required to adopt long term financial management plans also covering a period at least 10 years. Both of these plans will form part of Councils' strategic management plans. There is clearly a direct link between the development and implementation of Councils' asset and long term financial plans and this paper seeks to demonstrate the importance of these links. The relevant legislative provisions are expected to come into operation on 1 January 2007.

This paper should be read in conjunction with the information papers on Financial Sustainability which highlight the increasing demands on Councils and the importance of efficiently managing the delivery of services. Information papers have been, or will soon be, prepared on the following topics:

- Financial Sustainability
- An Overview of Audit Mechanisms
- Audit Committees
- Scope of External Audits - Audit Specification
- Efficiency & Economy Audits
- Infrastructure and Asset Management (Policy and Planning)
- Service Delivery Framework including the Role of Shared Services
- Long-term Financial Plans
- Governance in Local Government
- Financial Governance and Management
- Revenue and Funding Policies
- A New Approach to Standards in Local Government
- A New Approach to State-Local Resourcing
- Depreciation
- Local Government Financial Indicators
- Debt Management
- An Approach to Assessing Financial Sustainability for Local Government

A number of manuals, guidelines, templates, technical definitions, codes, standards and similar documents supporting this series of information papers are also being prepared by the LGA to provide practical assistance to Councils.

For an update on which information papers have now been completed or information about other documents and activities, including briefing and training sessions, please visit our website at: www.lga.sa.gov.au/goto/fsp.

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 budget processes have little regard for ongoing costs associated with the maintenance of these assets beyond the current budget period. It is incumbent on Councils to carefully consider information about their stock of infrastructure and other assets and the contribution that current ratepayers are making to their consumption.

Simple but soundly based asset management and financial plans allow Councils to ascertain sustainable service levels, affordable asset acquisition strategies, cost-effective maintenance regimes and corresponding funding requirements. The Financial Sustainability Inquiry specifically highlighted the issue that unless Councils address current practices in asset management they will be leaving a considerable financial legacy to future Councils and their communities. Coupled with the challenges of scarcity of resources and costs increasing beyond CPI, Councils are facing new challenges in managing their infrastructure and assets as a result of issues such as increasing community expectations, population drift (especially to coastal areas), replacement of ageing infrastructure, new legislative requirements (eg EPA standards) and the growing demands of an ageing population.

Recent changes to the Local Government Act requiring Councils to adopt infrastructure and asset management plans were supported by the LGA (on behalf of Councils) and also highlighted in the Inquiry Report's recommendations.

The term "asset management" is used to describe the process by which Councils manage physical assets to meet current and future levels of service. Contemporary definitions of asset management highlight its relationship to service delivery objectives as follows.

*"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."*¹

*"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."*²

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

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

¹ Commonwealth of Australia (1996), *Asset Management Handbook*, Australian National Audit Office, <http://www.anao.gov.au/bpgs.html>

² Association of Local Government Engineering NZ Inc, Institute of Public Works Engineering Australia (2006), *International Infrastructure Management Manual - International Edition*, New Zealand.

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

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).

The elected bodies of Councils determine the policy framework within which existing assets are managed and new assets 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 infrastructure and asset management plans is to recognise asset consumption and ascertain likely future maintenance and renewal needs and to consider infrastructure needs to meet future community service expectations. Costs inherent in infrastructure and asset management plans need to be reflected in Councils' long term financial plans and both of these documents are integral to, and will be heavily influenced by, the strategic management plans of Councils.

With establishment of appropriate policy and planning mechanisms, staff can put in place operational controls and procedures to meet Councils' 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 levels 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;
- ensure that the system of internal controls safeguard assets from misuse or misappropriation;
- monitor the achievement of plans;
- provide regular reports on the achievement of plans; and,
- regularly review the asset management and long term financial plans.

What does the Act require?

The *Local Government Act, 1999* and its regulations require:

- the preparation and consideration by Councils of a report, in certain circumstances, on the prudential aspects of a project where major asset acquisition or construction is contemplated (see Section 48 of the Act);
- Councils to include, in developing its contracts and tenders policy, a policy on the sale and disposal of assets (see Section 49 of the Act);
- CEOs to ensure that assets are properly managed and maintained, including:
 - the maintenance of accounting records of assets;
 - the adoption of an internal control policy which safeguards assets;
 - the creation and maintenance of registers of community land and roads;
 - reporting on assets in the Council's financial statements; and,
 - the revaluation, in accordance with Australian Accounting Standards, of all material non-current assets, with land and infrastructure assets being revalued at least every five years.

As mentioned previously, changes made in 2005 to the Local Government Act require Councils to develop and adopt infrastructure and asset management plans relating to the management and development of infrastructure and major assets by Councils for a period of at least 10 years. Councils are also required to adopt long term financial plans, again spanning 10 years, and the two documents need to be consistent.

What are the issues for Councils?

When developing asset management plans Councils 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.
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, who have the pre-eminent role in setting the service levels required to meet their needs.

CEOs and their management teams, working with their elected bodies and communities, must ensure that assets are acquired, maintained and replaced in a manner that meets the

service needs of the 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.

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

1. In consultation with the community, define the outcomes to be achieved and the service levels that will achieve those outcomes.
2. Where necessary, establish minimum service standards based on the Councils' duty of care.
3. Incorporate the service level and outcomes into Councils' strategic management plans (including the financial implications into the long term).
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 includes an assessment of the lifecycle 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 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;
 - asset performance and condition;
 - performance targets and measures;
 - 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.

The Local Government Association recommends that Councils use the International Infrastructure Management Manual (IIMM 2006) to assist them in the preparation of their Infrastructure and Asset Management Policies and Plans. The LGA is currently undertaking the preparation of templates for Infrastructure and Asset Management Policies and Plans that will draw on the content of the IIMM, and will be making these available to Councils from late August 2006.

The degree of complexity of asset management will differ according to an individual Council's corporate needs. Typically Councils will start at a core level (focusing on current practices)

and develop to a more advanced level identifying strategies to reduce lifecycle costs through improved practices and new technology. Deciding on the level at which Councils are 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.

A note on depreciation

Depreciation measures the consumption of an asset over a particular time 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 the Council in deciding to provide or continue services. The full cost of providing the service needs to be funded.

Traditional depreciation methodologies are formula-based and assume that an asset is defined as an item that has a finite life.

Depreciation will be subject of another information paper in this series.

Reference

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

Acknowledgement

This project has been assisted by the Local Government Research and Development Scheme.

Attachment 1: Local Government Act Provisions Relating to Asset Management

Section 48 (1) – (3) provides that:

- (1) A Council must obtain and consider a report that addresses the prudential issues set out in subsection (2) before the Council—
 - (a) engages in a commercial project (including through a subsidiary or participation in a joint venture, trust, partnership or other similar body) where the expected recurrent or capital expenditure of the project exceeds an amount set by the Council for the purposes of this section; or
 - (b) engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body)—
 - (i) where the expected expenditure of the Council over the ensuing five years is likely to exceed 20 per cent of the Council's average annual operating expenses over the previous five financial years (as shown in the Council's financial statements); or
 - (ii) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000.
- (2) The following are prudential issues for the purposes of subsection (1):
 - (a) the relationship between the project and relevant strategic management plans;
 - (b) the objectives of the Development Plan in the area where the project is to occur;
 - (c) the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;
 - (d) the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;
 - (e) if the project is intended to produce revenue, revenue projections and potential financial risks;
 - (f) the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;
 - (g) the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the Council;
 - (h) any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the Council); and
 - (i) the most appropriate mechanisms or arrangements for carrying out the project.
- (3) A report is not required under subsection (1) in relation to—
 - (a) road construction or maintenance; or
 - (b) drainage works.

Section 49 (1) – (2) provides that:

- (1) A Council must prepare and adopt policies on contracts and tenders, including policies on the following:
 - (a) the contracting out of services;
 - (b) competitive tendering and the use of other measures to ensure that services are delivered cost-effectively;
 - (c) the use of local goods and services; and
 - (d) the sale or disposal of land or other assets.
- (2) The policies must—
 - (a) identify circumstances where the Council will call for tenders for the supply of goods, the provision of services or the carrying out of works, or the sale or disposal of land or other assets;
 - (b) provide a fair and transparent process for calling tenders and entering into contracts in those circumstances; and
 - (c) provide for the recording of reasons for entering into contracts other than those resulting from a tender process.

Section 99 (1) provides that:

- (1) The functions of the chief executive officer include—
 - (a) to ensure that the policies and lawful decisions of the Council are implemented in a timely and efficient manner;
 - (b) to undertake responsibility for the day-to-day operations and affairs of the Council;
 - (c) to provide advice and reports to the Council on the exercise and performance of its powers and functions under this or any other Act;
 - (d) to co-ordinate proposals for consideration by the Council for developing objectives, policies and programs for the area;
 - (e) to provide information to the Council to assist the Council to assess performance against its strategic management plans;
 - (f) to ensure that timely and accurate information about Council policies and programs is regularly provided to the Council's community, and to ensure that appropriate and prompt responses are given to specific requests for information made to the Council;
 - (g) to ensure that the assets and resources of the Council are properly managed and maintained;
 - (h) to ensure that records required under this or another Act are properly kept and maintained;
 - (i) to give effect to the principles of human resource management prescribed by this Act and to apply proper management practices; and
 - (j) to exercise, perform or discharge other powers, functions or duties conferred on the chief executive officer by or under this or other Acts, and to perform other functions lawfully directed by the Council.

Section 122 (1) – (4a) provides that:

- (1) A Council must develop and adopt plans (which may take various forms) for the management of its area, to be called collectively the **strategic management plans**, which—
 - (a) identify the Council's objectives for the area over a specified period (**the relevant period**), and provide a clear indication of—
 - (i) the extent to which the Council has participated with other Councils, and with State and national governments, in setting public policy objectives, and the extent to which the Council's objectives are related to regional, State and national objectives;
 - (ii) the extent to which the Council has given consideration to regional, State and national objectives and strategies which are relevant to the economic, social, physical and environmental development and management of its area;
 - (iii) the extent to which the Council intends to co-ordinate with State and national governments in the planning and delivery of services in which there is a common interest; and
 - (b) identify the principal activities that the Council intends to undertake to achieve its objectives;
 - (c) estimate the revenues and expenses of the Council over the relevant period;
 - (d) state the measures (financial and non-financial) that are to be used to monitor and assess the performance of the Council over the relevant period;
 - (e) describe the relationship between the Council's objectives and activities, and its rating policy under this Act;
 - (f) identify the means by which its activities are to be carried out, with particular reference to its policies on contracts and tenders under this Act;
 - (g) address issues associated with arranging its affairs so as to separate its regulatory activities from its other activities, so far as this is reasonable to do so; and
 - (h) make provision for the regular review of the charters, activities and plans of any subsidiary of the Council.
- (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 10 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 10 years;

(and these plans will also be taken to form part of the Council's strategic management plans).
- (2) Strategic management plans—
 - (a) should (as far as practicable) be consistent with the Planning Strategy and the Development Plan or Plans for the Council's area, and with other relevant statutory policies and plans; and
 - (b) must comply with any requirement prescribed by the regulations.

- (3) In addition to the requirements of subsection (2), a Council must, in formulating its strategic management plans, have regard to—
- (a) the Council's roles and responsibilities under this or any other Act; and
 - (b) the Council's objectives for its area.
- (4) A Council may review its strategic management plans under this section at any time but must—
- (a) undertake a review of—
 - (i) its long-term financial plan; and
 - (ii) any other elements of its strategic management plans prescribed by regulations for the purposes of this paragraph,As soon as practicable after adopting the Council's annual business plan for a particular financial year; and
 - (b) in any event, undertake a comprehensive review of its strategic management plans within 2 years after each general election of the Council.
- (4a) A Council must, for the purposes of a review under subsection (4), take into account—
- (a) in relation to a review under subsection (4)(a)(i)—a report from the chief executive officer on the sustainability of the Council's long-term financial performance and position taking into account the provisions of the Council's annual business plan and strategic management plans; and
 - (b) insofar as may be relevant—any other material prescribed by the regulations.

Section 124 (1) provides that:

- (1) A Council must—
- (a) keep such accounting records as correctly and adequately record and explain the revenues, expenses, assets and liabilities of the Council; and
 - (b) keep its accounting records in such manner as will enable—
 - (i) the preparation and provision of statements that present fairly financial and other information; and
 - (ii) the financial statements of the Council to be conveniently and properly audited.

Section 125 provides that:

A Council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the Council to carry out its activities in an efficient and orderly manner, to ensure adherence to management policies, to safeguard the Council's assets, and to secure (as far as possible) the accuracy and reliability of Council records.

Section 207 (1) – (2) provides that:

- (1) A Council must keep a register of all community land in its area.
- (2) The register—
 - (a) must contain the information required by the regulations; and
 - (b) must contain copies of current management plans; and
 - (c) may consist (if the Council so decides) of a computer record of the relevant information.

Section 231 (1) – (2) provides that:

- (1) A Council must keep a register of public roads in its area.
- (2) The register—
 - (a) must include the information required by regulation; and
 - (b) may consist (if the Council so decides) of a computer record of the relevant information.