

## INFORMATION PAPER

### ASSET MANAGEMENT AND FINANCIAL PLANNING

At the inaugural meeting of the Australian Council of Local Government the Prime Minister, the Hon Kevin Rudd MP, gave particular emphasis to the need for councils to develop nationally consistent asset management and financial management plans.

In 2007-08, local governments were estimated to own land and fixed assets worth \$244 billion. Over \$50 billion of this is land, leaving local governments to manage about \$194 billion in infrastructure, much of this critical to our day to day lives. The \$2.16 billion annual underspend on infrastructure renewal identified in the PricewaterhouseCoopers report, equates to eight per cent of 2007-08 aggregate local government income of \$27.1 billion. This is a sharp reminder of the urgency of the challenge to improve strategic level financial planning and asset management, which remains vital for sustainable, well managed local government.

Good planning by government is vital. Planning helps removes financial vulnerability and increases resilience to cope with unexpected challenges, such as climate change. It improves decision-making by the community and its leaders about investments in new infrastructure and the maintenance of existing assets. Transparent planning and reporting provide improved accountability and transparency – hallmarks of good governance. At the future Commonwealth level, infrastructure investments can be linked to the implementation of nationally consistent asset management systems.

While nationally consistent asset management and financial planning systems have been on the agenda of the Local Government and Planning Ministers' Council (LGPMC), the issue has been given added importance by the global economic recession and climate change.

Accordingly, the LGPMC, which is chaired by the Commonwealth Minister for Infrastructure, Transport, Regional Development and Local Government, recently agreed to accelerate the implementation of enhanced frameworks for asset management and financial planning. State and Territory governments have committed to implementing these new frameworks in consultation with local government with a target date of 31 December 2010.

The implementation of these frameworks is not without its challenges. The level of implementation within jurisdictions varies. While councils in some jurisdictions are well advanced on asset management and financial planning systems, others will struggle to meet the deadline set by LGPMC. The challenges are underscored by the lack of consistent and reliable data about the quantity, value, condition and maintenance of assets owned by local government.

The challenges may also be associated with adequate funding and priority given to measures to improve financial and asset management, as well as access to appropriately skilled staff to undertake these activities. This problem is shared by many smaller councils and may require shared or collaborative approaches by groups of councils in a region. Are there better opportunities for mentoring, where councils with advanced and effective asset and strategic financial plans can showcase and assist others in their jurisdiction?

The following pages outline the key elements of the LGPMC's asset management and financial planning frameworks. These need to be implemented by local government across Australia in order that residents are served by effective, efficient and sustainable local government.



## **ENHANCED NATIONAL FRAMEWORK ON ASSET PLANNING AND MANAGEMENT (AS AGREED BY THE LGPMC ON 8 MAY 2009)**

### **1. INTRODUCTION**

#### **1.1 Task**

To develop a nationally consistent asset management framework, including the elements of an asset management plan, to support improvement in local governments' asset management performance and sustainability.

#### **1.2 Scope and Purpose of this Paper**

This paper sets out the background, principles and elements of an enhanced national asset management framework, endorsed by the LGPMC on 8 March 2009.

The paper:

- outlines why a national asset management framework is important for the overall financial sustainability of local governments;
- presents key challenges that councils face in managing their assets;
- identifies the key principles that underpin a national asset management framework; and
- identifies the key elements of a national asset management framework.

#### **1.3 Definition of Assets**

This paper is concerned with developing a national asset management framework which focuses on those long term assets managed by local governments which are commonly referred to as "infrastructure assets". These assets would generally include such assets as roads, water and sewerage assets, drains, bridges, footpaths, public buildings, and the like, which a council provides for its community.

## **2. A NATIONAL ASSET MANAGEMENT FRAMEWORK**

### **Management of local government assets**

Assets deliver important services to local communities. A key issue facing local governments throughout Australia is the management of ageing assets in need of renewal and replacement. Infrastructure assets such as roads, drains, water and sewerage assets, bridges and public buildings present particular challenges as their condition and longevity can be difficult to determine, and the increasing demands in terms of quality and standards. The creation of new assets also presents challenges in terms of funding for initial construction and ongoing service costs.

The development of a national framework for asset management supports improved asset management by local governments across Australia. It will assist in highlighting key asset management issues where a common approach is needed.

A national approach promotes prudent, transparent and accountable management of local government assets. It introduces a strategic approach to meet current and emerging challenges for local government.



**An Australian Government Initiative**

phone 1800 065 113

email [aclg@infrastructure.gov.au](mailto:aclg@infrastructure.gov.au)

internet [www.aclg.gov.au](http://www.aclg.gov.au)

### 3. GUIDING PRINCIPLES FOR A NATIONAL APPROACH

The guiding principles that underpin the national asset management framework allow each State and Territory to consider how the elements of the national framework will be accommodated and implemented. The guiding principles are that:

- a nationally consistent approach to asset management should sit within the context of each State and Territory's legislative and operating framework. States and Territories should be able to implement the elements of the asset management framework in accordance with their own particular circumstances which may include legislative reform, policies, programs or best practice guidance; and
- the elements of a national framework should not limit States and Territories in their asset management programs. There may be additional elements that individual jurisdictions may wish to pursue.

### 4. ELEMENTS OF A NATIONAL APPROACH

Seven elements of a national framework were identified. These are:

- development of an asset management policy;
- strategy and planning;
- governance and management arrangements;
- defining levels of service;
- data and systems;
- skills and processes; and
- evaluation.

Each State and Territory has adopted these elements to facilitate an improvement in asset management performance by local governments in their jurisdiction.

#### 4.1 Development of an Asset Management Policy

States and Territories will develop an asset management policy/statement which sets out the policy framework for local government asset management and provides high level guidance to assist councils to develop their own asset management policy. The policy/statement shall encourage councils to developing their own asset management policy which:

- establishes the objectives for asset management providing a platform for service delivery;
- integrates asset management with council corporate and financial planning;
- assigns accountability and responsibility for service delivery together with asset management;
- broadly takes account of whole of life costing, service levels and financing options; and
- requires the adoption of an asset management plan informed by community consultation and local government financial reporting, and which is supported by training in financial and asset management.



**An Australian Government Initiative**

phone 1800 065 113

email [aclg@infrastructure.gov.au](mailto:aclg@infrastructure.gov.au)

internet [www.aclg.gov.au](http://www.aclg.gov.au)

## 4.2 Strategy and Planning

### Asset Management Strategy

Councils should be provided with guidance from the State on developing an asset management strategy and plans, the assumptions of which should be independently reviewed. Council's asset management strategy should support and implement its asset management policy. The development of an asset management strategy by councils will enable councils to show how their asset portfolio will meet the service delivery needs of their communities into the future, enable councils' asset management policies to be achieved and ensure the integration of councils' asset management with their long term strategic plans.

Asset Management Strategy/Strategic Plans will address the following:

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

### Asset Management Plans

Asset management plans will:

- include all assets on an asset register;
- provide information about assets, including particular actions required to provide a defined level of service in the most cost-effective manner;
- incorporate risk management strategies;
- include financial information such as capital expenditure for renewing, upgrading and extending assets;
- include consideration of non asset service delivery solutions (leasing, private/public partnerships);
- recognise changes in service potential of assets;
- be subject to a performance review;
- outline an improvement program; and
- have clear linkages to other council strategic documents.

## 4.3 Governance and Management Arrangements

The enhanced asset management framework ensures councils apply and effect good governance and management arrangements which link asset management to service delivery. Evidence of good corporate governance in asset management would include councils:

- assigning roles and responsibilities for asset management between the CEO, the Council and senior managers/ asset managers;
- having a mechanism in place to provide high level oversight of the delivery of council's asset management strategy and plan; and
- maintaining accountability mechanisms to ensure that council resources are appropriately utilised to address councils' strategic plans and priorities.



**An Australian Government Initiative**

phone 1800 065 113

email [aclg@infrastructure.gov.au](mailto:aclg@infrastructure.gov.au)

internet [www.aclg.gov.au](http://www.aclg.gov.au)

#### 4.4 Defining Levels of Service

States and Territories will develop mechanisms that ensure councils define the levels of service they expect to provide from their asset base. This would include ensuring that councils:

- establish service delivery needs and define service levels in consultation with the community;
- establish quality and cost standards for services to be delivered from assets; and
- regularly review their services in consultation with the community to determine the financial impact of a reduction, maintenance or increase in service.

#### 4.5 Data and Systems

The enhanced framework provides for the collection of asset management data to:

- enable the State and/or councils to measure asset management performance over time;
- identify infrastructure funding gaps; and
- enable councils to benchmark within the sector and council groups within their State and across Australia.

Councils should also continually work to improve the consistency of the financial data they produce, particularly in relation to capital expenditure and the allocations between maintenance, renewal and upgrade.

#### 4.6 Skills and Processes

The enhanced asset management framework contains a continuous improvement program, which includes:

- providing councils with a 'whole of organisation' perspective and a best practice framework to enable continuous improvement of their asset management practices. This would include helping councils to set targets for future improvement;
- developing and providing ongoing training programs for councillors, council management and officers on key asset management topics in partnership with peak bodies and agencies; and
- providing the sector with best practice guides on key asset management topics to improve condition assessment, valuation of assets and accounting treatment.

#### 4.7 Evaluation

An asset management framework should contain a mechanism which measures its effectiveness including the asset management programs and initiatives implemented.

