

Sustaining Local Assets



Local government asset
management policy statement

December 2003

ISBN 0 646 42106 9

Authorised by the Victorian Government

Address:

Local Government Victoria

Department for Victorian Communities

1 Spring Street, Melbourne

www.dvc.vic.gov.au/local_gov.htm

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Printed by Kinkos, 136 Exhibition Street, Melbourne.



Minister's foreword

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The Bracks Government is actively committed to sustaining and developing Victoria's infrastructure assets in order to build fair, sustainable and prosperous communities.

Local governments' assets such as local roads, bridges and water management systems are major contributors to Victoria's infrastructure base. Cultural assets such as public libraries and recreational facilities enhance the quality of life in local communities.

Councils are responsible for the assets within their area and are likely to face rising costs in the next five to fifteen years to replace or repair their important infrastructure assets as they depreciate.

The strategy of increasing local revenues by itself will not resolve the underlying problem of sustaining the infrastructure. Councils will need financial strategies that are backed by strong leadership and supported by well-researched and targeted asset management.

Sustaining Local Assets is an important and useful resource and positively contributes to the challenges of local infrastructure asset management and responsible financial management.

Sustaining Local Assets provides the policy framework and the high level guidance to help councils to develop and implement their own policies and practices. Consistent with the Government's own asset management policy, it incorporates the best internationally recognised principles, policies, and processes.

The framework is tailored to our local circumstances and I commend it to councillors and council staff, local government peak bodies, and others with an interest in local government.

I trust that everyone involved with local government will find *Sustaining Local Assets* a useful resource and a positive contribution towards meeting the challenges of local infrastructure asset management.

A handwritten signature in black ink, appearing to read 'C Broad'.

Candy Broad MLC

Minister for Local Government



Overview

Asset management is a systematic process to guide the planning, acquisition, operation and maintenance, renewal and disposal of assets. Its objective is to maximise asset service delivery potential and manage related risks and costs over their entire lives.

The importance of infrastructure assets to communities and their significance for council budgets means that asset management must be at the centre of council planning. Infrastructure assets are fundamental to councils' overall service delivery and planning and responsibility for them requires strong and informed councillor and executive oversight crucial to achieving the change management essential for effective strategic asset management.

The long-lived nature of many assets and the need for their ongoing renewal means that planning must be based on an understanding of the full costs throughout each asset's life-cycle, and address both short and long-term planning needs.

Infrastructure costs consume a large part of councils' budgets. They are frequently significantly higher in some periods than others and can have a big impact on council budgets and human and capital resource planning. Infrastructure asset management planning must be integrated with councils' overall financial and other planning. Councils must understand each asset's full life cycle costs to plan effectively for their acquisition, operation and maintenance, renewal and disposal.

Sustaining Local Assets provides the overall policy framework to guide the strategic management of council infrastructure assets. It will be complemented by guidelines to assist individual councils develop and implement their asset management policy, strategy and plan.



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Victorian councils and asset management

Victorian councils and asset management

Victorian councils' infrastructure assets - roads, bridges, drainage, buildings, parks and recreational facilities - represent a vast investment, built up over many generations. *Facing the Renewal Challenge*¹ valued Victorian councils' infrastructure assets in 1998 at \$23.3 billion (in current replacement terms).

Management of these assets is of increasing concern for all governments particularly over the past decade with:

- the requirement that local government report on the value of their infrastructure assets. Combined with implementing accrual accounting methods, such reforms allow local governments to understand the size of their infrastructure asset base and the rate of its depreciation.
- renewal expenditure increasing sharply as many assets were constructed many decades ago and approach the end of their useful lives.
- the High Court decision to abolish the doctrine of non-feasance.
- other factors in the past include high interest rate regimes and rate capping and rate reduction requirements. Added to this, many infrastructure assets were granted or donated by others and transferred to local government, together with their ongoing stream of costs to be met.

These and other local government challenges increasingly demand scarce financial and other resources.

A number of recent studies and reports highlight the need for action in Victoria. *Facing the Renewal Challenge* concluded that most councils had a ten-year period within which to improve asset management policies and practices.

The study emphasised that:

- asset management should be seen as a corporate, not a technical, responsibility;
- better information is needed on asset condition and costing, adopting life-cycle costing methods;
- more rigour is required in assessing competing maintenance, renewal, upgrade and extension demands;
- communities need to be informed about and involved in setting service levels, and understand their cost implications; and
- greater use needs to be made of performance measurement.

¹ Facing the Renewal Challenge, Victorian Local Government Infrastructure Study, Department of Infrastructure, December 1998



In 2001 the MAV published its *Municipal Benchmarking Study*² comparing Victorian councils' asset management practices with those in other Australian States and New Zealand. It examined councils' asset management processes and practices, data and knowledge, information systems, and asset management plans.

The study concluded that most council's asset management structures lagged well behind best practice:

- although councils were generally "data rich", this was not reflected in quality asset management plans and information systems;
- data held by councils was used for reporting and costing, but not for full life-cycle analysis;
- while 80% of councils had asset management systems for sealed roads, very few had adequate systems for other assets;
- only 23% of councils were properly funding depreciation;
- asset service levels were not well defined; and
- more training is needed, particularly in life-cycle analysis and condition assessment.

The Victorian Auditor General's 2002 report *Management of Roads by Local Government*³ based on a study of nine representative Victorian councils, reported councils had poorly developed asset management systems. The study reported that councils generally were deficient in their data collection, policies, processes and practices. They had also not developed effective linkages between road asset management plans, corporate and business planning and budgetary processes.

² Municipal Benchmarking Study, Municipal Association of Victoria, 2001

³ Performance Audit – Management of Roads by Local Government, Auditor General's Report 2002

An integrated approach to asset management

An integrated approach to asset management

An integrated and multi-disciplinary approach to asset management addresses major planning, resource allocation, and accountability measures essential for cost effective service delivery. The approach involves:

- asset management principles to guide municipalities in all asset management decisions;
- appropriate governance and management arrangements;
- integration with broader council planning.

The council asset management policy and strategy integrate the council's asset management with its corporate objectives and planning. It emphasises corporate responsibility and establishes a strategic direction.

The council asset management plan for the council's asset stock as a whole facilitates and connects the more detailed component plans for individual assets, that translate the asset management policy and strategy into planned and timed actions.

Asset management principles

The principles to guide asset management planning and decision-making focus on:

- ensuring *service delivery* needs form the basis of asset management;
- integrating asset management with *corporate, financial, business and budgetary planning*;
- *informed decision-making*, incorporating a life-cycle approach to asset management;
- establishing *accountability and responsibility* for asset condition, use and performance; and
- *sustainability*, providing for present needs while sustaining resources for future generations.

Best Value Victoria Principles



Figure 1 - Service Delivery Model

Figure one illustrates the central principle that service delivery needs form the basis of asset management practices and decisions, within the context of *Best Value Victoria*.

(Diagram has been adapted from Sustaining Our Assets, Government Asset Management Policy Statement, Department of Treasury and Finance, 2000)



1. Service delivery needs

Assets are acquired for their service delivery potential, and service delivery needs should form the basis of all asset management practices and decisions.

Service delivery needs should be established and service levels defined in consultation with local community stakeholders, taking into account relevant demographic, social, economic, technical, budgetary and other considerations. Such work enables councils to determine appropriate infrastructure to be provided and the level at which assets need to be maintained. It also informs asset management practices for the particular infrastructure asset.

Best Value Victoria sets the framework within which councils are setting their service delivery levels. By 2005 all councils will have had to apply the Best Value Principles to all services.

2. Integration of asset management with corporate planning

The Local Government Act 1989 requires councils to develop a strategic resource plan as part of the council plan.

Such planning can only be done effectively if councils have sound asset management planning in place utilising a multi-disciplinary approach.

Asset management can require a large proportion of council financial and other resources, particularly senior executive time when strategically driven as it must fully integrate with council corporate, financial, business, budgetary, operational, human resources, and information technology plans.

3. Informed decision-making

Asset management decisions should be informed by evaluation of alternative means of service provision, full life cycle costing, and performance measurement and monitoring.

Informed decision-making recognises the long-lived character of infrastructure assets and the need to plan and budget for them on a full life cycle basis beginning with the identification of a service need and the means to meet that need. The phases of an asset's life cycle are:

- *acquire*, involving the specification of asset type and the timing, financing and means of procurement;

An integrated approach to asset management

- *operate and maintain*, requiring performance levels, operating and maintenance schedules to be specified;
- *renew*, renewal schedules to be specified; and
- *dispose*, involving the specification of the intended method, costs and timing of disposal or retirement, including options such as transfer for alternative use, rental, sale and/or lease-back, and demolition.

Performance management is the other essential element of informed decision-making. It requires agreed performance indicators to be developed and applied throughout the asset life cycle. The cycle applies to all assets, although some may not be considered for disposal for cultural or heritage reasons.

4. Accountability and responsibility

To manage assets effectively, responsibility for their control must be defined and assigned. This requires:

- effective linking responsibility for service provision with responsibility for asset management;
- asset registers to be kept up-to-date and provide information that meets council and management decision-making requirements;
- control, accountability and reporting requirements for assets established, clearly communicated, and implemented; and
- contribution to asset management to form part of performance management.

5. Sustainability

Assets should be managed so that the benefits of the services supported are available for future generations. Intergenerational equity should be assured by requiring existing users to pay for their asset consumption, rather than leaving their costs to be borne by future generations.

Methods to promote sustainability include:

- planning, maintenance and renewal to reflect current asset consumption;
- evaluating all potential methods to meet service delivery demands, including non-asset solutions; and
- demand management strategies, such as user-pays charges where these are appropriate.

Governance and management arrangements

Governance and management arrangements

Good corporate governance and appropriate management arrangements are necessary for effective asset management.

Governance involves setting strategic directions and goals and effective consultation. Oversight to establish and refine policies and procedures, and to determine and administer accountabilities.

Evidence of good corporate governance in asset management could include Councils:

- providing stewardship for infrastructure assets;
- having an empowered council asset management committee specifically charged with overseeing the delivery of the asset management strategy and plan;
- basing policy decisions made by council on service, risk and cost levels after consultation with the community and service users;
- nurturing strong and effective working relationship between the council and its senior managers, particularly the CEO;
- communicating policy and objectives based on high quality professional advice from the CEO and senior council managers;
- demonstrating appropriate asset management skills are available and deployed; and
- audit committee having responsibility for annual review of asset management performance management.

Appropriate accountabilities are provided when:

- mechanisms are in place and functioning to monitor performance of the council and operational managers and units under its control;
- asset management performance is incorporated into individual performance management arrangements for the CEO and other managers;
- appropriate decision-making and financial authority is delegated to the person responsible for each asset;
- each asset is assigned to a competent manager who has overall responsibility to ensure that the asset operates and is maintained to meet the council's strategic objectives;
- systems are in place for recording and reporting information about each asset, including but not limited to its value; condition; operating, maintenance and renewal costs; and other relevant financial and non-financial information; and
- council audit committee has responsibility for monitoring compliance with delegated responsibilities and the asset management strategy as a whole.

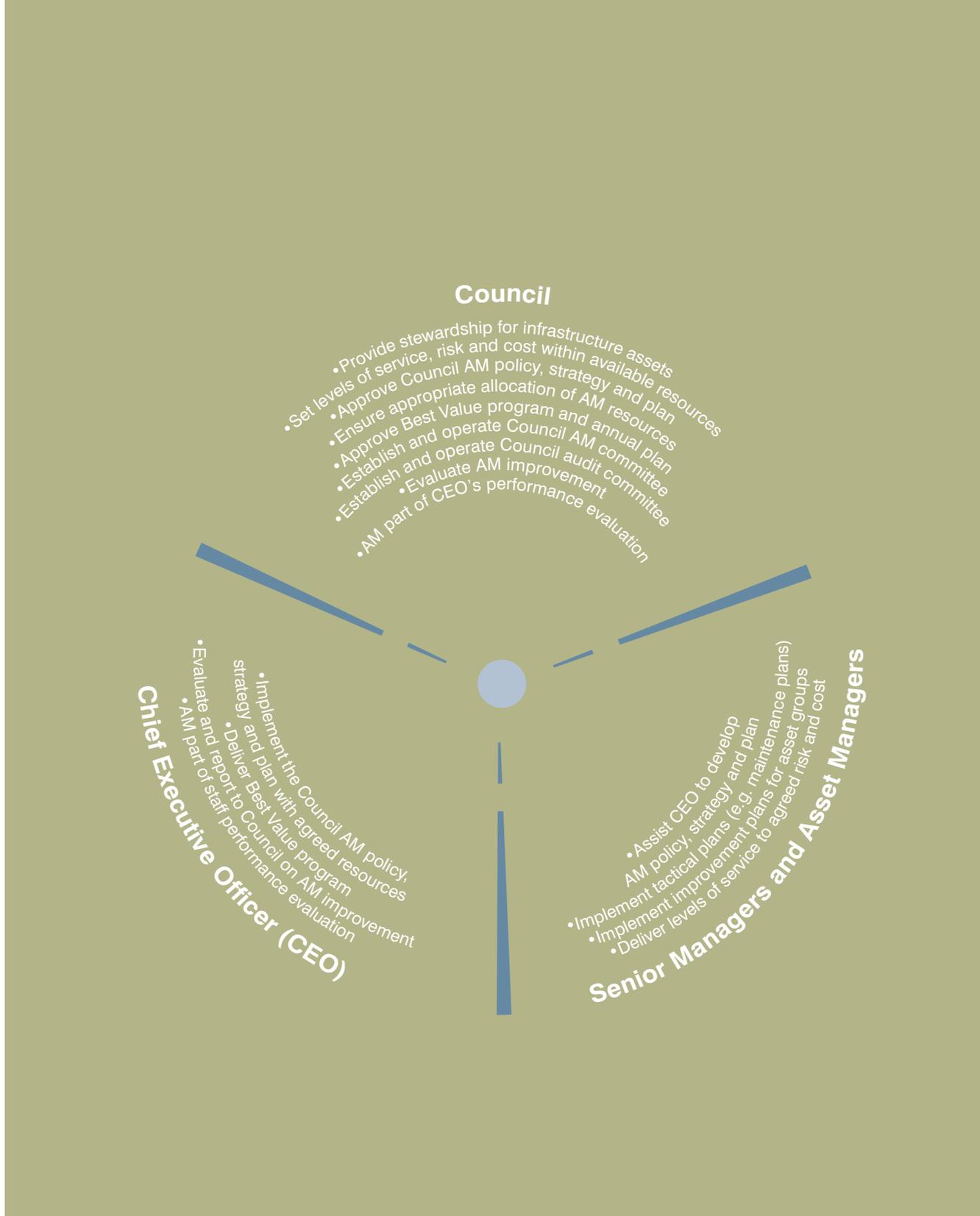


Figure 2 - Asset Management (AM) Roles and Responsibilities

Figure two illustrates the asset management roles and responsibilities of the council and the key executives



Integration with broader council planning

Asset management must be integrated with broader council planning, and assets considered with other key resources used in achieving council objectives.

At the strategic level, the service delivery objectives and requirements of the asset management policy are set out in the council's plan. At the operational level, they are converted by the asset management plan into specific actions involving both asset and non-asset alternatives.

This delivery of the asset management plan is combined with ongoing monitoring to verify its implementation in accordance with the parameters set by the asset management policy and strategy.

Performance measurement links the strategic and operational levels to assist council determine if it is achieving its desired outcomes in the most effective manner. Through the use of evaluation and reporting, performance measurement raises the council awareness of the responsibilities, opportunities and risks inherent in asset management

Council asset management policy, strategy and plan

Council asset management policy, strategy and plan

The critical starting point is for each council to create their individual asset management policy as an integral part of the council plan. The council's own policy creates the framework for the preparation of their asset management strategy and plan. The scope of contents for these documents may include:

Council approved Asset Management Policy:

- establishes the goals and objectives for asset management providing a platform for service delivery
- integrates asset management with the council corporate planning utilising an integrated multi-disciplinary approach
- maximises value for money by adoption of life cycle costing, combined with disciplined performance measurement
- assigns accountability and responsibility for service delivery together with asset management
- promotes sustainability to protect the needs of future generations

Council approved Asset Management Strategy:

- links and integrates council's plan and resources, indicating which services are to be delivered through which assets;
- forecasts future service delivery needs and the capacity of assets to meet those, on short, medium and long-term bases;
- explicitly and fully overviews expenditure on new assets and the existing asset base;
- specifies asset management procedures, systems and training; and
- establishes systems for asset performance measurement.

The Asset Management Strategy requires a 20+ years planning time horizon.

Council approved Asset Management Plan:

- defines levels of service within financial/resource/risk constraints;
- presents cash flow forecasts for acquisition, operation and maintenance and capital expenditure, and for revenue, where relevant;
- specifies the capital expenditure for renewing, upgrading or extending assets;
- justifies the contribution of each asset in terms of value for money for the council; and
- establishes the targets and measures that will be used for monitoring progress with its implementation.

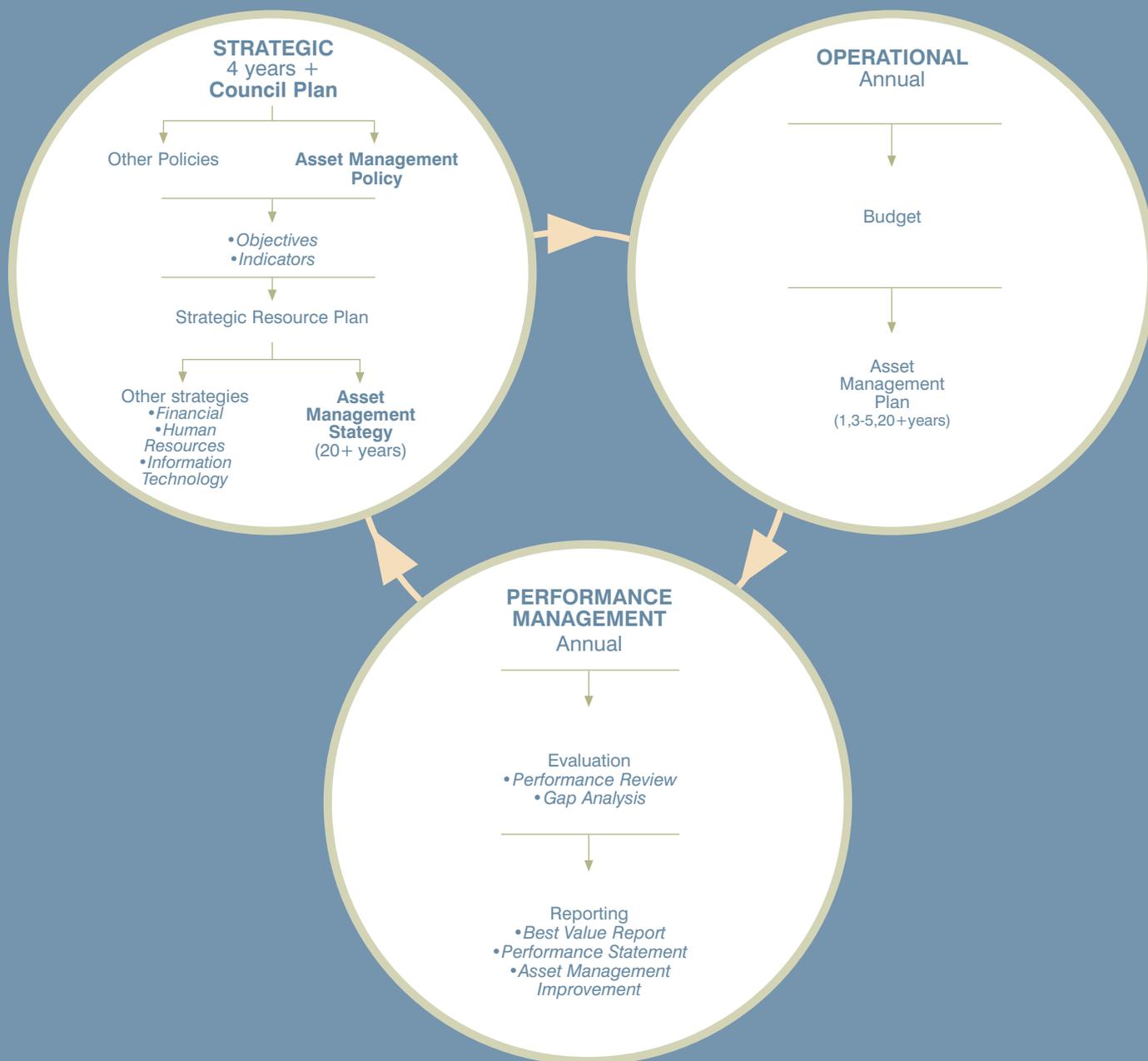


Figure 3 - Council Planning Framework

The Asset Management Plan can typically require three (3) different but interlocking planning periods - rolling 20+ years forecast, 3-5 years to guide asset decisions and the annual plan detailing the actions to be implemented that year.

Figure three draws together the strategic and operational levels as well as performance measurement of council planning. It illustrates the relationship between the council plan incorporating the asset management policy, other key planning instruments, and the asset management strategy and asset management plan.

Victorian Local Government - Meeting the Challenge

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The Victorian Local Government Sector has adopted a co-ordinated approach to meet the challenge of infrastructure asset management. The Department for Victorian Communities, Local Government Victoria (LGV) with local government peak bodies, the Municipal Association of Victoria (MAV) and Local Government Professionals (LGPro) continue to work together to co-ordinate a program of initiatives to assist councils with their asset management responsibilities.

A range of initiatives have been implemented including:

- Comprehensive study identifying scope of the challenge
- Strategy plan to address challenge
- Training programs for councillors and staff
- Survey to assess improvement
- Benchmarking study
- Grants to assist development of asset management plans

A range of further initiatives have been actioned including:

- Coordination body established with departmental and peak body representation
- Further programs for councillors and staff
- "Step" (processes and practices improvement) program delivered by the MAV
- Legislation drafted to address non-feasance
- Performance measures project to assess improvement

