

**LOCAL GOVERNMENT AND PLANNING
MINISTERS' COUNCIL**

Local Government Financial Sustainability

Nationally Consistent Frameworks

Framework 2

ASSET PLANNING AND MANAGEMENT

May 2007

ASSET PLANNING AND MANAGEMENT

1. INTRODUCTION

1.1 Task

To develop a nationally consistent asset management framework 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 a national asset management framework with a view to this material being endorsed by LOGJOG.

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 proposed 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 chooses to provide for its community.

1.4 Background

The outcomes of the 26 May 2006 Local Government Ministers' Roundtable on Financial Sustainability of Councils proposed the development of nationally consistent approaches to: (i) criteria for assessing financial sustainability of local councils; (ii) asset planning and management; and (iii) financial planning and reporting. It was considered that a case for more funding through Financial Assistance Grants may be enhanced by jurisdictions implementing a nationally consistent approach to these issues.

2. TOWARDS A NATIONAL FRAMEWORK

2.1 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 should support improved asset management by local governments across Australia. It should assist in highlighting key asset management issues where a common approach is needed.

A national approach should promote prudent, transparent and accountable management of local government assets. It should introduce a strategic approach to meet current and emerging challenges.

3. GUIDING PRINCIPLES FOR A NATIONAL APPROACH

The guiding principles that underpin the development of a national asset management framework should allow each State and Territory to consider and determine 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 have been identified. Each State and Territory could adopt 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 should 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 could encourage councils in 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; and
- broadly takes account of whole of life costing, service levels and financing options.

4.2 Strategy and Planning

Asset Management Strategy

Councils should be provided with guidance from the State on developing an asset management strategy. Council's asset management strategy should support and implement its asset management policy. The development of an asset management strategy/strategic plan by councils will enable councils to show how their asset portfolio will meet the service delivery needs of their communities into the future and it will enable council's asset management policy to be achieved.

Asset Management Strategy/Strategic Plans would typically address the following:

- 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

The development of detailed asset management plans by local governments for key assets should be encouraged. Asset management plans should:

- contain 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 asset management framework should encourage councils to apply and effect good governance and management arrangements which links asset management to service delivery. Evidence of good corporate governance in asset management could include councils:

- assigning roles and responsibilities for asset management between the CEO, the Council and senior managers/ asset managers; and
- having a mechanism in place to provide high level oversight of the delivery of council's asset management strategy and plan.

4.4 Defining Levels of Service

States and Territories should have mechanisms in place that encourage councils to define the levels of service they expect to provide from their asset base. This could 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 framework should provide 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 with the sector and council groups within their State.

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

An asset management framework should contain a continuous improvement program, which would include:

- 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.

National Asset Management Framework

Sustaining Local Assets



