

**LOCAL GOVERNMENT AND PLANNING  
MINISTERS' COUNCIL**

**Local Government Financial Sustainability  
Nationally Consistent Frameworks**

**Framework 2**

**ASSET PLANNING AND MANAGEMENT**

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# **ENHANCED NATIONAL FRAMEWORK ON ASSET PLANNING AND MANAGEMENT**

## **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 and builds on the framework endorsed by LGPMC on 27 March 2007.

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 provides for its community.

### **1.4 Background**

The Prime Minister, the Hon Kevin Rudd MP has placed local government infrastructure, and therefore local government's ability to manage its finances and its assets, on the agenda through his speech at the Australian Council of Local Government meeting on 18 November 2008.

The Prime Minister indicated that he wanted to have, at the next annual Australian Council of Local Government meeting, a discussion about infrastructure needs that is informed by an agreed set of information based on council asset management and financial management plans.

## **2. A NATIONAL ASSET MANAGEMENT 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 and ensure a national debate on local government can occur on an informed basis.

### **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. 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
- evaluation

Each State and Territory will 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 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.

## **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 will ensure 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; and
- 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.

#### **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. an Accounting Standards and are independently audited.