INTEGRATING FINANCIAL AND ASSET MANAGEMENT

Containing Expenditures
Local Government NSW Finance Summit 2015: ‘Fix the Funding First!’

Jeff Roorda
Interesting Times Need Good Evidence Based Decision Making ……..
Aspirational Goals for Integrating Financial and Asset Management……

Government policy based on evidence …

Political leadership based on inspirational vision …
Better guidance needed to improve reliability and consistency of financial and asset management data, e.g. better asset accounting info re:
- Useful lives (is often a function of service levels)
- Revaluation
- Pattern of consumption (depreciation)
- Residual values

Reports need to be simple & key messages easily recognised & understood by non-financial people
- Financial reports are often long and unwieldy
“A renewal gap of $875 million (by Access Economic) is almost double Roorda’s estimate. Nevertheless, what the above arithmetic exercise demonstrates is that a renewal gap of approximately $500m as used by the Inquiry looks very conservative indeed. It also illustrates the need for councils to improve the quality of asset data in their annual reports.”

Poor data and reporting has been a major contributing factor to amalgamations in the past.

Council Amalgamations – Councils in QLD, VIC and NSW were all producing inconsistent asset and finance reporting with low confidence and conflicting data claiming lack of resources as an excuse.

The real problem was and is the need for better governance....
The community and political level are reluctant to invest in better governance because better decision making costs now and provides benefit later and is not as immediately visible and important community priorities such as economic development projects, environmental protection projects, filling potholes, cutting grass or constructing new assets.
NSW Local Government Asset Management Audit Preparedness Assessment 2015
Guidance for Councils and Auditors

1. Asset Knowledge and Data
   Reliable asset register providing annual refresh of SAMP.

2. Strategic Asset Planning Processes
   Report affordable and aspirations service levels and risks for funding options for next 10 years.

3. Operations and Maintenance Work Practices
   Measure, report and improve service delivery costs.

4. Information Systems.
   The essential foundation of 1, 2, 3. Asset history, current and future
• prominence traditionally given to reported backlogs unwarranted
• distracting and of dubious reliability
  • Condition assessments are subjective
• Many councils that are in a satisfactory financial position report significant asset renewal backlogs - incongruous
• considerable differences in approaches by councils in calculating renewal requirements
  • need to take into account wants versus needs & revenue raising capacity
• Many councils that are in a satisfactory financial position have traditionally reported significant asset renewal backlogs
  • Why haven’t assets been renewed?
Asset renewal backlogs

Why do councils underspend on claimed asset management needs?

• Lack of good info re asset performance & associated costs?
  • E.g. optimal renewal timing
• Not convinced it’s a priority relative to other options?
  • Preference for new additional assets / service upgrades
• Lack of confidence re forward planning re future revenue needs & affordability of service level proposals?
  • Traditional focus on short-term and cash accounting info
• Not convinced they have the financial capacity to do this work?
  • E.g. reluctance to utilise additional debt where warranted?
3 Tests for Governance Decision Making and Reporting

1. Transparent – The GM and Mayor can understand and explain decisions and priorities.
2. Accountability for what was decided and reporting of cumulative consequences (Community, Government, Professional)
3. Evidence Based – decisions based on analysis of the past and predictions for the future from the resourcing strategy and supporting plans (Assets, Finances, Workforce).
NSW Integrated Planning and Reporting (IPR).

1. Manual first Issued in 2010, Updated in 2013
2. Clearly outlined the need to move to advanced AMPs linked to AIFMG and IIMM
3. Emphasised the need to service level and risk reporting connected to annual reporting
4. Was poorly resourced and implemented by most NSW councils – not perceived as mandatory.
5. Did not integrate with financial reports and CSP – AMPs would show big funding gaps with no connection to service level and risk targets.
6. Disconnected to annual reporting and delivery programs in most cases.
The Annual Report

• The Annual Report is one of the key accountability mechanisms between a Council and its community. As such, it should be written and presented in a way that is appropriate for each council’s community. 

*IPR Manual Section 6.1* - March 2013
The Annual Report
Assumes Councils have Current Asset Management Plans with Service Level and Risk Projections Supported by Reliable Data

• Councils are required to report on the condition of the public works (including public buildings, public roads, as well as water, sewerage and drainage works) under the control of the Council as at the end of that year, together with:
  • An estimate (at current values) of the amount of money required to bring the works up to a satisfactory standard;
  • An estimate (at current values) of the annual expense of maintaining the works at that standard;
  • The council’s program of maintenance for that year in respect of the works; and
  • The report on the condition of public works is also included in the financial reports and is known as Special Schedule 7. Councils must complete this Schedule each year.

*IPR Manual  Section 6.4  - March 2013*
The Annual Report

• The Asset Management Strategy must identify assets that are critical to the council’s operations and outline the risk management strategies for these assets. *IPR Manual Section 3.4.1 - March 2013*

• The Asset Management Plan/s must identify asset service standards. *IPR Manual Section 3.4.2 - March 2013*

• A Council’s Asset Management Plan should incorporate an assessment of the risks associated with the assets involved and the identification of strategies for the management of those risks. The strategies should be consistent with the overall risk policy of Council. The International and Australian Standard AS/NZS/ISO/31000:2009 – Risk management – Principles and guideline provides a useful guide. *IPR Manual IPR Manual Section 3.4.2 - March 2013*
Key Concept
Determining What is Satisfactory

1. Satisfactory Service Levels (SSL) (note 6). are determined by Council taking into account community needs and aspirations in the resourcing strategy scenarios and detailed in Asset Management Plans (IPR Manual P16)

• Note 6 – Refer to Part 1 page 4 for water supply and sewerage levels of service.

Resource Material
• Integrated Planning and Reporting Manual for local government in NSW MARCH 2013. Premier & Cabinet - Division of Local Government
• Strategic Business Planning Check List, July 2014 (www.water.nsw.gov.au)
Key Concept
Determining What is Satisfactory

2. SSL take into account the Asset Management Plan risk assessment of critical assets and how risks will be managed (P87)

• Note 6 – Refer to Part 1 page 4 for water supply and sewerage levels of service.
• Note 7 – Refer to Part 1 page 3 for the required 30-year water supply and sewerage financial plans.

Resource Material
• Integrated Planning and Reporting Manual for local government in NSW MARCH 2013. Premier & Cabinet - Division of Local Government
• Strategic Business Planning Check List, July 2014 (www.water.nsw.gov.au)
Key Concept
Determining What is Satisfactory

3. SSL align with Asset Management Plan actions required to provide a defined level of service in the most cost-effective manner. (P88)

Resource Material
- Integrated Planning and Reporting Manual for local government in NSW MARCH 2013. Premier & Cabinet - Division of Local Government
- Strategic Business Planning Check List, July 2014 (www.water.nsw.gov.au)
Key Concept
Determining What is Satisfactory

4. SSL can be self audited or externally audited by checking alignment with the risk register showing assets with high residual risk and modern equivalent renewal costs necessary to manage residual risk to acceptable levels. This provides a base level of BTS.

- **Note 6** – Refer to Part 1 page 4 for water supply and sewerage levels of service.
- **Note 7** - Refer to Part 1 page 3 for the required 30-year water supply and sewerage financial plans.

**Resource Material**

- Integrated Planning and Reporting Manual for local government in NSW MARCH 2013. Premier & Cabinet - Division of Local Government
Key Concept

Determining What is Satisfactory

5. Council may have scenarios with aspirational targets in the Asset Management Plan, but decide in consultation with the community that these aspirational targets are not affordable. Unaffordable, aspirational targets are not backlog, provided risk is managed and communicated.

- *Note 6* – Refer to Part 1 page 4 for water supply and sewerage levels of service.
- *Note 7* - Refer to Part 1 page 3 for the required 30-year water supply and sewerage financial plans.

Resource Material

- Integrated Planning and Reporting Manual for local government in NSW MARCH 2013. Premier & Cabinet - Division of Local Government
- Strategic Business Planning Check List, July 2014 (www.water.nsw.gov.au)
Key Concept
Cost to Bring to Satisfactory (BTS)

1. BTS is the sum of Modern Equivalent Renewal Cost of high residual risk assets not financed in current or next year’s budget. This is based on assets due for renewal but not funded (note 5). Cost to bring to satisfactory is the most efficient modern equivalent capital treatment to keep the asset to service. Risk includes reputation, environment, social and operating risk.

2. Audited by link to Asset Management Plan and Risk Register

Resource Material

- Integrated Planning and Reporting Manual for local government in NSW March 2013. Premier & Cabinet - Division of Local Government
- IPWEA NAMPLUS Advanced Risk Register Template
- IPWEA NAMPLUS Asset Management Plan Template
Key Concept
Cost to Bring to Satisfactory (BTS)

3. Deferring renewal may result in the modern equivalent renewal cost increasing and will impact future BTS reporting.

4. BTS analysis must be carried out for each material asset component. Network averages should not be used to determine BTS.

Resource Material

- Integrated Planning and Reporting Manual for local government in NSW March 2013. Premier & Cabinet - Division of Local Government
- IPWEA NAMPLUS Advanced Risk Register Template
- IPWEA NAMSPLUS Asset Management Plan Template
5. The connection to risk registers reinforces the importance of independent Audit Committees to report service risks to Council. This enables the essential separation of aspirational but unaffordable service levels with essential service levels.

6. Aspirational service levels that the community does not want to pay for and do not present high residual risks are not infrastructure backlog or financial sustainability risks.

**Resource Material**

- Integrated Planning and Reporting Manual for local government in NSW March 2013. Premier & Cabinet - Division of Local Government
- IPWEA NAMPLUS Advanced Risk Register Template
- IPWEA NAMSPLUS Asset Management Plan Template
7. If service levels are declining in accordance with an adopted, agreed and communicated asset management strategy this is not backlog, nor a financial sustainability risk provided risks are managed and communicated.

Resource Material

- Integrated Planning and Reporting Manual for local government in NSW March 2013. Premier & Cabinet - Division of Local Government
- IPWEA NAMPLUS Advanced Risk Register Template
- IPWEA NAMPLUS Asset Management Plan Template
Key Concept

Required Annual Maintenance

1. Required Annual Maintenance is the cost of unfunded maintenance needed to manage increased risk resulting from deferred renewal. The risk register should include an option to discontinue the service as an alternative means of managing risk.

Resource Material

- Integrated Planning and Reporting Manual for local government in NSW MARCH 2013. Premier & Cabinet - Division of Local Government
- IPWEA NAMPLUS Advanced Risk Register Template
- IPWEA NAMSPLUS Asset Management Plan Template
Key Concept

Required Annual Maintenance

2. RAM is audited by a link to the Risk Register – These are the assets with high residual risk due for renewal but not funded. Cost to maintain at satisfactory is an unfinanced maintenance treatment option if renewal is not funded.

3. Risks will increase the longer renewal deferred and the risk register should be reviewed annually.

Resource Material

- Integrated Planning and Reporting Manual for local government in NSW MARCH 2013. Premier & Cabinet - Division of Local Government
- IPWEA NAMPLUS Advanced Risk Register Template
- IPWEA NAMSPLUS Asset Management Plan Template
Part 2

Key Concept

Determining What is Satisfactory
Water Supply and Sewerage Infrastructure

- Page 20 of the Integrated Planning and Reporting Manual for local government in NSW, March 2013 (www.olg.nsw.gov.au) highlights the following more stringent requirements which apply for water supply and sewerage:

- "Councils responsible for water supply and sewerage infrastructure"

  Councils that have responsibility for water supply and sewerage infrastructure need to comply with the requirements and timeframes of the NSW Government’s Best-Practice Management of Water Supply and Sewerage Guidelines, 2007. These requirements include:
  - Preparing and implementing a 30 year Integrated Water Cycle Management (IWCM) Strategy
  - Preparing and implementing a 20-30 year Strategic Business Plan, Financial Plan and associated asset management plans
  - Annual Performance Monitoring, including preparing an annual Action Plan to review the council’s performance and to identify and address any areas of under-performance. The review also includes whether the current Typical Residential Bill is in accordance with the projection in the Strategic Business Plan and any proposed corrective action.

- The development of both the IWCM Strategy and the Strategic Business Plan require significant community involvement. Further information on these requirements is available from the NSW Office of Water website www.water.nsw.gov.au."

Resource Material

- Integrated Planning and Reporting Manual for local government in NSW March 2013. Premier & Cabinet - Division of Local Government
- Strategic Business Planning Check List, July 2014 (www.water.nsw.gov.au)
• Consideration needs to be given to reducing costs and improving efficiency
• often a tendency for implicit incremental service level creep over time
• councils need to consider reducing some services at times when higher demands arise for others
Optimisation and Prediction
Reducing Costs by Better Asset Management

"sweet spot"

- Service Level
- Risk Management Cost
- Maintenance & Operating Cost

Time Years

Cost $
Optimisation and Prediction

Showing Value for Money

Low Risk, Normal Maintenance (Satisfactory Service Level)
Increasing Risk
High Risk (Backlog)
Fail, Dispose Close

Optimum treatment at the right time

Criticality (Risk Potential Cost)
Maintenance & Operating Cost

Condition
Time Years
Condition
Cost $
Showing Value for Money

Complete Renewal
Single Coat Road Reseal

Partial Renewal
Pavement Patch
Example

This example uses IPWEA NAMSPLUS3. All NSW Councils have had access to NAMSPLUS and training programs were run by JRA for IPWEA over a 2 year period under the capacity building program with assistance of Commonwealth Government National Asset Management Framework.

Step 1 - Assets due for renewal.
Step 2 – Exclude or Fix Bad Data (life/cost)
Step 3 – Exclude Low Risk that Community does not want.

(NAMSPLUS – Asset Management Plan Figure 7)

Resource Material

- IPWEA NAMSPLUS Asset Management Plan Template
Overall Condition = 3,4 5

- Is this based on CCTV showing structural failure?
  
  Yes – Consequence Minor
  Likelihood – Possible
  Risk = Moderate
  BTS = reline or equivalent

- If “condition” is actually an estimate based on age – how many drains have failed in the past 5 years and what cause failure?
  
  Yes – Consequence Minor
  Likelihood – Possible
  Risk = Moderate
  BTS = 0
Bad Data

Renewal and Depreciation Overstated

Renewal cost is only to repair pit lid not renew total pit. The renewal cost is only 20 -30% of the total pit cost in the asset register.

Failure mode = impact
NOT DETERIORATION
Overall Condition = 4 or 5

- Is this high risk?

No – Consequence Minor Injury
Likelihood – Possible
Risk = Moderate

- If we renew worst failed components in front of trees is the community prepared to pay more?
- To do it properly Council has to cut down the trees.

Conclusion – Community Engagement to determine action if any but not BTS

Bad Data / Low Risk
Renewal cost is only to renew small section not complete kerb length
Failure mode = poor tree species selection
NOT DETERIORATION
Build, operate, renew, plan assets to meet strategic plan objectives
Provide lowest possible life cycle cost while managing risk

Risk

Deferring Renewal Backlog
Risk Tolerance 2
Risk Tolerance 1

Likelihood of Failure
Consequence of Failure

at a Given Point in Time

Deferred Renewal Backlog
Integrating Financial and Asset Management

Show funding scenarios and service level and risk consequences
The community and political level will invest in better governance if the basis of the decisions are transparent and clearly communicated AND there is an ongoing communicated process to review and improve service cost efficiency.
The issue to address is not just better data, it is better evidence based reporting that communicates to all stakeholders the possible funding scenarios and community benefits, costs and risks of each scenario.

Wise allocation of community resources requires better governance supported by the evidence provided by better data.

All of this is in the IPR Manual and consistent with the Local Government Act.