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(Attachments)

REPORTS BY OFFICERS

TO: State Executive Committee

FROM: Executive Director
(Contact – Stuart Mathews)

FOCUS : Provide leadership and promote continuous improvement in Local Government.

STRATEGIES: Facilitate and encourage Councils to implement innovative and effective approaches to undertaking their role and functions and identify “leading” practice examples; and Develop, provide and promote education and professional development activities for Council Members and Staff.

RE: INFRASTRUCTURE STUDY

RECOMMENDATION

1. That the Metropolitan Local Government Chief Executive Officers Association (MLGCEOA) and other organisations involved in initiating, managing and supporting the SA Local Government Infrastructure Study be formally thanked for their work;
2. That the issue of improved infrastructure asset management be identified as a priority issue for Local Government with the primary focus on Council management of the issues and LGA, in collaboration with key stakeholders, providing leadership and support;
3. That the MLGCEOA action plan be endorsed in principle;
4. In particular that the LGA delegate to the Executive Director the task of convening an “Asset Management Implementation Group” (AMIG) to ensure the momentum from the report is not lost, with representation from key stakeholder groups.
5. That a further report be prepared identifying resource implications for the LGA in supporting Councils in the implementation of the action plan, proposing terms of reference for the AMIG and recommending an appropriate amendment to the LGA Strategic Plan making specific reference to infrastructure assets;
6. That the LGA continue to work with the ALGA to raise the profile of the issue within Local Government nationally; and
7. That the information provided in the report be used in lobbying for better State and Commonwealth financial support for Councils regarding infrastructure and the LGA seek to build appropriate links with other governments and key stakeholders in implementing the report’s recommendations.

DISCUSSION

Mr David Hope will give a presentation on SA Local Government Infrastructure Study at the meeting.

The Metropolitan Local Government CEO's Association of South Australia initiated a study into Local Government infrastructure¹ in South Australia. The project was funded by a grant from the Local Government Research and Development Scheme (\$190,000) with the objective of assisting Councils in improving their asset management practice. The Report entitled "A Wealth of Opportunities" summarises the findings of the Study and makes recommendations for improved asset management.

The study found that a major funding shortfall exists if existing infrastructure assets are to be maintained to current standards. It found that South Australian Councils currently invest \$55 million² per year on renewing ageing roads, bridges, drains, buildings, parks and other infrastructure. But to maintain the existing stock would require expenditure of \$160 million per year, rising to \$250 million a year in 25 years time (based on today's dollars).

Most Councils would need to double their renewal spending now and provide for much larger renewal spending in the next 10 –15 years, to maintain the existing stock.

With voluntary cooperation from ALL Councils within the State in the collection of data, the survey, site visits and workshops are testimony to the commitment of Councils to solve their own problems.

A full copy of the report is available on a public website: www.sainfrastructure.com and Councils can access their own profile and update data by using a password. For what is traditionally a "dry" topic, the report is extremely well written and accessible to "lay" people. It provides a host of tools and approaches to assist Councils to take the next steps.

How has this imbalance come about?

- The renewal (reconstruction and reinstatement) of infrastructure has a 'delay' function; Councils are now facing the renewal of infrastructure that was first established 30, 40 or more years ago, often in better economic circumstances and often with the help of State or Federal funding.
- In the past Councils had a construction focus, when population and incomes were growing this was appropriate, but this is no longer the case for South Australia. Every dollar spent on new infrastructure has an average ongoing cost of between 10 and 25 cents each year thereafter for maintenance, operation and renewal. The study found that all Councils were increasing asset stock – even with declining revenues.
- Community pressure to keep rates low and to spend more on new assets, rather than on maintenance and renewal of existing assets. A perception that the community expects asset growth has tended to drive Councils' spending patterns, with the result that expenditure on new assets far exceeds renewal.
- Renewal is not associated with increased funding, but must be financed from existing revenue streams. Accordingly it must compete with many other demands on Council finances and, in the short term, is the easiest to put off until another day. Renewal is exacerbated where annual maintenance is under-funded.

¹ Data analysis has been confined to infrastructure assets. These are large-scale assets that are basically renewed rather than replaced (ie. roads, bridges, drains, parks, buildings). Excluded are short-lived plant and equipment (including IT), land and trees and other vegetation.

² No new data was collected by the Study, but existing council data was gathered, organised and presented in a way that is more useful for decision-making. Data covers the size, condition, value and renewal timing of councils' infrastructure asset portfolios.

The solution : Improved practices

The problem is beyond being a mere funding issue. More funding, *by itself*, will not solve the asset management problem. It is now very much a problem of integrated resource planning, in which a more strategic understanding of assets and the part they play in the provision of Council services is essential.

Each Council requires a long term asset management strategy. A strategy hinges on a better understanding of the assets we manage and will include; rationalising and removing under-performing assets, setting affordable service standards in consultation with communities and switching funding from new to renewal. Local Government must pursue other ways of financing assets, such as the use of borrowings (which are particularly low in SA Local Government), lobbying State and Federal governments for funding support, regional, joint venture and private sector arrangements.

Net attitudes, new skills

The situation we face poses a relatively new challenge for most Councils, yet we are not unique. State and Commonwealth governments face similar challenges however, at this stage, do not yet have all their asset information in a format provided by the South Australian study.

All Councils recognise that further education and the training of staff and Council Members is critical. Training is needed in developing asset management strategies and translating these to asset management plans, to be integrated with Councils annual budget cycle. Data on assets is generally poor and more work is required to improve the quality and reliability of information.

What needs to be done now?

"A Wealth of Opportunities" contains 24 recommendations. A number make direct reference or imply that the LGA take a leadership role on behalf of the sector, as well as actions that can be taken by individual Councils. Given the extent of community infrastructure provided and managed by Local Government and the significant issues facing the long term sustainability of infrastructure there is clearly a role for the LGA to work with Councils in developing solutions.

The LGA has worked with the MLGCEOA to manage the media release of the report (refer Attachment 1).

In response to the 24 recommendations contained in the report the Metropolitan Local Government CEO's Association endorsed a seven point Action Plan at their June meeting. The Action Plan has been referred to the LGA and the representative professional bodies for endorsement and implementation (see Attachment 2).

Creation of an Asset Management Implementation Group (AMIG)

The report recommends a high-level group be established under the auspices of the LGA to ensure the implementation of the recommendations. While a more detailed plan will need to be prepared and resource requirements identified it is important that the LGA take a leadership role in this way, given the importance of the issue to all Councils, and in fact to the development of the State.

The recently adopted LGA Strategic Plan has a number of general strategies which support this action, however it is regarded of such importance that a specific strategy be drafted and incorporated in the document. In addition, discussions have been held with the ALGA regarding the potential to raise the issue at the National Assembly and to explore other ways of raising its profile nationally.

Media Release

A Joint Release by the Metropolitan Local Government CEOs Association and the Local Government Association of SA

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Pages: 4



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Community Infrastructure Warning

Community Infrastructure in SA faces a major funding shortfall over the next 20 to 30 years according to landmark studies for all 68 local Councils.

A State-wide report on the 15-month studies says SA Councils currently invest \$55m a year on asset renewal but to maintain the current stock would require expenditure of \$160m a year now, rising to \$240m a year in 25 years time.

Initiated by the Local Government Metropolitan Chief Executive Officers' Association, the "Wealth of Opportunities" study restructured data provided by all 68 Councils to document and analyse "whole of life" costs for all Council assets in the State.

It estimates total SA Council assets at almost \$8 Billion, primarily in roads and footpaths \$4.8 Billion, buildings \$1.2 Billion, storm drains \$1.1 Billion and parks \$75 million. The report excludes assets such as plant, equipment and land not defined as infrastructure.

It is the first such study initiated by Local Government but draws from a 1998 study on Victorian Councils commissioned by the Victorian Government.

Project committee chairman, Burnside CEO Mr Rodney Donne, said Councils faced very real and significant funding pressures in the next 20 years, but more importantly the study outlined the nature of the challenges and options for Councils which lay ahead.

"The most important outcome is helping Councils to plan strategically for asset renewal, but it is also an important step in helping communities to understand the real costs of running cities, towns and districts," he said.

"This presents us with the opportunity to help communities understand the costs of demanding higher service levels and to work with them to determine appropriate service levels."

He said State and Commonwealth governments faced similar challenges but did not yet have all their asset information in the format provided by the Local Government studies.

Individual data analysis had been provided back to each Council and consultants had run a series of workshops for Councils across the State in May.

Local Government Association President, Mayor Brian Hurn, congratulated Councils for participating and having the vision to look beyond a "single electoral term of office" in the studies which were funded by the LGA-managed Local Government Research and Development Scheme.

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"Everyone believes asset renewal is a major problem in government but SA Councils have now gathered the facts on the problem and are in a position to understand, involve the community and make long-term decisions based on facts," he said.

Mayor Hurn said the report identified several reasons for the funding shortfall including:

- Community demand for new assets leading to too much investment in growth rather than maintenance/renewal;
- Assets handed to Councils, or funded, by State and Commonwealth governments which had not been accompanied by ongoing contributions to maintenance or renewal;
- The very significant growth in infrastructure in the 1950s and 1960s, much of which would require replacement or renewal over the next 30 to 40 years;
- Inadequate funds for maintenance; and
- Community pressure to keep rates increases low.

Mayor Hurn said two other key factors were the limit on Councils to using one "regressive" and highly visible tax (Council rates) to raise most revenue and the unfair distribution between States of Commonwealth untied and roads grants for Councils.

The LGA would formally consider the report at its Executive Committee meeting on 19 July but would continue to pressure SA's Federal MPs to address the grants distribution question which was estimated to be costing SA more than \$20m a year.

Mayor Hurn said the Roads to Recovery program (\$1.2Bn nationally of additional road funding over 4 years from the Commonwealth to Local Government) was a start, but the report illustrated the relative size of the problem against this program.

Options for Councils to address the infrastructure challenges ahead outlined in the Statewide report include:

- Improving management and maintenance practices;
- Better community education about the full costs of decisions to build new infrastructure;
- Redirecting funds to renewal of assets from other areas and/or increasing Council rates;
- Borrowing to spread costs over the life of infrastructure and avoid renewal "peaks and troughs";
- Using improved information in lobbying State and Commonwealth governments for support;
- Choosing to sell, demolish or not renew low priority assets.

Mayor Hurn said the extremely low level of Council debt in SA in proportion to its assets (\$200m net debt to nearly \$8B in assets), equivalent to a \$5,000 mortgage on a \$200,000 house, gave Councils some flexibility in using debt carefully to manage the challenge.

Mayor Hurn said copies of the Statewide report had been provided to the Minister for Local Government, Treasurer and Minister for Regional Development, and would be provided to the Opposition and to the equivalent Federal Ministers and Opposition counterparts.

Mr Donne said that given the differing nature of assets and community demands in different Council areas it was important that the primary responsibility for addressing the issues remained with individual Councils.

"It is also of paramount importance that the community begins to better understand these issues, and that is best achieved locally in debates about levels of rates and how best to apply them," he said

"Judgements can only be made about these things in the knowledge of what the community's priorities are."

A recommendation of the report is for Local Government to establish an "asset management implementation group" to maintain the database and consider the recommendations of the report. The data has been placed on a website which enables each Council to update its own data and to download information (www.sainfrastructure.com).

HIGHLIGHTS FROM THE STATE-WIDE REPORT

- No new data has been collected but current existing data held in disparate ways has been gathered and re-organised to better analyse and present information for decision-making.
- The data analysis has been confined to infrastructure assets (large scale that are renewed rather than replaced). Such as roads, bridges, drains, parks and buildings, and excluding plant and equipment, land and trees.
- While some assets, such as a back road, that are no longer being used can be allowed to deteriorate or closed for safety reasons, asset decay can result in such outcomes as: impassable roads, buildings and parks which can't be used; environmental damage; and declining revenue through lost tourism.
- Projected levels of annual renewal over the next 15 years are almost 3 times the current level (\$55m). This rises to almost four times the current level within 20 years.
- Councils are currently spending more on new assets (\$79m a year) than on renewal of existing assets (\$55m per year).
- **Council revenue growth in real terms in the past five years has been low (1.5%) and real growth in grants has been flat. If this trend continues, Councils will receive \$251m in extra revenue in the next five years but face increased asset renewal costs of \$466m.**
- An immediate option for Councils is to stop spending on new assets and re-direct this funding into renewal of existing assets. Another is to rationalise assets (review all assets to decide what can be sold or allowed to decay). Neither is likely to fully overcome the future challenges facing Councils and both would involve enormous levels of consultation with communities in a short time frame.
- Rates increases, lobbying for more grants and borrowing are also options. SA Council debt levels are low and as asset renewal has "peaks and troughs" debt can be used effectively to spread the impact more evenly.
- Councils should all establish long-term asset management plans/strategies and incorporate them into annual plans and annual reporting to the community.
- Councils should collaborate to identify infrastructure of regional importance.
- The report also provides a checklist for Councils to ensure they are coming to grips with the issues identified.

The studies were undertaken by a team involving: SA-based international infrastructure expert Dr Penny Burns; NSW Engineering Consultant Mr Jeff Roorda; and Qld/SA Accounting consultant Mr David Hope (Deputy Chairman of the Public Sector Accounting Centre of Excellence).

Support is acknowledged from: the Local Government Research and Development Scheme, the Institute of Public Works Engineering Australia (SA), Local Government Managers Australia (SA), the Local Government Financial Managers' Group, the State Office of Local Government, the SA Local Government Grants Commission and all Council staff involved in reference groups and contributing information and ideas to the study.

**METROPOLITAN LOCAL GOVERNMENT CEO'S ASSOCIATION
MANAGEMENT OF LOCAL GOVERNMENT ASSETS IN SOUTH AUSTRALIA**

The Metropolitan Local Government CEO's Association of South Australia initiated a study into Local Government infrastructure in South Australia. The project was funded by a grant from the Local Government Research and Development Fund with the objective of assisting councils in improving their asset management practice.

The study found that a major funding shortfall exists if existing infrastructure assets are to be maintained to current standards. * It found that South Australian councils currently invest \$55 million per year on asset renewal but that \$160 million pa is required to maintain existing assets (rising to \$250 million pa in 25 years time!). The Report entitled 'A Wealth of Opportunities' summarises the findings of the Study and makes recommendations for improved asset management.

The following Action Plan is proposed:

1. Raising Awareness
2. Improving Decision Making
3. Maintaining the Data Base
4. Training and Development
5. Funding
6. Establishment of an Asset Management Portfolio in the Local Government Association
7. Developing Partnerships

1. Raising Awareness

Awareness of issues in relation to the management of public infrastructure in Australia is low. Issues such as the implications of investing in new assets as against the renewal of existing assets, the establishment of appropriate maintenance levels and the extent of the current funding shortfall are not often the subjects of public debate. These are topics that generate little ongoing interest or understanding.

Without greater awareness and understanding of issues associated with the management of public assets it will be very difficult to ensure that appropriate choices are made about service levels, asset standards and funding options.

Actions: ♦ *Awareness programs should be developed by the Local Government Association and professional bodies for decision-makers in local, State and federal government and the general community.*

2. Improving Decision Making

Infrastructure maintenance costs are the biggest financial issue facing Local and State Governments in Australia today. It is clear that long term strategies must be developed to address the current shortfall in funding, as no short-term solutions are possible. Councils must improve their decision-making capabilities with regard to asset management. Whilst lack of funding is a key issue there is a need to be smarter in the way assets are managed and available resources are allocated.

Asset maintenance standards should be established so that the community can make valid choices about service levels. New technologies and techniques should be trialled.

* No new data was collected by the Study, but existing council data was gathered, organised and presented in a way that is more useful for decision-making. Data covers the size, condition, value and renewal timing of councils' infrastructure asset portfolios.

Data analysis has been confined to infrastructure assets. These are large-scale assets that are basically renewed rather than replaced (ie. roads, bridges, drains, parks, buildings). Excluded are short-lived plant and **equipment (including IT), land and trees and other vegetation.**

- Actions:**
- ♦ *Each council should prepare an asset management strategy and an asset management plan having regard to the renewal profile of existing assets and the changing needs of the community. This process should be undertaken in consultation with the local community.*
 - ♦ *The Local Government Association (LGA), professional bodies such as the Local Government Managers' Association (LGMA), Local Government Financial Management Group (LGFMG) and the Institute of Public Works Engineering Australia (IPWEA) along with State Government agencies such as the South Australian Local Government Grants Commission (SALGGC) and the Office of Local Government (OLG) should commit to facilitating improved decision making with regard to asset management.*
 - ♦ *A strategic approach to asset management should be promoted which recognises the renewal profile of existing assets as well as current community choice in relation to service standards. The strategic approach should incorporate rigorous analysis prior to initiating the process of acquiring new assets or significantly upgrading the standard of existing assets. Other options (e.g. use of assets owned by others) should be explored.*
 - ♦ *Ways of including the community in making effective choices about service standards for the various asset categories should be identified and promoted.*

3. Data Base

Ongoing development and maintenance of the database developed during the Study is critical for improved decision making about asset management.

- Actions:**
- ♦ *Councils, the LGA and other stakeholders need to recognise the magnitude and complexity of this task and to set aside the necessary resources for this to occur.*
 - ♦ *The LGA should ensure that the data base is developed and maintained (and establish protocols in regard to access, quality control and updating). Options for managing the data base could include the LGA, Australian Bureau of Statistics, SALGGC or the private sector.*

4. Training and Development

The Study identified training and development as a key issue and the Report contained a number of specific recommendations in regard to training.

- Actions:**
- ♦ *The Local Government Association should accept responsibility for leadership in the area of training and development in conjunction with the LGMA, LGFMG, IPWEA and other relevant bodies*

5. Funding

Funding is a central issue and should be addressed by all three levels of Government. At the Local level more innovative funding solutions should be examined. At Federal and State levels the capacity of councils to adequately manage local infrastructure should be examined.

- Actions:**
- ♦ *The LGA should continue to lobby State and Federal Government.*
- In the short term the following issues should be targeted:*
- Federal: A continuation of the Roads to Recovery Program.
Removal of distribution inequities between the States in relation to FAG*
- State: A State Government contribution towards the cost of maintaining the local road network.*
- ♦ *Councils should ensure that the LGA is adequately resourced so that it can effectively address issues raised in this Action Plan.*

- ♦ *Use of research and development funds should be considered by the LGA, Regional and professional bodies to identify more innovative funding solutions.*

6. Asset Management Portfolio in the LGA

Assets are too important to be ignored. Good asset management is essential and needs ongoing drivers. The LGA should provide a focal point for improved asset management across the sector.

- Actions:**
- ♦ *LGA to establish an Asset Management portfolio within its administration together with an Asset Management Implementation Group (AMIG).*
 - ♦ *AMIG should monitor the implementation of recommendations found in Part 4 of the 'Wealth of Opportunities' Report together with those contained in this 7 point plan. AMIG should report at least annually to the State Executive of the LGA and the respective professional bodies.*
 - ♦ *AMIG membership should include representatives from the respective professional bodies, including the Metropolitan Local Government Chief Executive Officers Association.*
 - ♦ *AMIG should produce an Annual Business Plan against which its performance can be monitored and resourced to achieve the Business Plan. Options for resourcing include LGA funding, grants, direct contributions by councils, sponsorship, the Research and Development Fund, etc.*

7. Partnerships

Partnerships with the State and Federal Government should be developed focussing initially on information sharing, data management and priority setting. A holistic approach should be developed having regard to the needs of industry and tourism, heavy vehicle routes and residential users.

- Actions:**
- ♦ *Formalised arrangements initiated by the LGA in consultation with AMIG should be established between Local Government and State Government and other agencies in regard to information gathering and information sharing.*
 - ♦ *A formal mechanism initiated by the LGA in consultation with AMIG should be established at Regional level to facilitate priority setting between State and Local Government to ensure existing resources are allocated in the most effective way.*

This Action Plan has been endorsed as the basis for further action by the:

- ♦ Metropolitan Local Government Chief Executive Officers Association; and
- ♦ Project Steering Committee comprising representation from the Metropolitan Local Government Chief Executive Officers Association, the Local Government Managers Association, Local Government Financial Management Group, Institute of Public Works Engineering Australia, Local Government Association and the South Australian Local Government Grants Commission/Office of Local Government.

It is referred to the Local Government Association and the respective professional bodies for endorsement and implementation.