



THE CASE FOR IMPROVED ASSET MANAGEMENT IN LOCAL GOVERNMENT

Local Government across Australia is facing the challenge of building, operating and maintaining billions of dollars worth of vital infrastructure necessary for the well-being of their communities. The challenges faced by WA Councils in relation to asset management are shared by other States and Territories across the nation and the following provides an overview of the studies that are building the compelling case for improving asset management in Local Government.

1. ASSET MANAGEMENT STUDIES

Some examples of Australian studies involving Local Government community assets include:

- South Australia Infrastructure Studies 1985-7.
- Victorian Infrastructure Study *Facing the Renewal Challenge 2001*.
- South Australia Infrastructure Study *A Wealth of Opportunities 2001*.
- Interim Review of Kentish Council Tasmania 2001.
- Audit of 9 Councils and VicRoads by Grants Commission and Department of Infrastructure in Victoria 2002 looking at road funding models.
- Local Government Association South Australia Financial Sustainability Review Board Report *Rising to the Challenge 2005*.

The *Facing the Renewal Challenge* was a study of Local Government infrastructure in Victoria in 2001. It estimated a difference between projected asset renewal need and existing renewal expenditure of \$1,678 million over a 15 year period.

A similar study in South Australia, *A Wealth of Opportunities* found that SA Councils will receive \$251m in extra revenue in the next 5 years but face increased asset renewal costs of \$466m leaving a funding shortfall of \$215m or \$43m per annum.

2. STATE OF INFRASTRUCTURE STUDIES

Engineers Australia (EA) has produced a series of infrastructure reports highlighting the current state of assets required for publicly provided services in major infrastructure categories.

Engineers Australia comment on future directions in the Reports and it is concerned that:

- Significant parts of Australia's infrastructure are ageing and nearing the end of its economically useful life.
- Current funding commitments are either inadequate or yet to be identified to support the substantial costs of renewal and replacement.
- Current planning and political processes do not provide the necessary long-term focus.
- Only limited infrastructure information is available in some key areas.

3. SUSTAINABILITY STUDIES

Western Australia

The preliminary findings of the *Systemic Sustainability Study* into Local Government in WA identified the following in relation to the financial sustainability and current financial position of WA Councils:

- WA Local Governments employ approximately \$13bn in capital and there is evidence they are underutilising debt.
- WA Local Governments registered operating deficits in 2004-05 of 4.5% of their own-source revenue. While 49 Local Governments had positive operating surpluses, 93 had operating deficits with the average deficit being 17.4% of their own-source revenue.
- There is an infrastructure renewal gap of approximately \$110m in 2004-05 which means that approximately only 75% of the amount required to maintain their non-financial assets in their current condition.
- The industry faces an infrastructure backlog is in the vicinity of \$1.75bn or 14% of the total value of non-financial assets in WA.
- A significant number of Local Governments do not fully maximise the rating system.
- In WA, to an extent not evident in either NSW or SA, financial unsustainability is a problem particularly prevalent amongst smaller and/or declining population regional Councils, evidence of a structural problem. However, 31% of the largest Councils and 45% of the above-average growth Councils are also assessed as financially unsustainable.
- 50% of Local Governments are financially unsustainable in WA and these Local Governments need to increase their rates by 10% or more to eliminate their operating deficits.
- Local Governments would benefit from a policy setting review and improved financial governance arrangements.

South Australia

In South Australia the Local Government Association (LGASA) recently conducted an Inquiry into the financial sustainability of Local Governments.

The Inquiry *Rising to the Challenge: Towards Financially Sustainable Local Government* was established to assess the infrastructure funding and maintenance, the financial position, administrative arrangements and the general financial condition of Local Government.

The Inquiry found that 26 of the State's 68 Councils were financially unsustainable. These unsustainable Councils account for just over 50% of the State's population. It was found that sustainability was not influenced by the size of the Council or whether it was in a metropolitan region (30% were unsustainable or vulnerable) or in a country region (40% were unsustainable or vulnerable). A further 10 Councils in South Australia have only a 'minimum' margin of comfort (category 4). These Councils account for 12% of the State's population.

The Inquiry also found that Councils had large operating deficits and were funding them through decreasing the level of infrastructure maintenance. Currently, in aggregate, Councils' recorded annual operating deficits amounted to \$49.2m in the 2003-04 year. For the SA Councils recording operating deficits in 2003-04, their average deficits were equivalent of 12.5% of their annual rates revenue. The accumulated negative net outlays for infrastructure renewal/replacement were estimated to form a backlog in excess of \$300m.

The LGASA is supporting Councils to implement many of the recommendations highlighted in the Inquiry, including developing an industry accepted definition and understanding of concepts surrounding financial sustainability including establishing 'best practice' definitions and reporting protocols.

New South Wales

In 2003 the NSW Government commenced a reform programme aimed at improving Local Government efficiency. Based on the work of regional facilitators and the Local Government Boundaries Commission, 42 Councils were dissolved and 22 new Councils established in 2004.

Local Government in New South Wales is still facing substantial pressures on its sustainability. A recent inquiry in the *Financial Sustainability of NSW Local Government: Are Councils Sustainable?* found that Local Government is facing significant challenges including: an infrastructure funding crisis; an inadequate revenue base, exacerbated by rate pegging; deficient Federal Government grants and cost shifting; skills shortages and increasing demands placed on Councils by the community and other spheres of government.

The Inquiry estimated that the infrastructure renewal backlog amounted to more than \$6bn in New South Wales and it is expected to grow to almost \$12bn over the next 15 years. To combat this issue, the Inquiry recommended that Local Government funding be increased by \$900m, through increased Federal and State grants, higher rates and fees and Local Government expenditure savings.

Queensland

The Queensland Local Government Association (LGAO), in collaboration with the State Government, has initiated a Size, Shape and Sustainability project to investigate voluntary means of ensuring the sustainability of Local Governments. This project will occur over two to three years and has discrete stages with funding being provided by the State Government. This project has been conducted on a purely voluntary process. The four steps involve:

- Exploring options and potential partners;
- Information gathering and analysis;
- Community engagement with identified options; and
- Council determination of identified options.

Victoria

The State Department of Infrastructure study *Facing the Renewal Challenge*, found that the Victorian Local Governments is only expending 67% of what is required to sustain the existing asset portfolio. It estimated a difference between projected asset renewal and existing renewal expenditure of \$1,678m over a 15 year period.

In a study commissioned by Municipal Association of Victoria, *Economic and Financial Challenges for Small Rural Councils*, it found that:

- To maintain current levels of service, rural Councils already strike higher rates than metropolitan Councils, relative to both valuations and especially household incomes (metropolitan rates average 2.3% of median household incomes, while rural rates are 3.9%).
- Rural Councils have much larger road networks to look after, with an average 200km of roads for every 1000 residents. Road spending therefore takes a higher proportion of rural Councils' annual budgets (43%, compared with 20% in metropolitan Melbourne), and this is the major reason that rural Councils spend more per resident (\$943) than do metropolitan Councils (\$505).
- Ensuring the condition of infrastructure, and especially roads, will be a critical requirement for the success of initiatives to encourage economic development such as timber, dairy and horticultural industries.
- Despite this importance, most Councils in Victoria, both metropolitan and rural, face problems in maintaining and renewing their infrastructure. Current spending levels reach only 70% of the long term requirements. For the above reasons, meeting this challenge is a relatively larger task in rural Victoria than in Melbourne and Councils in rural Victoria face significantly greater constraints in responding. This position is not financially sustainable for these small rural Councils.