

## Are Things Getting Better, Staying the Same, or Getting Worse...?

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**ABSTRACT:** *Since the Australian federal government committed to improving local government infrastructure planning in 2009 by implementing a capacity and capability building framework, the question being posed is: “has the Local Government Reform Fund delivered on this objective ten years on?”*

*Despite all levels of government committing to the process at the time, local government across Australia today faces the following challenges:*

- 1. Infrastructure ownership is highly concentrated in local government compared with other levels of government; they typically have a very large stock of long-lived infrastructure assets relative to their income;*
- 2. Service needs are varied, and circumstances change, forcing innovation and reallocation of available resources to where the greatest need is;*
- 3. Evidence suggests local infrastructure plans have been poorly integrated with state and federal initiatives; and*
- 4. An integrated long-term national infrastructure plan is needed to account for regional differences in population, climate, and topography; to manage risk ensuring equitable access to local services and infrastructure is maintained for all communities.*

*Using evidence provided by local governments across Australia, this paper presents a response to the question: “Are things getting better, staying the same, or getting worse...?”*

**KEYWORDS:** *Local government, infrastructure asset management planning, long-term financial planning and reporting, financial sustainability, performance, affordability, levels of service.*

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### 1 Introduction

The pursuit of financially sustainable local governments across Australia requires informed community discussions and debates around agreed and affordable services.

These discussions cannot take place without a clear understanding of the performance of existing assets, new assets required to meet demand and growth, and the cost of asset consumption.

Over the past two decades, local governments have committed significant resources to the

pursuit of responsible asset management and financial planning and reporting. There have been significant learnings gained along the way.

Using an evidence-based approach by analysing the current demands, challenges and performance of local government, this paper responds to the question “*Are things getting better, staying the same, or getting worse...?*”.

Hopefully this discussion will lead to a more informed debate on local government policy reform and service delivery.

## Disclaimer

This paper summarises research undertaken from publicly available sources. The views and opinions of the author do not necessarily state or reflect those of the IPWEA.

## 2 The Path Travelled So Far

In 2007, the three spheres of government agreed on three Frameworks to improve local government's financial sustainability and management of assets.

The then Local Government and Planning Ministers' Council (LGPMC) endorsed a nationally consistent approach in assessing:

- Financial sustainability of local councils;
- Asset planning and management; and
- Financial planning and reporting.

The LGPMC agreed to implement the Frameworks through the Local Government Reform Fund<sup>1</sup> valued at \$19M commencing in 2009.

The LGRF was delivered in two phases and all projects were completed by 30 June 2013.

The Australian Centre of Excellence for Local Government (ACELG) was established in mid-2009. This followed \$8M of Australian Government funding support to showcase innovation and best practice across local government and encourage the adoption of innovative practices and solutions. The Centre's mandate was to enhance professionalism and skills in local government, showcase innovation and best practice, and facilitate a better-informed policy debate.

ACELG produced over one hundred original research reports and online resources covering a broad spectrum of local government activities and operations. Many of these publications included practical guides, tools and templates which are being utilised by Australian councils to develop internal capacity and apply research findings in day-to-day operations.

ACELG formally concluded operations at the end of 2015<sup>2</sup>.

<sup>1</sup> <http://test.regional.gov.au/local/LGRF.aspx>

<sup>2</sup> <https://www.uts.edu.au/research-and-teaching/our-research/institute-public-policy-and-governance/about-institute/acelg>

## 3 Current Situation

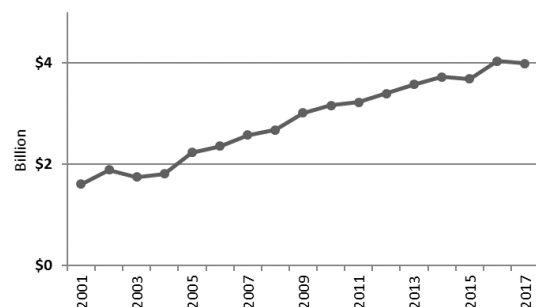
### Investment

In 2016-17, local government owned \$426bn<sup>3</sup> in land and fixed assets, approximately one third of all government owned land and fixed assets across the nation.

Built infrastructure such as roads, bridges, buildings, parks & recreation, stormwater and water & wastewater is estimated to be valued at \$345bn. This represents an investment of approximately \$14,000/person<sup>4</sup>.

Of the three levels of government in Australia, local government is the most asset intensive. Total income in 2016-17 around \$45bn<sup>5</sup> is dwarfed by the \$345bn in fixed assets it needs to manage and maintain.

For the largest asset class by replacement cost, roads at \$136bn, the Australian Local Government Association's (ALGA) National Local Roads Data System (NLRDS) reports on aggregate, that councils have increased expenditure on maintenance (repairing defects) and capital renewal to replace existing assets to maintain service levels.



**Figure 1:** Expenditure on Existing Road Assets (Maintenance & Renewal)<sup>6</sup>

Despite the increase in expenditure, ALGA's 2018 National State of the Assets (NSoA) Report found the proportion of infrastructure (by replacement cost) performing poor to very poor (i.e. in need of intervention) has remained constant at 9% since the first NSoA report was released in 2012. This indicates a possible move into a major maintenance and renewal

<sup>3</sup> ABS Cat. N° 5512.0, Table 339, 2016-17 Balance Sheet.

<sup>4</sup> 24.6 million population, ABS Cat. N°3101, June 2017.

<sup>5</sup> ABS Cat. N° 5512.0, Table 339, 2016-17 Operating Statement.

<sup>6</sup> National Local Roads Data System (NLRDS) (n.d.) [Online], Available: <http://www.jr.net.au/NLRDS>

phase, particularly as existing assets age and service levels are expected to be maintained.

## Planning

The same study found from more than 400 councils:

- Less than 80% of local governments have a long-term financial plan in place; and
- A notable decline in the adoption of asset management plans for all asset classes since 2015.

This suggests that sound infrastructure asset planning is treated as optional (or at least unimportant) by some councils and raises questions as to how local government is effectively planning.

Similar findings can be drawn from recent State Auditor-General Reports and enquiries by local government associations into the performance of Local Government in most states.

For example,

1. A 2019 NSW Audit Office report identified 21 high-risk findings relating to asset management and accounting and said the quality of critical planning documents needed to improve. This was a notable increase from the 10 high-risk findings found in the 2018 Audit Report.
2. A 2019 Queensland Audit Office Report found that long-term financial sustainability remains a “major risk” with 43 Qld councils reporting operating losses – 17 more than the previous year.

The most common weaknesses identified include:

- a. Incomplete or non-existent asset management plans, risk registers, and business continuity and disaster recovery plans
- b. Lack of review of asset related accounting journals and changes to master files (which contain key data on unit rates, fees and charges, and employee and supplier details)
- c. Poor management of user access for information technology systems.

The audit did, however, find that councils are getting better at meeting their deadlines for reporting.

3. A 2005 Independent Inquiry into the Financial Sustainability of Local Government in South Australia found that too many Councils had large annual shortfalls against the optimum level of expenditure needed for maintaining and renewing existing infrastructure, to provide desired service levels. Subsequent reform by way of tools and education gradually reduced the deficit however there has been little to no monitoring of the take up and effectiveness of Asset Management practices since.

Currently, South Australia is the only Australian state where the Auditor-General does not have a role in the annual council audit process.

4. In Tasmania, the number of councils without asset management plans decreased from 19 in 2011 to one in 2018. In saying that, there is little evidence to suggest these plans are up to date and backed by a long-term financial plan.
5. A 2019 Victorian Auditor-General's Report found a representative sample of councils do not have enough comprehensive and accurate information to support asset planning, and they do not make enough use of the information that they have.

Councils use some asset information to support asset planning and decision-making, however, this is not consistent across all asset classes and councils.

Complex and unintegrated asset information management systems (AIMS) compound the information gaps, which make it difficult for staff to find the asset information they need to support decision-making.

6. A WALGA study found most councils have prepared asset management plans relating to their road infrastructure. Some have further work to do to ensure their asset management related systems, processes and practices fully meet legislated requirements and good practice criteria.

Clearly, long-term infrastructure and financial planning in the local government sector is poorly integrated and on the decline.

## Performance

Collectively, councils reported with high confidence that 9% – equivalent to \$30bn – of community infrastructure assets are in poor condition.

Interestingly, most councils express low confidence when reporting the need and quantum of new investment (or alternate strategies) to cope with demand and growth.

Notwithstanding the low confidence assessment, councils report an estimated \$24bn or 7% of asset value is reported in poor function (fit for purpose) and capacity (under/over utilised).

**Table 1: Infrastructure Performance**

Indicator	Good	Fair	Poor
Condition	63%	28%	9%
Function	72%	21%	7%
Capacity	73%	20%	7%

Data confidence is inextricably linked with:

- Asset management and financial knowledge and capability;
- Asset management information systems; that ultimately drives
- Reliability and integrity when reporting and providing decision support.

Local governments that report an increasing confidence in the integrity of the underlying data in their systems can rely upon it to make informed decisions, highlight opportunities and manage risk.

Where low levels of knowledge and confidence exist, planning for infrastructure that meets needs now and, in the future, could be less than desirable. This questions whether local government is accommodating asset renewal and replacement in an optimal and cost-effective way. This is from a timing perspective relative to the risks it is prepared to accept, and the service levels it wishes to maintain.

## 4 The Demands

### Being responsible financial managers

Councils are expected to be responsible financial managers that deliver cost effective, equitable and efficient services through built assets which reflect local needs and public safety expectations.

Any decisions need to be guided by their long-term planning objectives. This can only occur with a reliable, up-to-date infrastructure plan supported by a long-term financial strategy.

### Circumstances can and do change

Increasing weather extremes, shifts in the economy, workforce changes, population movements, changes in urban organisation

and rapid technological change are and should be influencing infrastructure plans.

Local government's capacity to demonstrate effective management of these demand drivers is questionable, given the low levels of confidence in forecasting the needs and impacts of change.

## Maintain existing assets and services

A key responsibility of local government in Australia is to provide, develop and maintain infrastructure necessary to provide communities with access to safe and sustainable economic and social services.

This task has increased over recent decades with local government not only providing traditional core services such as roads, buildings, stormwater drainage, water supply and wastewater treatment, parks, airports and aerodromes, and waste disposal but also an increasing range of new services in the areas of recreation, health, environment, and welfare services.

## 5 The Challenges

### Poor incentives for proactive long-term planning

In an environment of tight financial and staff resources, increasing regulation and community expectations plus short-term election cycles. Incentives are low for proactive long-term planning for the preservation of public assets.

As a result, ageing local infrastructure is often managed in a reactive day-by-day triage mode. To view this in another light, the long-term 'thinking' capacity of local government is regularly deferred and its capability to deliver sustainable services to our communities is scrutinised.

### Subjective performance measurement

Current measures of performance for constructed assets are subjective, often highly simplistic, out of date and/or incomplete. They can oversimplify the complex relations that exist between demands, condition, function, utilisation, cost and risk.

### Lack of nationally consistent data

Infrastructure Australia<sup>7</sup> states there is a lack of "reliable and user-focused" information

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<sup>7</sup> Infrastructure Australia is the nation's independent infrastructure advisor.

about infrastructure across most asset intensive sectors.

This means decisions may fail to focus on the long-term interests of users or may not accurately predict changes in demand.

It makes assessing the performance of assets, networks and services difficult and limits our ability to make informed decisions. Potentially making decisions made on the infrastructure we use today impact on our ability to deliver long term benefits for our community.

Given the challenges of managing community expectations and meeting the demands of a changing world it is incumbent on all of us to ensure there is effective (and transparent) oversight of the investment decisions made now and into the future.

### **Capability levels**

A Local Government Skills Shortage Survey<sup>8</sup> completed by almost half of Australia's councils revealed almost 70 per cent of local governments are facing a skills shortage whilst the skills gap increases.

Key occupations such as engineers and town planners, building surveyors, environmental health officers and project managers topped the list.

In the survey, all council staff revealed the need to improve soft skills, in particular digital skills. Seventy per cent said they were poorly equipped for future digital demands with 70 per cent having done no forecasting of changing skill requirements arising from digital disruption.

## **6 Analysis & Comments**

### **A sustainable position is possible**

Local government has made significant headway in sustaining services to their communities by increasing investment to extend the life of ageing assets and renewing existing assets.

There are many indicators suggesting more can (and should) be done to avert further criticism and challenges in achieving and maintaining a financially sustainable position.

The experience in many States shows that financial sustainability for most councils can be achieved. The question is at what level of service and risk? Most current asset management plans fail to answer this question.

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<sup>8</sup> ALGA, 2018.

This will require a strategy and plan to be developed based on revenue, service level and risk trade-offs. Not on aspirational and possibly unaffordable infrastructure investment based on poor data.

Council's will need to make strategically aligned decisions; and audit committees will need to assume a role in considering and reporting the risks facing the financial sustainability of each council.

Solid commitment in this area should cement local government's role in the next iteration of the Australian Infrastructure Plan<sup>9</sup>.

### **Asset management maturity is stalling**

Since all levels of government agreed on a national framework to improve financial sustainability and management of assets, the 2018 NSoA report found a decline in the number of councils having adopted asset and financial plans, raising concerns around the currency and credibility of these plans to meet the minimum requirements prescribed by legislation.

This trend is not just being seen in cash-strapped rural and regional councils. There is evidence of this in urban metro areas as well.

Coupled with the shortcomings in the sector's ability to produce reliable and relevant financial forecasts. This is a wake-up call for those who consider investment decisions for today and future generations.

### **No need to cry poor**

It is a risky tactic to assume the \$30 billion of infrastructure in poor condition represents a shortfall in funding.

If local government is managing its infrastructure assets effectively then we would expect to see a position in our communities where the assets and services being provided would be at an acceptable and affordable level overall.

It's a very conflicting message when financial reports forecast an operating surplus (net of capital grants and subsidies) in the short to medium-term, combined with relatively low debt and high values of assets. There is no reason why most local governments can't fund renewal of assets when they fall due.

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<sup>9</sup> The reform and investment roadmap for Australian infrastructure service delivery published by Infrastructure Australia.

This can only be achieved by having a sensible and informed conversation with local communities and stakeholders, supported by robust asset management processes aligned to an affordable financial strategy.

Local government needs to be careful when it is seen to be putting a handout for more money. Evidence suggests the financial capacity of most indicates they have the ability to renew assets when they reach the end of their life.

While local government can make progress in aggregate, there will be a number of councils, perhaps in the order of 100-150, which even with their best efforts cannot be financially independent. These councils will typically have an extensive local road network and a small and/or shrinking population.

These often-smaller regional, rural/remote councils have a far higher ratio of assets to annual operating income and therefore typically face greater asset management challenges. These councils could be supported by the federal government through a supplementary funding program (or reallocation of existing funding) for selected rural, regional and remote local governments to renew critical infrastructure and maintain an acceptable level of service.

## **7 Improvement strategies**

To succeed in improving sustainability in local government financial and asset management, there is a need for continued and improved collaboration across all spheres of government.

Although significant progress has been made in implementing asset management planning systems, it is apparent an ongoing process of monitoring and continuous improvement for the local government sector is needed now.

It is evident that many councils have increasing 'information and knowledge gaps' in their overall infrastructure planning processes.

Given the long-life nature of infrastructure it is crucial to demonstrate effective management of these assets and that current and future management processes provide for the true lifecycle costs to be accurately captured, evaluated, and reported on a uniform basis.

### **Provide support to those who need it most**

For councils dependent on grants, planning will be critical to their future. They will need to manage community expectations regarding the

delivery of services within the bounds of the revenue sources they have available.

Without intervention there is likely to be an increasing inability to meet the future needs demanded by our community. It is essential that forecasts increase in confidence and affordable finance is allocated at the most appropriate time to mitigate risks to future services caused by past infrastructure decisions.

## **Connect to the Australian Infrastructure Plan**

The development of an integrated long-term national infrastructure plan is crucial for Australia to drive productivity growth, maintain and enhance our standard of living, and ensure our cities and regions remain sustainable.

Infrastructure Australia is tasked with this job and this is an important area where local government and the IPWEA can assist.

### **The role of debt**

Debt can be a useful tool to assist Local Governments to manage timing mismatches between spending needs and income. Research shows that Local Governments collectively have low levels of debt relative to their circumstances.

While the use of debt is not appropriate in all circumstances, it can be an important tool to assist with prudent and strategic financial management.

It is understandable that Local Governments sometimes fear the consequences of greater use of debt. However, these risks can be mitigated if debt is used in accordance with soundly based financial targets and well-developed and financially sustainable strategic Asset Management Plans (AMP) and Long-Term Financial Plans (LTFP).

### **Consider drivers for change**

Local authorities that have a high-level asset management capability and feel confident regarding the integrity of the underlying data used by their systems can rely upon it to make decisions, highlight opportunities, and identify and manage risks.

Urban-metro areas have population growth rates at levels not witnessed since the 1950s. It is essential we demonstrate a clear understanding of how infrastructure is complying with its intended and future purpose (function) and its capability to stand up to under or over utilisation (capacity) factors.

## Need for audit and follow up

More focus on capability (i.e. regulation and audit) and capacity building (i.e. resource allocation) is needed to ensure sustainable community assets and services into the future.

Most local councils have the financial capacity to address future scenarios provided they have a sensible and informed conversation with their stakeholders.

A simple ongoing program that audits asset and financial plans to understand their currency, update frequency and maturity would help ensure alignment with Local Government and Planning Ministers' Council decision and the National Framework. This need not be costly or complex or require additional auditing analytical skills. Instead it could simply assess whether up-to-date plans meet minimal legislative requirements.

Experience has shown that with the right legislative framework, supportive guidance and follow up, significant improvement in the performance and management of assets is possible (and necessary). Additional revenue may not, in all instances, be required.

## 8 Concluding Remarks

Local government revenue is small compared to the investment in infrastructure service delivery. Collectively, we are stakeholders in the business of local government, and we all have a role to play.

Whilst it could be argued there is no 'crisis' in local government, there are several findings in this paper that go a long way to answer the question: *"Are things getting better, staying the same, or getting worse...?"*.

In closing, the answer is:

While increased investment is likely to continue, there is more work to done in building and maintaining the planning and reporting skills in the local government sector.

The potential impacts of in-action or taking the current business as usual approach could be to the detriment of today's and future generations.

## Acknowledgements

I would like to thank John Howard, John Comrie, Chris Champion and Murray Erbs who willingly offered their expertise and insights to this paper.

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