Raising the Bar on Financial Planning and Strategic Asset Management

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“Councillors, as elected representatives of the community, are the custodians of sizeable investment in infrastructure by past, present and future generations. Understanding the long-term implications of asset management decisions is essential in providing a cost effective, sustainable service and an equitable distribution of the cost burden across generations... It is the responsibility of council staff to provide accurate, well founded technical and professional asset management advice so that elected members can make informed decisions on behalf of the community they represent.”

(West Australian Asset Management Initiative)

For the last few years there has been continued talk nationally about the financial sustainability of councils and a focus on improved long-term planning. The Local Government Association of Tasmania (LGAT) took an early lead in examining the issue of financial sustainability in relation to Tasmanian councils, commissioning a comprehensive analysis by Access Economics in 2007.

The report, A Review of the Financial Sustainability of Local Government in Tasmania, highlighted the need for councils to move from annual, to medium, to long-term service and financial planning periods. The report went further, indicating that quality, long-term financial plans needed to be supported by sound asset management plans, documenting services to be provided and the funds required to provide the services.

Recently LGAT, commissioned a related project, through the Premier’s Local Government Council (PLGC), Stronger Councils, Better Services project funding, to assess the benefits of and barriers to implementing a common specified framework for long-term financial planning and strategic asset management planning in all Tasmanian councils. Early findings from this project were presented at LGAT’s August General Meeting. The Framework for Long -term Financial and Asset Management Planning for all Tasmanian Councils will be finalised in a few weeks and will be made available on the LGAT website at www.lgat.tas.gov.au.

A strong focus on long-term strategic and financial planning is important because there is:

• Increased demand for services as the population grows and changes;
• Increasing community expectation in relation to both service provision and accountability and value for money;
• A need to consider competition and priorities;
• Limited ability to grow revenues/finite resource; and
• Ageing and inappropriate infrastructure.

It would be easy for councils to get focused on either asset management planning to the exclusion

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of long-term financial planning and vice versa, or to concentrate on one or two aspects of long-term planning without fully understanding the relationship to other key processes, such as community consultation, development of services standards and strategic planning. This would be wrong. They are each a part of a complex relationship of governance and planning processes that must all be considered.

There are clear national directions for councils on long-term and strategic planning, and certainly it is anticipated that future funding for infrastructure will be tied to councils being able to prove they can plan and manage their assets effectively and can deliver value for money for communities. At a meeting of the Local Government and Planning Ministers’ Council in May, there was agreement that enhanced national frameworks for asset and financial management would be implemented by all states and territories by 31 December 2010. The expectation is that all councils will:

- Use agreed indicators to measure factors which define sustainability and use them in analysis of progress;
- Have strategic asset management plans which are aligned to strategic plans, levels of services, information on assets which are regularly reviewed;
- Develop a strategic longer-term plan, through public consultation which is clearly linked to the asset management and long-term financial plans;
- Prepare annual budgets; and
- Deliver annual reports each financial year.

While some aspects of the national enhanced frameworks are already legislated in Tasmania, there are gaps. For example, while we have the requirement to prepare a strategic plan with community consultation, there is no requirement for it to be linked to resourcing ability. Long-term financial planning is not currently a requirement of Tasmanian councils. The various elements of any strategic planning cycle are strongly interrelated and consequently the process is quite iterative. The diagram below outlines what the process might look like.

It takes considerable effort to get councils’ planning “right”. For example, in relation to long-term financial plans, there needs to be discussion, review and fine-tuning in response to such issues as interest rates and inputs from the community on expected service standards. The process of long-term financial planning ideally draws together the various objectives, strategies and outcomes from a council’s strategic plan and translates them into dollar amounts and performance measures that can be monitored.

Specific matters that need to be considered to ensure the financial planning process is effective include assumptions around planning (i.e. inflation, interest rates, demography, business and individual incomes, demand for services); revenue forecasts (i.e. capacity to tax, user pays, grants and subsidies, borrowings, cash reserves); expenditure forecasts (i.e. recurrent and new) and sensitivity analysis that details the various assumptions underpinning the planning process.

Strategic asset management planning must form part of a broader financial management framework, linking with, and supporting long-term financial planning and strategic planning. It needs to be forward looking, structured, based on reliable data and linked to service delivery and resource planning. Assets can vary in nature from buildings to land, natural resources, plant and equipment and cultural assets. Asset management considers procurement, operational management, maintenance, rehabilitation and disposal with regard to maximising service and value outcomes. Financial and asset management plans must be lined to the strategic plan and each other.

Demand management is an integral part of the cycle. Forecasting demand relies on a number of sources including legislation, market movement and market segmentation, pricing signals, education, evaluating of current service provision, demographic changes and population projections. Options for managing demand need to be assessed for risk. Risk factors include community reaction, negative impact on special groups, political impact, unpredictable shifts in demand price differentiation, competition, technological changes and mismatch with other resources.

Community consultation is another fundamental planning element with a range of benefits including: possible innovative solutions and new approaches being raised through provision of local knowledge; increasing community understanding of constraints and acceptance of solutions. It is important, however, that consultation is appropriately timed and funded in order to broaden the range of inputs.

Because of the complexity of the planning process, there is a need for consideration across the range of operations of councils, by both council officers and elected members. This is not a job that can be done by an individual, or an individual area without widespread consultation. It is a core function of councils that needs adequate resourcing and ongoing consideration.
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Introducing LGAT’s New Policy Team

In July, we said goodbye to Senior Policy Officer, Liz Gillam, after more than nine years with the Association. We will all miss Liz, both personally and professionally. Not only does she have unmatched knowledge of Local Government issues, legislation and history, she has been a terrific colleague - extremely easy to work with.

However, I’m extremely pleased that the position of Senior Policy Officer has been taken up by Kate Hiscock, who commenced work at the beginning of August.

With the changes in staff, we have revisited the primary areas of responsibility for the policy team. The lists below are not comprehensive and, being a small team, we often have to cover for each other. So if you are not sure about who to contact, please contact me in the first instance at katrena.stephenson@lgat.tas.gov.au.

Dr Katrena Stephenson
Policy Director

Oversees LGAT’s policy development functions. Leads on a range of areas including: planning and heritage issues (including bushfire planning, healthy by design), affordable housing (including HAF/EDA), social inclusion, healthy communities (Commonwealth Funding) HR/IR, asset management and long-term financial planning, animal control, environment, the Local Government Act and related regulations and constitutional recognition.

Kate Hiscock
Senior Policy Officer

Leads on policy matters in building and plumbing, road infrastructure, public transport, crime prevention, public health (including asbestos) and aspects of social policy (eg alcohol and drugs, Indigenous affairs and mental health).

Sue Bronstein
Policy Officer

Leads on policy matters in the areas of waste management, pandemic preparedness, community recovery and emergency management, rural health, and women in Local Government. Sue also coordinates the Standards Panel.

Scott Blacklow
Careers Development Officer

Progressing a number of strategies in relation to recruitment, retention and capacity building in Local Government.

Christine Materia
Climate Change Officer

Responsible for progressing the State/Local Government Partnership Agreement on Climate Change.

Ben Mooney
Household Hazardous Waste Project Officer

Responsible for the implementation of the statewide household hazardous waste project.

For policy enquiries, please phone the Local Government Association of Tasmania on (03) 6233 5966.