

Working within an integrated planning process to achieve sustainable assets and services



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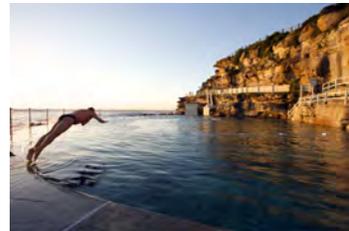
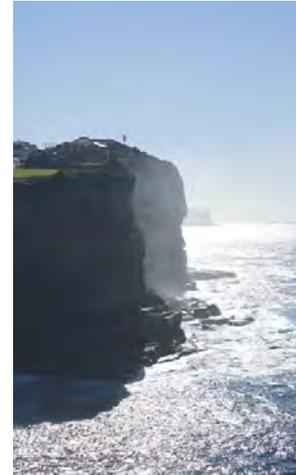


Thank you for inviting me all the way here from Waverley in NSW.

In case any of you can't quite place it, Waverley's a beautiful place only 5 kms from the Sydney GPO on the eastern seaboard.

It includes the famous Bondi Beach and has the distinction – dubious to some – of being the most densely populated local government area in Australia.

Waverley



I've flown from one side of the country to the other to the least densely populated state Australia but I find the place is just as beautiful as the one I came from.

I just put these pictures of Waverley up here in case any of you need to be inspired to visit.

And now I've got the privilege of talking about how local councils can plan to achieve asset and lifestyle sustainability for their communities.

The session's been billed as "What's your real asset gap and how should you involve your community?"

So I'll be concentrating **mainly** on how councils can approach their communities to discuss what they really want in terms of services and the assets that deliver those services – and how hopefully they can save money in the process.

We have a new thing to help us do that in a structured way called Integrated Planning and Reporting or IP&R.

Integrated planning is here!

- A revolution in community strategic planning is going on across Australia
- NSW legislated in 2009 to make Integrated Planning & Reporting (IP&R) compulsory for local councils
- Western Australia has passed similar legislation with an accelerated implementation timeframe



Integrated Planning and Reporting is being made law across the land. So a revolution in community strategic planning is going on right across Australia.

NSW legislated in 2009 to make IP&R compulsory for local councils.

And Western Australia has now passed similar legislation with an accelerated implementation timeframe.

Because Integrated Planning and the community engagement that goes with it are so important to our chances of achieving sustainable assets and services, I'd like to spend about 10 minutes up front comparing the IP&R frameworks of the two states.

And then spend the remainder of the time on how you can get the best out of the framework particularly in asset and financial planning.

IP&R for the QBL



- The IP&R reforms have been driven by a recognition that there is real value in planning for **Quadruple Bottom Line** sustainability:
 - Sustainable societies
 - Sustainable economies
 - Sustainable environments
 - Sustainable governance
- It's about achieving **all four quadrants** at the lowest long run cost
- If we have to sacrifice one for another, then it's not QBL planning



The Integrated Planning reforms are underpinned by a recognition that there is real value in planning for quadruple bottom line sustainability.

That's sustainability for our societies, economies, environment and governance.

The reforms are based on the premise that if we reach targets in **all four quadrants** of the QBL at the lowest long run cost then that's as close as we're going to get to genuine sustainability.

This means a major part of Integrated Planning should be about helping us find a way to renew neglected essential infrastructure assets but **without** having to sacrifice essential social and environmental services to fund that asset renewal.

If we have to sacrifice one to the other, then it's not QBL planning.

IP&R for the QBL



- Published estimates of local government backlog infrastructure renewal:
 - **\$4.2 billion to \$6.3 billion in NSW alone** (100 largest councils only)
 - Fiscal Star
 - **\$14.5 billion nationally** - Price Waterhouse Coopers



Leading thinkers in this area in the past 10 years have been telling us that the bill for backlog infrastructure renewal in Australia is huge.

In NSW a report called Fiscal Star by the former head of the NSW Treasury, Percy Allan, estimated the backlog at between \$4.2 and \$6.3 billion just for our 100 largest councils.

And Price Waterhouse Coopers have estimated the **national** backlog bill at \$14.5 billion.

... as most of our infrastructure was built in the 1950s and 1960s it is now “nearing the end of its economic life” ...

Australian Infrastructure Financial Management Guidelines
IPWEA, 2009



The IPWEA – the engineers’ institute – is adding to the pessimism about this by telling us that as most of our infrastructure was built in the 1950s and 1960s it is now “nearing the end of its economic life”, the implication being that we’ll need to replace it all soon.

As a manager I’m not convinced that this is correct, partly because “economic life” isn’t necessarily measured by age, or even deterioration.

I, for instance, could be said to be an asset in “medium deterioration” (at least) and I’m now drawing a pension for transfer to retirement so I’m on the wrong side of middle age, but I might flatter myself that I have quite a deal more useful life and value left in me than those years or that condition would imply.

And I think there’s cause for optimism that it’s the same for our infrastructure, perhaps more so, because infrastructure assets respond more readily to maintenance than biological assets.

At least I hope this is the case because the pessimistic views mean that only the wealthiest councils will be able to afford to address asset backlogs without raising rates well above CPI or cutting services, or both.

IP&R for the QBL

- Some policy makers are suggesting that operational expenditure should take a back seat while we address this bill
- The general assumption is that it's a good thing if local government is "only fractionally" expanding its operating expenditure:
 - *Keeping a lid on operating services is vital for ensuring any real growth in revenues can be used for rehabilitating the \$4,258 million of physical assets that are in poor condition.*

Percy Allan - Former CEO NSW Treasury - 2009 Fiscal Star Report



Some policy leaders have been suggesting that funding for services should take a back seat while we fix up asset backlogs before they become too expensive to fix for the generations of tomorrow.

Percy Allan went so far as to say that "Keeping a lid on operating services is vital for ensuring that any real growth in revenues can be used for rehabilitating the \$4,248 million of physical assets that are in poor condition" in NSW.

IP&R for the QBL



- But are generations of today supportive of service capping or loss?
- Do we want a perfect set of assets if it comes at the cost of loss of social and environmental capital?
- IP&R is designed to help us avoid this trade-off.



But anyone who's working at the coalface in a community – in other words, every local council and every local councillor - knows that the generations of today are not supportive of service loss.

Councils know they have other investments they need to make to build or maintain social and environmental capital.

They don't want to end up in 10 years' time with a wonderful bunch of perfect - perhaps **over-serviced** - assets and a new type of "backlog" investment required to remedy social or environmental decline.

I acknowledge that even if the bill for asset renewal is half what the accounting firms are saying it is, then it's a big problem.

But if you talk with your communities using the tools that IP&R provides I think the good news is that you can avoid being pushed too far into an unnecessary trade off between services and assets.

IP&R for Federal funding



- Federal funding for infrastructure will be dependent on councils' having completed sound planning:

... in terms of long term infrastructure investment and planning, if your authorities and your local areas come up with integrated, effective long term infrastructure planning and the data are clear, then this Australian Government will help co-invest with you in the future.

Prime Minister Kevin Rudd - Launch of ACLG - November 2008



And if you do it well the Federal Government has given a clear signal that there is a reward at the end.

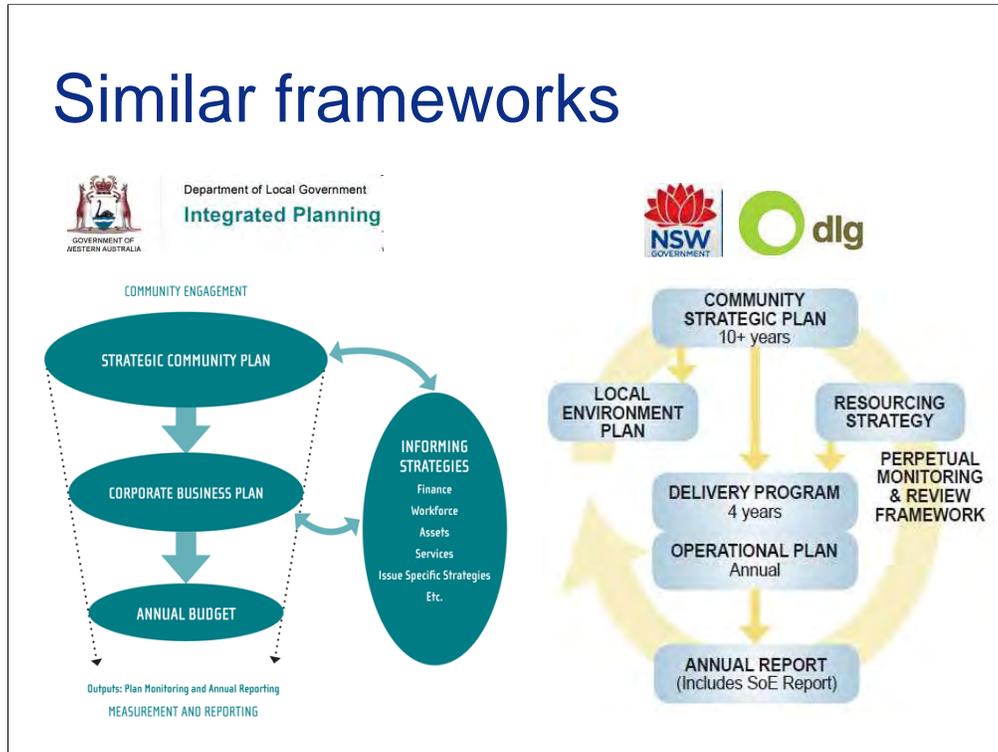
The Federal Labor Government made it very clear in 2008 when it established that Australian Council of Local Government that "... in terms of long term infrastructure investment and planning, if your authorities and your local areas come up with integrated, effective long term infrastructure planning and the data are clear, then this Australian Government will help co-invest with you in the future."

Obviously that makes the whole country's move to Integrated Planning very important.

In NSW we're getting a lot out of our IP&R in terms of more accurately estimating and mostly lowering expected future costs for asset renewal.

Your framework is very similar to ours so I imagine you can do the same.

Similar frameworks



Just having a look at the similarities between the frameworks with WA's on the left and NSW on the right:

Both have a community strategic plan with a 10-year+ timeframe.

And both are supported or informed by a long term financial plan, an asset plan, and a workforce plan.

Your framework has a service plan which is a really good idea. It's a feature missing in the NSW framework.

However, neither framework requires an environmental plan which I think is a big gap in both.

Waverley's expanded its framework to include a fully costed environmental plan – otherwise we'd have missed in our long term financial plan a lot of the impending costs for services to meet the targets our community's adopted for the environment in their community strategic plan.

Other similarities are that both states also have a 4-year corporate business plan, which in NSW we call a Delivery Program.

And both states have annual reporting.

In WA you seem to be able to change your 4-year Corporate Business Plan every year or 2 after review if necessary.

We can't do that.

We do have an annual Operational Plan which gives some flexibility in the way we can choose to deliver the Delivery Program.

But the strategies, measures and targets in the 4-year Delivery Program are supposed to be the same throughout the 4 years.

Similar focus

PLAN FOR THE FUTURE – KEY REQUIREMENTS



Department of Local Government
Integrated Planning



A Plan for the future under 55.56 of the *Local Government Act (1995)* consists of a Strategic Community Plan and a Corporate Business Plan.

Element	✓	Key Requirement	
Strategic Community Plan	✓	The plan is for a minimum of 10 years.	✓
	✓	The plan states the aspirations, vision and objectives of the community.	✓
	✓	Community is engaged in developing the plan, and this is documented.	✓
	✓	The plan should have regard to current and future resource capacity, demographic trends and strategic performance measurement.	✓
	✓	Council has adopted the plan by absolute majority.	✓
	✓	Notice has been given to the public when the plan is adopted (or modified).	✓
	✓	A strategic review of the plan has been scheduled for 2 years from when it is adopted.	✗
	✓	A full review of the plan has been scheduled for 4 years from when the plan is adopted.	✓
Corporate Business Plan	✓	The plan is for a minimum of 4 years.	✓
	✓	The plan identifies and prioritises the principal strategies and activities Council will undertake in response to the aspirations and objectives stated in the Strategic Community Plan.	✓
	✓	The plan states the services, operations and projects that a local government will deliver over the period of the plan, the method for delivering these and the associated cost.	✓
	✓	The plan references resourcing considerations such as assets management plans, finances and workforce plans.	✓
	✓	Council has adopted the plan by absolute majority.	✓
	✓	Notice has been given to the public when the plan is adopted (or modified).	✓
	✓	The plan is reviewed annually. (Review can be scheduled to align with the setting of the Annual Budget.)	✗

This slide summarises the key requirements of your framework and the ticks on the right indicate which ones are also in the NSW framework.

The frameworks only differ in a few ways but the differences are instructive.

We don't do a 2-year review of the Community Strategic Plan – it's fixed for 4 years, **aligned to the term of the elected council**.

From that you might infer that the framework designers are trying to make politicians lift their focus to the long term and stick to it – and you'd be right.

Councils have to adopt a new 10-year+ Community Strategic Plan and a 4-year Delivery Program 9 months after they're elected and run with it for their full term.

Then 3 months prior to the next election they have to do an "End of Term" report on their progress with the Community Strategic Plan which doesn't seem to be required in the WA framework in quite the same way.

Slightly different reporting focus

PLAN FOR THE FUTURE – KEY REQUIREMENTS



Department of Local Government
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A Plan for the future under 55.56 of the *Local Government Act (1995)* consists of a Strategic Community Plan and a Corporate Business Plan.

Element	✓	Key Requirement	
Annual Reporting	✓	The Report contains an overview of the plan for the future, including major initiatives that are proposed to commence or to continue in the next financial year: [55.53(2)(e) Local Government Act].	✗
	✓	Any change to the Strategic Community Plan is reported.	✗
	✓	Only significant changes to the Corporate Business Plan are reported – materiality test applies.	✓



WA plans are all reviewed annually and roll forward



In NSW the 10-year and 4-year plans are generally fixed for 4 years



The focus in WA instead seems to be more on annual reporting and the 4 and 10 year plans seem to roll forward perpetually.

In NSW, we certainly report performance on the 4 year Delivery Program annually – in fact bi-annually. But we don't change either the 10-year or 4-year plans within the elected council's term.

This is a central piece of the logic about achieving sustainability fairly for each generation.

Councils have to focus on helping the community achieve their vision over 10 years or more likely 12 years – the equivalent of 3 terms of office.

The 4 year Delivery Program they adopt should be aimed at delivering neither more nor less than their fair share of the targets of the 12 year plan.

They're supposed to work out their fair share of the task in advance and not shunt burden to the next council unfairly.

The theory is that this should flatten out the cost of moving towards QBL sustainability. In other words it strives toward intergenerational equity.

Slightly different reporting focus



NSW plans and reports are aligned to the 4-year term of an elected council



Introduces new level of accountability and transparency for councillors



They must report at the end of their term on:

- whether and how life got better or worse while they were in office, and
- whether it was because of something that they did



That makes the End of Term Report a very important feature of the NSW framework.

No-one in NSW has seen what an end of term report looks like yet but, if done properly, it will be an eye opener when it happens.

The first end of term reports in NSW are due in June this year and the intent is that they will show whether life for the community – the whole QBL of life – got better or worse in the council’s term of office and whether it was because of something the council did or didn’t deliver, or maybe something some other level of government did or didn’t deliver.

It should help a council test the effectiveness of their Delivery Program and provide guidance to the next council on how to make their Delivery Program more effective.

It should also help them provide advice on how partnerships between the council, the business community, the residents and other levels of government might be improved to maximise the community’s chances of realising their vision in the Community Strategic Plan. This is all important in terms of maximising the community’s chances of achieving their vision at the lowest long run cost.

It also helps to ensure that services are delivered by the level of government best placed to deliver them, or by the private sector and the community themselves, if they can do it better.

Identical focus on the vision



Department of Local Government
Integrated Planning



- In both states:
 - Plans are meant to express the **entirety** of the community's aspirations for their lifestyle, not just those priorities that a local council may be able to satisfy
 - Community engagement is central

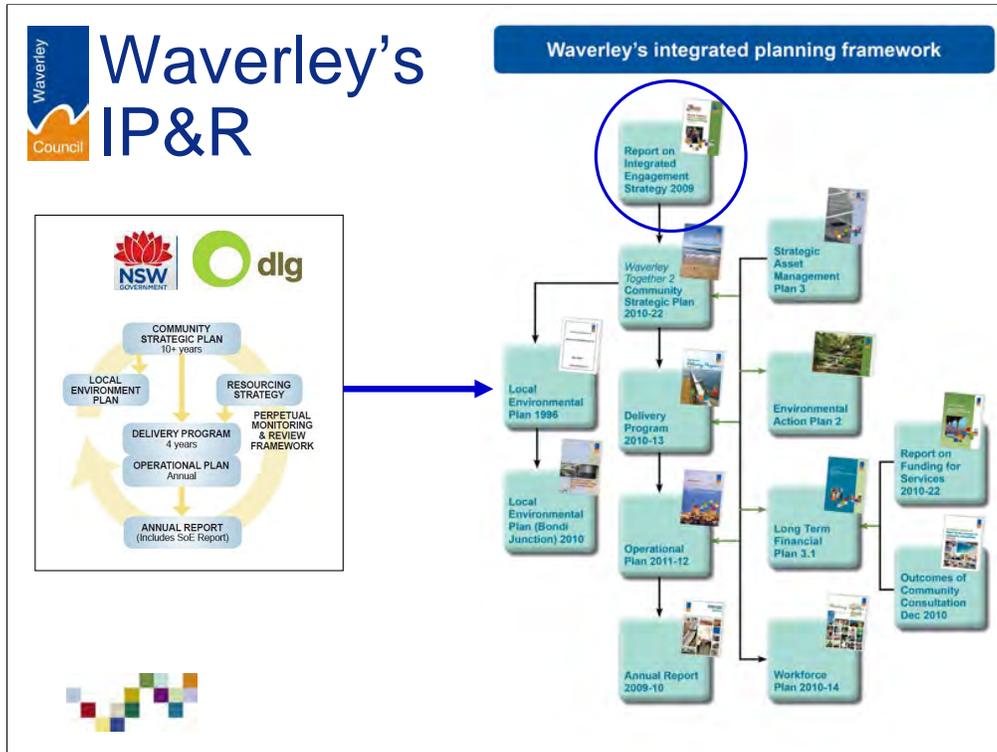


I could go on for a while about these similarities and differences but the key thing that needs to be emphasised is that if you get one thing right in the framework, let it be the community engagement.

In both states, the plans are meant to express the entirety of the community's aspirations, not just those priorities a local council might be able to satisfy.

Integrated Planning hands **planning power** to the community and councils, giving them a chance to work together to set their future and drive **all** levels of government towards it.

Compulsory community engagement is common to the frameworks in both our states and it provides a great opportunity to sensibly talk with the community about what they really want, particularly for assets and services.



At Waverley we've had to devise a language for this dialogue but it's resulted in a substantial drop in our estimates of the cost of renewing the economic life of our assets.

What you see here is the NSW framework as it's been made real at Waverley.

The Community Engagement Strategy Report which drove the development of our current Community Strategic Plan, *Waverley Together 2*, is featured at the top of the tree of plans.

The Waverley plans are fairly advanced in detail and there's probably quite a lot of information in them that you can use to design consultation programs and structures for your plans.

The image shows a screenshot of the Waverley Council website. On the left side, there is a vertical navigation menu with the following items: Residents, Visitors, Children & youth, Older people, People with a disability, Multicultural groups, Volunteers, Doing Business, and Shopping Districts. Below this menu is a graphic that says "Waverley Together 2010-2022" with a link that says "click here to learn more". A blue arrow points from the text "View all plans by clicking on this link on the front page of Waverley Council's website" to this link. The main content area of the website features a header with the Waverley Council logo and a search bar. Below the header is a navigation bar with links for Home, Your Council, Council Services, Community, Things To Do, Environment, Building and Development, Have A Say, Getting Involved, and About Waverley. The main content area is divided into several sections: "Information for..." (with a dropdown menu), "Waverley Council Funding the Future 2010-22" (with a link to "view IPART's decision on a rate variation HERE..."), "Council News" (with a link to "More Council News 1 / 10"), and "What's On" (with a link to "More Council events 1 / 10"). There are also links for "Mayor's Column", "Media Releases", "Waverley In Focus", "Active Projects Bulletin", "What's on at Waverley", "What's on at Waverley Library", "What's on at Bondi Pavilion and Beaches", and "Regular Happenings". On the right side, there is a "I want to..." section with a list of services: Make a payment, Request a service, Get a parking permit, Check fees and charges, Find my rubbish day, Attend a council meeting, Enquire about a Development Application, Search Library catalogue, Register my pet, Find an interpreter, Know about precincts, Use public spaces, Open a new business, Recycle or dispose of large or unusual items, and Know more about licensed premises. At the bottom of the page, there is a footer with the text "Waverley Council Customer Service Centre 55 Spring Street, Bondi Junction" and a small graphic of colored squares.

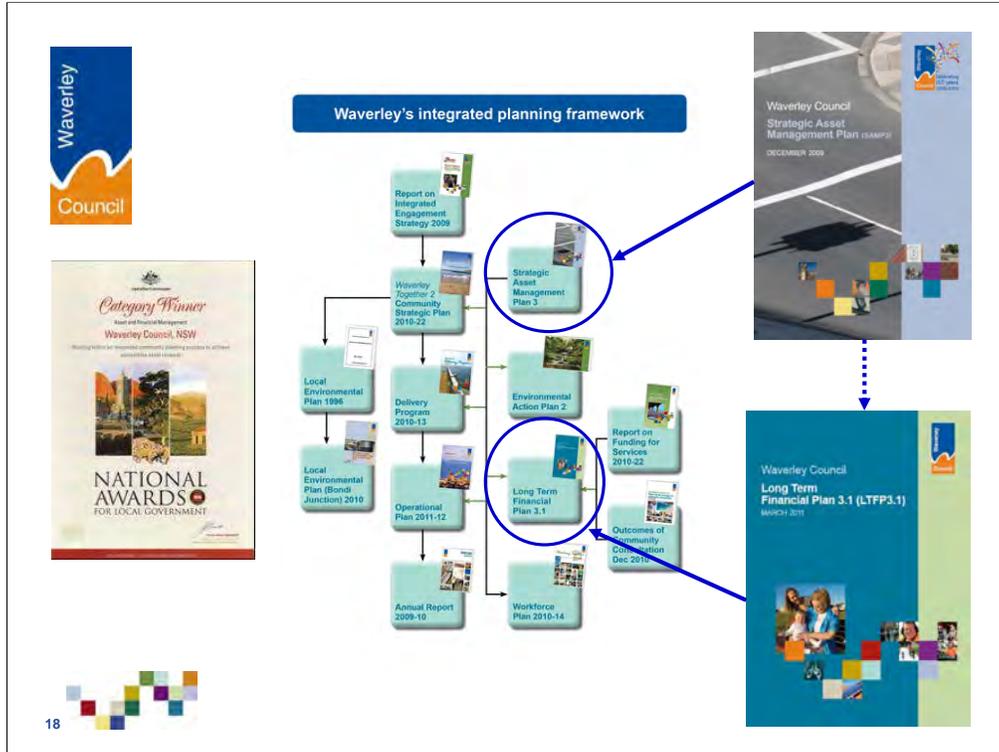
View all plans by clicking on this link on the front page of Waverley Council's website

Obviously there's no time to go into all that detail here but if you'd like to look through them you can access them all by clicking on this link on the front page of our website.



That will take you to this tree of plans.

Each of the little pictures is a live link. If you click on them they will take you direct to the plan or report you want.



If you're particularly interested in asset and financial planning these two plans might be of interest.

The Strategic Asset Management Plan in the top circle is Waverley's 3rd attempt in a 5 year period to get our estimates of asset renewal costs right.

Those 3 attempts have been very beneficial in terms of reducing the estimates.

The revised estimates have now been fed into the Long Term Financial Plan and they present a much more realistic picture of the necessary levels of expenditure over the life cycles of the assets.

In 2010 Waverley Council won the Federal Government's National Award for Local Government in Asset and Financial Management for using this framework and the community engagement it requires to do this revision.

Here's how it worked.

The asset renewal challenge

- When Waverley Council first started trying to address its asset renewal backlog 7 years ago we were reporting very large costs to renew assets:

Waverley Council Asset Maintenance Costs Reported June 2004		
Asset Group	Cost to bring to a satisfactory condition	Cost to maintain at a satisfactory standard
Roads	\$31,950,000	\$2,555,000
Footpaths	\$12,950,000	\$1,850,000
Kerbs & Gutters	\$5,900,000	\$1,180,000
Stormwater Assets	\$37,200,000	\$1,800,000
Buildings	\$5,235,000	\$1,353,000
Total	\$93,235,000	\$8,738,000

- This only covered 5 out of 12 asset categories
- Obviously we couldn't build a fund for this volume of backlog asset renewal
- We had to look for a new way to assess and hopefully reduce the backlog cost estimate without exposing the Council to risk of further asset degradation



When Waverley Council first started trying to address its asset renewal backlog 7 years ago we were reporting very large costs to renew assets.

In our 2004 Annual Financial Statements we reported a total of \$93.2 million to bring existing infrastructure assets to acceptable standards and \$8.7 million a year thereafter to keep them there.

This only covered 5 out of 12 asset categories.

Obviously we couldn't build a fund for this volume of backlog asset renewal. At that time \$93 million was more than our annual income.

We had to look for a new way to assess and hopefully reduce the backlog cost estimate without exposing the Council to risk of further asset degradation.

Methodologies



- The main methodology being used by NSW councils in 2004, including Waverley, was the standard “accounting” approach which uses **valuation and depreciation** to derive estimates of costs to bring assets to a standard sufficient to deliver “satisfactory” levels of service
- It assumes assets:
 - are consumed at certain rate, eg., a “straight line” rate and
 - may be “impaired” as well and
 - may have some residual value if they can be sold and
 - they will need to be entirely replaced at some time to restore economic life



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It assumes assets:

- are consumed at certain rate, eg., a “straight line” rate, and
- may be “impaired” as well, and
- may have some residual value if they can be sold, and it also assumes that
- they will need to be entirely replaced at some time to restore economic life.

Methodologies



- Guidelines on applying the valuation and depreciation method have been evolving: we're getting better – or more consistent – at using it
- But how helpful is it for planning and consultation? How “right” will it be?
- Depending on the assumptions applied, its outcomes will vary
- At Waverley we had to ask ourselves, could we adapt it somehow because it didn't seem practicable that we could ever pay the “\$93 million bill”, especially as, like many councils, we hadn't been funding our accumulated depreciation



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Guidelines on applying the valuation and depreciation method have been evolving in the last five years and NSW councils are getting better – or more consistent – at using it.

But how helpful is it for planning and consultation? How accurately will it reflect the real cost of asset renewal that we're obliged to discuss with our communities? Depending on the assumptions applied, its outcomes can vary wildly.

At Waverley it certainly didn't seem reasonable to expect that if we walked out the front door and said to the community or government “we need a quick \$93 million” that we'd get much of a hooray about it.

So we had to ask ourselves, could we adapt the estimating method somehow because it didn't seem practicable that we could ever pay the “\$93 million bill”, especially as, like many councils, we hadn't been funding our accumulated depreciation.

Methodologies

- Looking at how we were using valuation and depreciation, we found:
 - It wasn't really helping us to easily describe or account for what might constitute a "satisfactory standard" or "satisfactory service level"
 - There was no easy "language" for talking with the community about service levels
 - In using the method we were assuming assets would need to be fully replaced via reconstruction to deliver service - was this valid?
 - We were also assuming all assets were meant to be in top condition all the time
- On review, these assumptions seemed to be questionable bearing in mind that a lot of our assets clearly weren't in "top" condition but were nevertheless providing good service and could be expected to have extended "service" life if we maintained them properly



Looking at how we were using valuation and depreciation, we found:

It wasn't really helping us to easily describe or account for what might constitute a "satisfactory standard" or "satisfactory service level".

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On review, these assumptions seemed to be questionable bearing in mind that a lot of our assets clearly weren't in "top" condition but were nevertheless providing good service and could be expected to have extended "service" life if we maintained them properly.

Methodologies

- So we decided to test a slightly different process
- That separate process turned out to be the approach used and progressively validated in our:
 - Strategic Asset Management Plans
 - SAMP1 - March 2006
 - SAMP2 - December 2007
 - SAMP3 - December 2009
 - and in our Integrated Planning consultation



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So we decided to test a slightly different process.

That separate process turned out to be the approach used and progressively validated in our Strategic Asset Management Plans:

- SAMP1 - March 2006
- SAMP2 - December 2007
- SAMP3 - December 2009

and in our Integrated Planning consultation.

Methodologies

- We now have two estimating approaches:
 - One for reporting to meet the accounting requirements
 - Another for working with the community to develop plans for sustainable investment in asset renewal
- At Waverley, the estimate for the backlog using the second method has consistently turned out to be lower than the estimate using the first method



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As a result we now have two estimating methodologies – yes, it’s a little like two sets of books, at least for the moment.

One for accounting purposes.

And another for working with the community to develop plans for sustainable investment in asset renewal.

At Waverley the estimate for the backlog using the second method has consistently turned out to be lower than the estimate using the first method.

How does it work?



- We started simply by physically assessing the current condition of assets:
 - Get out of the office and have a real look - no desktop reviews based on age
 - Costs money to do this properly but it's worth it to get an accurate baseline
- Then we asked ourselves - and eventually the community - two questions:
 - Is it reasonable to assume that everything will need to be totally replaced and be kept in top condition all of the time?
 - Will bringing everything up to top condition provide a higher service level from our assets than we need or want, now or in the future?
- Once we had the answer to those two questions it was simply a matter of working out the cost to bridge the gap between current condition and the condition necessary to deliver the desired level of service



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How does it work?

We started simply by physically assessing the current condition of assets:

Get out of the office and have a real look – don't do desktop reviews based on age.

It costs money to do this properly – at Waverley it cost more than \$1 million – and we have only 9.2 square kms of land area – but it's worth it to get an accurate baseline.

Then we asked ourselves - and eventually the community - two questions:

Is it reasonable to assume that everything will need to be totally replaced and be kept in top condition all of the time?

And will bringing everything up to top condition provide a higher service level from our assets than we need or want, now or in the future?

Once we had the answer to those two questions it was simply a matter of working out the cost to bridge the gap between current condition and the condition necessary to deliver the desired level of service.

What did we find?

- Assets were in better condition than the valuation and depreciation method would imply - they had more life left than we thought
- Stormwater drains especially had not deteriorated to anywhere near the extent implied by their age and depreciation rate
- It wasn't necessary to have assets in top condition all the time to provide good and even very good service into the future
- Having them in top condition all the time, even if it were possible, would be over-servicing in the view of the community - they wanted their money spread around on both assets and services



So what did we find?

The assets were in better condition than the valuation and depreciation method would imply - they had more life left than we thought.

Stormwater drains especially hadn't deteriorated to anywhere near the extent implied by their age and depreciation rate.

It wasn't necessary to have assets in top condition all the time to provide good and even very good service into the future.

And having them in top condition all the time, even if it were possible, would be over-servicing in the view of the community - they wanted their money spread around on **both** assets and services.

Asset renewal estimates - 2009



- By 2009 we were able to report substantially lower estimates than those reported in 2004:

Waverley Council Asset Maintenance Costs Reported June 2004		
Asset Group	Cost to bring to a satisfactory condition	Cost to maintain at a satisfactory standard
Roads	\$31,950,000	\$2,555,000
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Stormwater Assets	\$37,200,000	\$1,800,000
Buildings	\$5,235,000	\$1,353,000
Total	\$93,235,000	\$8,738,000

Waverley Council Asset Maintenance Costs Reported June 2009		
Asset Group	Cost to bring to a satisfactory condition	Cost to maintain at a satisfactory standard
Roads	\$1,350,000	\$1,350,000
Footpaths	\$1,475,000	\$1,475,000
Kerbs & Gutters	\$730,000	\$730,000
Stormwater Assets	\$42,000,000	\$2,100,000
Buildings	\$4,255,000	\$1,370,000
Total	\$49,810,000	\$7,025,000



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By 2009, using this method, we were able to report substantially lower estimates for backlog renewal than the \$93 million reported in 2004.

We'd dropped the expected bill to just under \$50 million.

This is the result of physically assessing the actual condition of the assets and setting a few renewal intervals that we thought would provide acceptable levels of service.

That caused the estimates to drop for roads, footpaths kerbs and buildings.

It didn't drop for stormwater drainage because by 2009 we still hadn't physically assessed the condition of those assets.

So the old valuation and depreciation method was still being applied for stormwater and the estimate was rising as a result – from \$37 to \$42 million.

Asset renewal estimates - 2010

- By 2010 with stormwater estimates revised we could report:

Waverley Council Asset Maintenance Costs Expected to be Reported June 2010		
Asset Group	Cost to bring to a satisfactory condition	Cost to maintain at a satisfactory standard
Roads	\$1,350,000	\$1,350,000
Footpaths	\$1,475,000	\$1,475,000
Kerbs & Gutters	\$730,000	\$730,000
Stormwater Assets	\$7,895,000	\$186,374
Buildings	\$3,379,149	\$1,929,149
Total	\$14,829,149	\$5,670,523

Achieved by looking at condition as opposed to age

Reductions in Previously Reported Costs to Bring Assets in Categories 1 – 5 to a Satisfactory Condition June 2004 Compared to June 2009		
	Cost to bring to a satisfactory condition	Cost to maintain at a satisfactory standard
Reported June 2004	\$93,235,000	\$8,738,000
Estimated June 2010	\$14,829,129	\$5,670,523
Total reduction	\$78,405,871	\$3,067,477
% Reduction	84%	35%



But by 2010, however, we had put a camera down a significant cross section of drains.

To our surprise they were in much better condition than we expected.

Waverley is the second oldest LGA in Australia and had its 150th birthday in 2009. So much of the drainage is above 100 years old. It's colonial.

But looking at the actual condition of the drains, as opposed to their age, and extrapolating from what we thought was a valid sample, we decided it was reasonable to drop the drainage backlog estimate from \$42 million to just under \$8 million.

Today we're reporting less than \$15 million to bring our five main categories of assets to a satisfactory standard and only \$5.7 million a year to keep them there.

Compared to what we thought in 2004, that's an 84% drop in the estimate for the backlog and a 35% drop in expected ongoing annual maintenance costs.

The tricky bit

- The trickiest bit turned out to be how to ask the community what service level they wanted from assets so that we could calculate the cost of bridging the gap between current and desired condition
- We needed to develop a “language” to use in discussion with the community about preferred service levels
- Manuals suggest service levels can be defined in terms of:

Quality	Quantity
Safety	Capacity
Fitness for purpose	Aesthetics
Reliability	Responsiveness
Environmental acceptability	Costs



All of this was figured out by in-house staff in consultation with the councillors.

Then the tricky bit started.

We had to figure out whether our sense of the acceptable service level was the same as the community's.

It took a while to figure out a language for doing this.

The manuals suggest that service levels can be defined in terms of quality, safety, fitness for purpose, reliability, costs, aesthetics and other things but we could only imagine that rabbiting on about this with the community would bore them stiff.

Consulting on service levels

- ... Or ...
- Just show them a picture ...



- We set ourselves a “floor” (beneath which too much risk or cost would be incurred)
- And then we asked them about whether they wanted to pay for more than that



So we decided to just show them pictures of assets in various conditions and try to get a sense of what was the minimum acceptable proportion of each category of assets that they wanted to see in the top condition at any one time.

We were hoping they wouldn't insist on 100% being in top condition all the time.

We picked a draft minimum ourselves before we started talking to them – based on the engineers' and councillors' sense of what would constitute acceptable risk.

The councillors had to be shown how much benefit they got for different increments of extra or reduced expenditure.

They had to see how that affected the proportion of assets in the poorer condition ratings.

They picked out what they would tolerate and set an expenditure “floor” beneath which they thought too much risk or cost would be incurred.

Selecting an acceptable “floor”



- Rules were set in order to avoid risk:
 - A reasonable level of cyclic maintenance will be given as a priority to the assets that are in the poorer condition ratings within the planning period.
 - There will be a general intention to prevent growth in the proportion of assets in Condition 4.
 - No asset will be allowed to slip into Condition 5 unless Council has decided to decommission the asset.
- In general Council endorsed assumptions that:
 - Satisfactory and in fact very good levels of service could be provided by our assets without having to have every asset in Condition 1 all of the time.
 - There were enough safeguards in the various maintenance and renewal cycle intervals to prevent cost increases or a worsening of financial sustainability over time
 - assuming of course that enough funding is supplied to keep up with the cycles!



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They had to set rules around this before they got comfortable.

They wanted a funding policy that would prevent growth in the proportion of assets in poor condition.

And they wanted to be sure there were enough safeguards in the various maintenance and renewal cycle intervals to prevent cost increases or a worsening of financial sustainability over time.

Once we had the floor service level agreed we then all went out and asked the community if they wanted to pay for more than that.

Using the pictures made it really easy and quick in the end.

Select your preferred language

- At Waverley we selected a 5-point rating system to describe the condition of assets:
 - Condition 1: Good condition
 - Condition 2: Minor deterioration
 - Condition 3: Medium deterioration
 - Condition 4: Major deterioration
 - Condition 5: Unserviceable



We used a 5 point scale where Condition 1 was the top condition rating and Condition 5 was the poorest.

Then we showed different community groups pictures of all categories of assets in various condition ratings.

Roads – Condition 1

- Near perfect condition
- Very little cracking
- Smooth, even surface



That's a Condition 1 road.

Footpaths – Condition 3

- Fair condition
- Some wide cracking and movement of footpath slabs
- Number and size of trip hazards increasing



A Condition 3 footpath.

Kerb and Gutter – Condition 4

- Poor condition
- Large amount of cracked and broken kerbs
- Significant length of kerb displaced



A Condition 4 kerb and gutter.

Street Trees – Condition 3

- Tree in decline eg. parts of tree dying off
- Species may not be suitable for position eg. large trees planted under wires
- No vigorous growth visible
- Causing minor infrastructure damage or interference



On Collingwood Street

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A Condition 3 tree.

Buildings – Condition 2

- BCA compliant to current standards
- Structurally sound, externally secure
- Good condition externally and internally, with superficial deterioration or minor defects
- Sound functioning plant and equipment



Bondi Pavilion South Courtyard



A Condition 2 building.

Buildings – Condition 5

- Unserviceable condition
- Serious deterioration – beyond end of economic life
- Structurally unsound

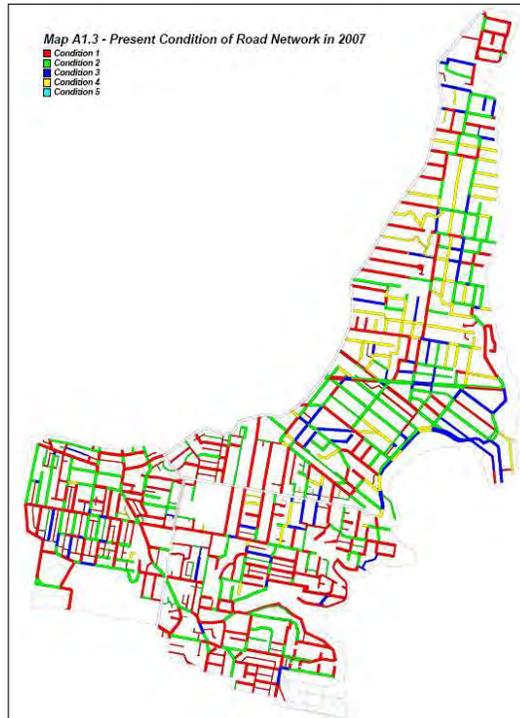
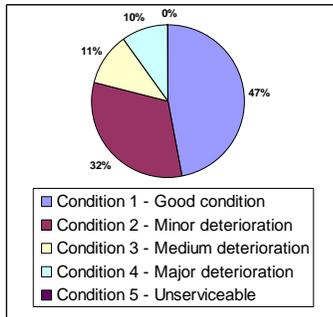


And a Condition 5 building.

With a few descriptors they found it more meaningful.

Illustrating current condition

- Condition of roads



Once they had the hang of it, we then showed them what proportions of each asset category were currently in each condition rating band.

They could figure out for instance what condition their own street was in and get a sense of how well off they were relative to others.

They could also see that at the moment 79% of roads in Waverley are actually in the top two condition ratings and we could show them how much it would cost to keep it that way.

At this point they seemed to feel more comfortable about leaving short term self-interest behind and their long term interests started to kick in. It became clear it was in the common interest to share burden and plan to spread expenditure over time.

Within that perspective we were then able to ask would they see service level benefits in spending more than Council's preferred floor expenditure in each asset category.

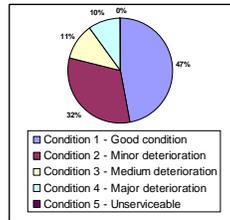
The answer came back that as long as they got a turn when their own road sank down to Condition 4, they'd be happy not having everything perfect all the time.

Testing the “floor”

- We consulted on:
 - Roads, footpaths, kerbs & gutters
 - Buildings
 - Trees and parks landscapes
- We deliberately didn't consult on some assets:
 - Drainage
 - Retaining infrastructure
 - Infrastructure in parks and cemeteries
 - No point in asking someone if they mind a wall falling down or being flooded



- Use pictures to get the conversation going



It was only necessary to do this for some asset categories, namely roads footpaths, kerbs and gutters buildings, trees and parks landscapes.

We deliberately didn't consult on drainage, retaining infrastructure and infrastructure in parks and cemeteries.

After all there's no point in asking someone if they mind a wall falling down on being flooded.

For some types of assets it's not really about service levels.

It's more about risk and Council just has to take a leadership position.

Results

The community said:

- Roads and kerbs – they're OK but don't drop expenditure
- Footpaths – more expenditure please!
- Buildings – could cut back
 - Council rejected that as it pushed the service level below the agreed "floor"
- Trees – they're about right, don't let it get worse
- Parks infrastructure – it's about right, don't let it get worse



As to results - they didn't push the bill back up by any means.

They wanted more expenditure on footpaths and less on buildings (which Council rejected because it pushed the service levels for buildings below the floor).

But otherwise they were simply satisfied if the current proportion of assets in the poorer condition ratings didn't increase.

They recognised that they weren't paying enough rates to achieve that and supported a rate increase for this.

Bigger and smaller groups

- Small groups work really well for sorting out the detail
- Bigger groups work well for confirming trends

- **Use both** types of groups plus web-based dialogue
- We found that no matter how we gave out the information ...
 - a little detail or a lot of detail
 - lots about money or nothing about money... the views of the different groups still coalesced



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You can use this method in big or small groups.

Small groups worked well for sorting out the detail.

Bigger groups worked well to confirm trends in opinion.

I'd suggest you use both types of groups and a web based dialogue.

We found that no matter how we gave out the information ...

- a little detail or a lot of detail
- lots about money or nothing about money

... the views of the different groups still coalesced.

There must be some common well of common sense out there.

So it worked really well.

Simple targets for asset renewal can now be monitored easily by the community

Targets and indicators for Sustainable Governance

Targets & indicators of successful performance	In the direction of...	Baseline data
<p>Council assets are capable of delivering the desired levels of service as measured by achieving the following asset condition ratings on an annual basis:</p> <p>In condition 1 or 2</p> <ul style="list-style-type: none"> 70% of roads 80% of footpaths 73% of kerbs/gutters 100% of stairs 100% of fences & bollards 100% bus shelters 100% bus seats 100% street seats <p>In Parks</p> <ul style="list-style-type: none"> 100% of fences & bollards 100% of footpaths 100% of stairs 100% of play equipment 100% of signs <p>In Waverley Cemetery</p> <ul style="list-style-type: none"> 100% of roads 100% of gutters 100% of paths 100% of drains 100% of fencing (internal) 100% of fencing (external) 	<p>66</p>	<p>Council has consulted the community on the condition that assets should be maintained in to ensure services can be delivered at the level desired by the community. Condition ratings are defined as:</p> <p>Condition 1 – Good Condition Condition 2 – Minor Deterioration Condition 3 – Medium Deterioration Condition 4 – Major Deterioration Condition 5 – Unserviceable</p> <p>In 2009, Council assets achieved the following condition ratings:</p> <p>In condition 1 or 2</p> <ul style="list-style-type: none"> 70% of roads 73% of footpaths 73% of kerbs/gutters 72% of stairs 72% of fences & bollards 65% bus shelters 82% bus seats 83% street seats 86% of fences and bollards in parks 87% of footpaths in parks 85% of stairs in parks 61% of play equipment in parks 90% of signs in parks 2% of Waverley Cemetery roads 65% of Waverley Cemetery gutters 62% of Waverley Cemetery paths 57% of Waverley Cemetery drains 39% of Waverley Cemetery fencing (internal) & 21% of fencing (external) <p>SOURCE: SAMPS</p>

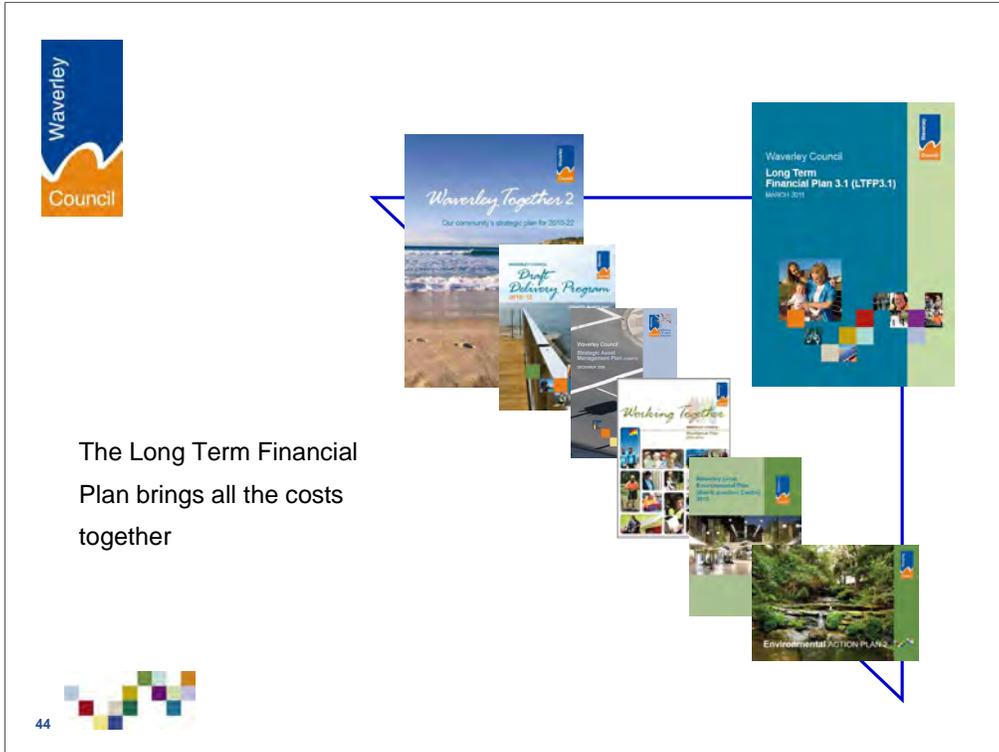
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Waverley Council

We ended up with a simple set of targets for asset renewal that can now be monitored easily by the community when we do our End of Term reports.

The asset targets have been integrated in with other targets for services in our Community Strategic Plan, *Waverley Together 2*, if you'd like to see how they're expressed.

This is one of two pages showing what condition the assets are in now (on the right) and the target we're aiming for on an annual basis (on the left).



And the Long Term Financial Plan shows how much it all costs – for both assets and services.

Benefits

- When we took the community's views into account about:
 - what our assets are valued "for" - not just what they're valued "at"the estimates turned out to be far less onerous than we might have expected if we'd relied solely on valuation and depreciation
- We still need to raise rates to cover infrastructure renewal but by nowhere near as much as we thought
- We can build our renewal reserves at more sustainable pace



Summing up the benefits.

When we took the community's views into account about what our assets are valued "for" - not just what they're valued "at" the estimates turned out to be far less onerous than we might have expected if we'd relied solely on valuation and depreciation.

We can build our renewal reserves at more sustainable pace and people are more willing to pay.

Benefits

- We've learned that if we understand the actual condition of assets we can lengthen or shorten renewal intervals in some categories of assets until we get the lowest long run renewal cost
- For a lot of assets good maintenance based on up to date knowledge of condition can displace full reconstruction to some considerable extent
- Eg., give a well-built road a tight roof and a dry floor and it can last



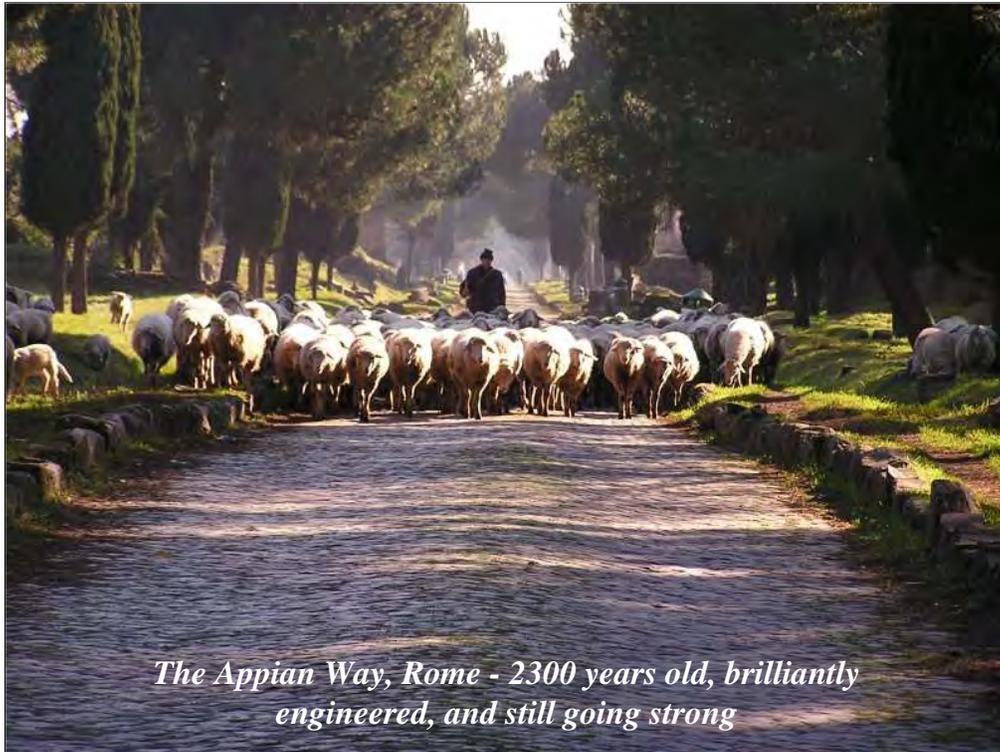
We've also learned that if we understand the actual condition of assets we can lengthen or shorten renewal intervals in some categories of assets until we get the lowest long run renewal cost.

We can, in some cases, lengthen the renewal interval indefinitely.

In fact the backlog has completely disappeared for roads, footpaths and kerbs.

For a lot of assets, good maintenance based on up to date knowledge of condition can displace full reconstruction to some considerable extent.

We're adhering to the old engineer's mantra – give a well-built road a tight roof and a dry floor and it can last.



The Romans have proved it.

That's the Appian Way in Rome.

It's a magic piece of engineering, 2,300 years old and still going strong.

It's a layered construction with a brilliant drainage system. It's said that the stones in the top layer all fit together so perfectly that a knife can't be wedged in between them.

Its longevity is secured by its dryness and as a result it's still fit for purpose, although the purpose has changed through time.

It's transported centuries of armies. Mussolini drove tanks on it.

Now the service level required for the road seems thankfully to be mainly to transport the sheep and to act as a remarkable monument to the ingenuity, sweat and blood of millions of Romans.

But it is indeed more than fit for its current purpose and the Romans have certainly had their money's worth.

Plans and accounts

- Planning and accounting are both imprecise sciences when humans are involved
- But if you provide sensible information to them they will act rationally



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Whatever method you use to plan for or account for maintenance and renewal of assets, it's good to remember that it is an imprecise science because it's subject to changes in the preferences of humans and the competitiveness of economies over time.

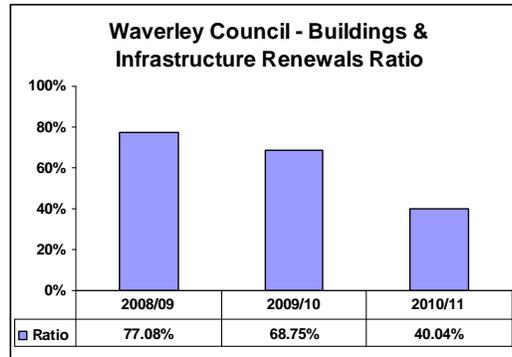
But my experience is that if you provide sensible information in an accessible format people will act rationally, even generously, and you will narrow down the error margin. Self interest and the common interest are more likely to begin to merge for participants in this sort of process.

But even if it doesn't, when it comes to local government infrastructure, if you use a method which excludes human engagement you're more likely than not to end up trying to put aside money that you might not need at all.

Plans and accounts



- Waverley's Integrated Plans have recently been independently audited resulting in satisfaction that the backlog estimate derived through IP&R – the lower estimate – is the more reliable for planning purposes
- Current Annual Financial Statements may give the impression that we're not spending enough on asset renewal
- The reality is that we're confident we're spending enough to maintain them at an acceptable service level



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I said earlier that it looks like we have two sets of books at Waverley. And indeed we do at the moment.

However, Waverley's integrated plans, including the asset plans, have recently been independently audited by Morrison Low, who've advised that the estimate derived by:

- checking the condition of assets,
- establishing a floor for the total proportion of assets in each condition rating, and then
- consulting with the community about whether they want to pay for more than that

has produced the most reliable least risky estimate.

They've recommended we revise the depreciation rates to bring the asset renewals ratio closer towards 1 to 1.

I'm not sure myself that fiddling around with ratios to move them towards 1 to 1 adds all that much confidence that the plans are right. I'm not even sure that 1 to 1 would be a sound ratio if it were to somehow drive councils to build funds sufficient to keep all their assets in top condition 100% of the time.

Suffice to say there's some level of risk we have to take as planners that we probably don't feel inclined naturally to take as accountants. Waverley's current Annual Financial Statements about our asset renewal ratio may give the impression that we're not spending enough on asset renewal.

The reality is that we're confident we're spending enough to maintain them at an acceptable service standard for the current generation and that that standard doesn't prejudice the interests of a future generation.



It's a lot of work and a fair bit of money to figure all this out.

But I hope this has been helpful and that you enjoy the journey using Integrated Planning for this purpose.