



Towards improved local government in southern Tasmania - Asset management and maintenance



Australian Government



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Asset Management Planning

In 1998, the Tasmanian Auditor General commissioned a report “Capitalisation and Reporting of Local Road Assets in Tasmania”. Its findings were that most small Councils in Tasmania had not undertaken asset planning or valuations. It also found that they did not have the expertise to do so. The State Government is currently working on a project to encourage better asset management planning in Tasmanian Councils.

Asset Valuation and Expenditure

In 1998, there was about \$2B in asset replacement value of local road assets across the whole of Tasmania. According to the Annual Reports of each of the 12 Southern Tasmanian Councils, the value of non-current assets in 2009/10 was \$3.56B, with depreciation of \$70M or 1.96% of the non-current assets figure. The details are shown below:

COUNCIL	NON-CURRENT ASSETS \$Million	DEPRECIATION \$Million	DEPRECIATION AS % NON-CURRENT ASSETS
Clarence	606.5	9.0	1.5
Glenorchy	627.7	13.6	2.1
Hobart	872.5	15.9	1.8
Huon Valley	173.6	4.0	2.3
Kingborough	542.4	9.2	1.7
Brighton	159.4	2.0	1.3
Derwent Valley	85.9	2.0	2.3
Sorell	191.4	4.2	2.2
Central Highlands	116.3	4.6	3.9
Glamorgan S.Bay	85.2	1.6	1.9
Southern Midlands	86.1	2.9	3.4
Tasman	15.6	0.9	5.8
TOTAL	\$ 3,562.7 M	\$70.0M	Average 1.96%

In relation to the above figures, the depreciation figures shown appear to be within normal ranges. Average life of assets are typically bridges, 60-100 years; road surfaces, 10-15 years; road pavement, 40 years; kerb and channel, 60-80 years; park assets 15-25 years; valuation of buildings should be condition-based, but vary between 40 -100 years; and stormwater assets, 80-100 years. Depending on the municipality’s balance of assets the average age could be 50 years of life, hence a 2% straight line depreciation, or 40 years

for a 2.5% line depreciation. The amount expended by a Council should be driven by these figures. It is expected that a relatively young municipality with newer assets may not need to spend as much money on asset maintenance as an older municipality with older assets.

According to some sources in both State Government and Local Councils there is an issue of incomplete and inadequate asset valuation in some Southern Tasmanian Councils, and perhaps more importantly, insufficient financing by some Local Councils of their infrastructure.

The 2010 Auditor General's Report found that in the case of the 12 Southern Tasmanian Councils, a significant number had not covered depreciation costs adequately. The Councils were a mix of urban and rural Councils. The Auditor General stated that asset replacement expenditure should be consistent with depreciation. In 6 of the Southern Tasmanian Councils the capital expenditure to depreciation ratio was below the benchmark ratio. These Councils were Brighton, Central Highlands, Glenorchy, Hobart, Kingborough and Tasman. It is recognised that in the 2010/11 year some of these Councils have addressed the issue.

Asset Maintenance

In the area of asset maintenance, it is evident that more proactive, scheduled maintenance could lead to substantial savings. For instance, in another interstate Council, the introduction of scheduled tree maintenance led to a significant saving. In this case, the savings were of the order of 25% of the original costs, in other words the new schedules cost 75% of the previous reactive and unscheduled maintenance regime. This level of operational efficiency and savings from re-balancing the reactive to scheduled asset maintenance mix is not unusual.

In order to successfully introduce scheduled asset maintenance in Local Government a number of actions are required to be carried out.

First of all, customer and community expectations need to be managed. This can be achieved by utilising a customer management system that details information on the scheduled program, on a website and on a telephone script. Council's customers will then be informed about the reasons for the shift in balance, the order of projected savings and what the regime will be, such as their precinct will be covered three times per year.

In some Councils, information on asset maintenance schedules is also available via social media, newsletters, newspapers and by letterbox drops to individual households and businesses.

Secondly, the maintenance needs to allow for a small amount of reactive, ad hoc maintenance for emergencies. If this is not done, unsafe situations won't be fixed or repaired and customers will also be justifiably annoyed. The ratio of reactive maintenance to scheduled maintenance should be 30%:70%. The Local Council needs to explain the benefit of scheduled maintenance to residents and businesses so that the trade-off in a maintenance delay in not having, for instance, a street tree lopped immediately; is understood and accepted by the customer.

Thirdly, a Maintenance Schedule should be put in place that delivers the levels of service communicated to customers that have been agreed and funded by the Council. Ideally a feedback loop will be built in to capture and analyse field data and enable continuous improvement. Further savings can be made by simplifying and automating maintenance processes.

Lastly, if advanced Asset Management is adopted, predictive modeling can be used to more effectively align asset maintenance needs with the level of scheduled maintenance and so optimise whole of life costs.

Asset Maintenance and Cost Savings

If in Southern Tasmania, the ratio of reactive to scheduled maintenance undertaken by Councils is typically 70% to 30%, then there could be significant savings achieved. From initial discussions with Councils' management, it is clear that some minor proactive or scheduled maintenance is undertaken. If maintenance budgets are typically in the order of 2.0% of total asset replacement costs of the 12 Southern Tasmanian Councils, then these maintenance costs should be, or would be, 2.0% of \$3.5B, or \$70M. Savings of 10% to 30% from moving to a scheduled asset maintenance program would be achievable, that is, from \$7M to \$21M.

Savings are made in this rebalancing from reactive to scheduled asset maintenance because asset failures are avoided, the lifecycle of the asset is optimised, there is less overtime expenditure, less reactive maintenance which is inherently more expensive with more travel time and greater fuel costs spent going from one site to another.

If it assumed that the asset base for Southern Tasmania is greatest in the metropolitan area of Hobart, (that is where the greatest concentration of sealed roads, stormwater and drainage works (but not necessarily bridges) is found), it will also be home to the more specialised asset management expertise and asset management plans and scheduled maintenance. Nonetheless the combination of the size of assets combined with the amount of unscheduled or reactive maintenance in the Hobart metropolitan Councils will still lead to opportunities for significant savings. With an estimated \$48M expenditure on asset maintenance in these Councils, a 10% to 30% savings per year would be \$5M to \$15M which could be spent on other necessary Council costs, including infrastructure. Another way of looking at these savings is that it is equivalent to between \$60 and \$175 per ratepayer in the greater Hobart area of 84,300 ratepayers.

Strategic Procurement of Capital Works

Besides savings on asset maintenance there are considerable savings to be made in the area of procuring of capital works. Suffice to say that with bundling of capital works up across Southern Tasmania, or offering a longer term program of works, and using specialist negotiators savings of the order of 10% are achievable.

Governance and Structural Implications

The governance and structural options to lead to these savings are threefold: The first option is an MOU across the 12 Councils or the five (5) metropolitan Councils to jointly procure asset maintenance regimes. The second is the setting up of an authority under the auspices of a regional authority such as the Southern Tasmanian Councils Authority (STCA) to plan and run a regional asset maintenance regime. The third option is to create a greater metropolitan Hobart Council and achieve the bulk of the savings through its operation. There could then be an MOU between it and the other Councils in the region to run a regional asset maintenance program. An alternative is to run a regional program for the non-urban Councils through the STCA.

A regional Customer Service or Customer Contact system would be a highly desirable but not necessary parallel initiative.

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Chair
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