Engineers & Accountants talking
the same language?

Chris Champion
Chief Executive Officer
Institute of Public Works Engineering Australia
ccampion@ipwea.org.au

Infrastructure is impacting on the financial sustainability of local government

<table>
<thead>
<tr>
<th>1960's</th>
<th>1990's</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>25%</td>
</tr>
<tr>
<td>0%</td>
<td></td>
</tr>
</tbody>
</table>

Roads as % LG Expenditure
Sustainable Communities

3 KEY ELEMENTS

1. Stewardship: Role of Elected Members

2. Managing existing as well as new: Asset Management Planning

3. Essential part of Business: Long Term Financial Planning

Work within a national framework

Provide the tools

Add some drivers!
Infrastructure is impacting on the financial sustainability of local government

<table>
<thead>
<tr>
<th>Implement 3 Actions for Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provide Framework Tools &amp; Drivers</strong></td>
</tr>
<tr>
<td><strong>Framework</strong></td>
</tr>
<tr>
<td>Stewardship</td>
</tr>
<tr>
<td>Asset Management Planning</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
You need to be a leading part of the solution

Engineers don’t understand Accountants
Accountants don’t understand Engineers
Engineers & Accountants talking the same language

All singing from the same song book
All singing from the same song book

1. Planning
2. Regulatory
3. Application
Verse 1. Planning.

Strategic, asset & financial planning link our sustainability

Verse 2. Regulatory.

Accounting for infrastructure can reflect the way we manage assets

Verse 3. Application.

Our actions need to target a sustainable funding position
Sustainability is maintaining infrastructure & financial capital over the long term.

ASSET MANAGEMENT PLAN
- Services required, how provided & funds required

FINANCIAL SUSTAINABILITY

LONG TERM FINANCIAL PLAN
- How services are to be funded

The single most important instrument is the long-term financial plan (LTFP).

STAKEHOLDER & LEGAL REQUIREMENTS & NEEDS

ORGANISATIONAL STRATEGIC PLAN
- Vision, Mission, Goals, Objectives, Level of Service, Business Policies, Risk

SERVICE PLANNING

ASSET MANAGEMENT PLANS

OPERATIONAL PLANS

SERVICE DELIVERY
- at agreed service levels and cost

LONG TERM FINANCIAL PLAN
- Funding plan
Need to sing a true & consistent song about infrastructure & our sustainability

Verse 2. Regulatory.

Accounting for infrastructure can reflect the way we manage our assets
Assets recognised at component level
Assets recognised at component level

Consumption Phase 1

Assets recognised at component level

Consumption Phase 2
Assets recognised at component level

Consumption Phase 3

Assets recognised at component level

Segmentation
Assets recognised at component level

Simple vs complex analysis

Value assets to reflect how we manage

Current replacement cost depends on replacement policies!
Value assets to reflect how we manage

Take replacement policies into account

Case 1
Replacement K&C with road pavement
Replacement cost
$50/m

Case 2
Replacement in isolation
Replacement cost
K&G $80/m
Restoration $30/m
$110/m

Residual value has meaning in the field

Pipeline lining
Road pavement recycling

Depreciable amount = current replacement cost – residual value

Cost or current cost
Carrying amount
Useful Life
Depreciable Amount
Residual Value
Value assets to reflect how we manage

Residual value has meaning in the field

Pipeline lining

- Cost to replace 300mm dia RCP $270/m
- Cost to reline pipe $170/m
- Residual value $100/m
- Depreciable amount = $170/m

Useful life is not a look up table

Period that the asset provides the required level of service

- Use best information available
- Experience with similar assets
- When will replacement / disposal appear in the Works Program?
Useful life is not a look up table

Period that the asset provides the required level of service

- Use best information available
- Experience with similar assets
- When will replacement / disposal appear in the Works Program?

Understand that depreciation is consumption of future economic benefit, not condition
Understand that depreciation is consumption of future economic benefit, not condition.

Depreciation over life is same regardless of method.

Straight-line common for many infrastructure assets where service consistent over time.
Understand that depreciation is consumption of future economic benefit, not condition.

Irrespective, remaining useful life & residual value more critical.

Calculate accumulated depreciation, fair value & annual depreciation expense.
Test for impairment & calculate loss

Sum the components

Document to substantiate & justify for audit
Verse 3. Application.
Our actions need to target a sustainable funding position.

Use the data for asset renewal planning.
Project capital renewal requirements

Use AMP & LTFP process to improve your asset register & financial statements
Make the link between levels of service and price

And manage our priorities, risks & funds required
Provide elected members with full costs, options & priorities

Infrastructure Assets
Typical Life Costs

- Operating Costs 40%
- Maintenance 35%
- Initial Cost 20%
- Disposal

Move from annual budgeting to long term financial planning

- Link long term expenditure to revenue
- Make responsible use of debt
Manage the gap (not just funding the gap)

• Understanding impact new assets
• Better asset information
• Timely maintenance
• Improved work practices
• Disposal of assets
• Alternative service delivery
• Lower levels of service
• Innovative solutions

Can we work together successfully to integrate infrastructure asset management & long term financial planning?
All singing from the same song book
Verse 1. Planning.
Strategic, asset & financial planning fundamentally link our sustainability.

Verse 2. Regulatory.
Accounting for infrastructure can reflect the way we manage assets.

Verse 3. Application.
Our actions need to target a sustainable funding position.
Asset Management for Small, Rural or Remote Communities

- Release early in 2011
- Tools & templates (core):
  - Hard copy Guidelines
  - What data to collect
  - AMP template
  - Risk register & plan
  - Asset register
  - Expenditure template
  - Sample AMP
  - AM Policy & AM Strategy

- ACELG providing for all Councils < 5,000
- Additional 2 day workshop
Ensure you have a sustainable plan for the future

www.ipwea.org.au / AIFMG