Asset Management
Legislation and Administartion

Richard Webb

Baulkham Hills Shire Council

Richard Webb is the Manager Technical Services for Baulkham Hills Shire Council in Sydney. In this role he has responsibility for a number of areas, including management of infrastructure assets such as roads and footpaths, drainage and parks and reserves.

He has worked in Local Government for some 15 years, firstly at Sutherland Council, then Liverpool Council before taking up his current position at Baulkham Hills Council. Throughout his career he has been extensively involved in asset management issues, particularly for road assets and the use of pavement management systems.

Abstract

This presentation deals with the implications associated with the introduction of a new accounting standard that impacted on Local Government in 1993. This standard has had a major impact on resources in Councils, absorbing significant manpower and financial resources, as Councils have struggled to implement the requirements of the standard.

However, there are likely to be a number of benefits to Council and the community arising from this process, as formalised asset management systems are implemented.

Why Have Assets Become So Important?

A major change occurred in 1993, when a new Australian Accounting Standard (AAS 27) was introduced, which affected the way local Councils were required to recognise infrastructure assets such as roads and stormwater drains.

In recognition of the fact that Councils did not have most of the information required to satisfy the requirements of the standard, a staging process was implemented, that gave Councils the time to collect the necessary information.

Item		Due Date
1.	Immediate recognition of all assets purchased or constructed on or after 1/1/93	Dec 1993
2.	Operating land and buildings, plant and equipment, furniture and fittings, and all other community assets except Transportation, Communication and Drainage assets	June 1995
3.	Transportation and Communication assets	June 1996
4.	Drainage assets	June 1997

Asset Recognition Timetable

This accounting standard has changed Councils accounting basis from cash based to accrual based, to ensure that the true consumption or depreciation of the assets is known and allowed for in the accounting statements.

That is, it enables the community to see if Council is maintaining the value of its assets, or are community assets declining in value and condition.

What Assets Have to Be Identified?

Local Government assets are classified into the following categories:

* operating assets, which are those assets Councils use in delivering services, such as -

  land and buildings for administrative purposes
  motor vehicles
  computers
  plant and the like

* community assets, which are those assets held by Council which are used by the public at large such as -

  roads
  drainage systems
  park infrastructure
  community buildings
  sewerage facilities

Community assets are those acquired or constructed by Council to meet the needs of the communities they serve, and not the direct needs of the Council itself.

A further sub-category include heritage assets, which are intended to preserve indefinitely because of their unique historical, cultural or environmental significance.

Assets do not have to be actually owned by Council. The test to decide whether to include assets into the accounts is based on control, rather than owners hip. Therefore if council has the power to control the use of, or deny the use of an asset, then the asset is Councils. For example, land that is Crown Land in a public reserve will be valued and brought to account in Council's financial statements.

How Are Assets to be Identified?

In order for assets to be recorded in the financial statements, assets have to be

* identified
* recorded
* valued, and
* depreciated

The identification of assets requires the physical inspection of each asset, in order to identify the type of each asset, as well as assess the current condition of each asset.

The recording of assets has to be such that the information can be retrieved and used to carry valuation tasks. The recording method also has to be one that can be readily audited.

Computer systems obviously fulfill this role, either as part of Councils main computer systems, or in offline database storage. A particular extension of a computer database is the Geographic Information System, that enables assets to be displayed spatially in map form.

The methods available to Councils to actually collect the information include:

* manual inspection with paper record, entered later into a computer database
* manual inspection with electronic record (data recorder)
* manual inspection with electronic record and location (global positioning system)

Baulkham Hills Shire Council has in fact opted for the third option.

How Are Assets Valued?

The valuation of assets is carried out by a number of methods, as shown below:

ASSET COMPONENT RESPONSIBILITY	VALUATION	
Land	Market value	Valuer
Land Improvements	Replacement	Engineer
Roads	Replacement	Engineer
Buildings	Replacement/Market	Engineer/Valuer
Other Structures	Replacement	Engineer
Plant and Equipment	Replacement	Engineer/Finance
Furniture and Fittings	Replacement	Engineer/Finance
Other	Replacement/Market	Engineer/Valuer

Asset Valuation

The initial valuation is then depreciated annually by various means, generally by straight line depreciation, although the more sophisticated pavement management systems, used for road assets, can actually model deterioration of the road pavement under climate and traffic effects to a greater accuracy than straight line depreciation.

Every five years assets have to be revalued, which means the re-inspection of assets and a new assessment of the current condition of each asset.

What are Some of the Key Issues for Valuing Assets?

A number of key issues contribute to making the valuation of assets fraught with difficulty.

Date of Acquisition

The data of acquisition is not known for most of Council's assets, as records have been lost or not kept on when assets were acquired especially given that many assets can be over 30 years old.

Useful Lives

The useful life of particular classes of assets is difficult to agree to, even within a profession or a Council. The adopted life of an asset affects the annual depreciation rate, and therefore the useful life forms a central assumption when depreciating assets.

Land Value

Council owns a wide variety of land types, such as drainage reserves, recreation reserves, the land under community buildings and depots, and the land under roads. The land is located in different areas that have different average land values, such as rural land, prime residential land, industrial/commercial land and along creek lines.

Is the land valued based on an average rate derived from all land parcels within the Council, or from the average land value of adjacent land, or given no value at all, for it is in practice impossible to realise the proceeds from the sale of this land, such as selling off all land under roads.

Condition Assessment

If the date of acquisition is unknown, some standard assessment is required to determine the current condition of an asset, and place it at some point in the assumed life cycle of the asset, so that a depreciated value can be determined.

Valuation of 'Intangible' Assets

One of the asset types potentially able to be valued is trees. A major question is how to value a tree, and then assess the valuation for all trees in a Council area on public reserves and in streets, which could number in the hundreds of thousands. How does a Council economically count how many trees it has, and how does anyone assess the replacement cost of a 20 metre high tree that is a hundred years old, which must have considerable intangible value to the community in terms of aesthetics or historic value.

What is the Distinction Between Capital and Maintenance Costs?

In preparing financial statements for reporting purposes, the classification of expenditures between those that give rise to increases in the value of assets, and those which can be classified as only maintaining an asset in its normal condition can at times be difficult.

Capital expenditure on an asset includes:

* that which extends the asset's economic life
* improves the assets income earning capacity
* adds new attributes to the asset

Maintenance expenditure is that which keeps an asset in its current expected condition

Often the distinction is quite hazy, and therefore judgement must be applied in a consistent fashion, once definitions are made.

What Implications Does AAS 27 have for Asset Management?

AAS 27 in essence requires:

- the creation of an inventory of assets
- the evaluation of their condition
- the cost to rehabilitate those assets (the depreciation amount)

These aspects in fact form the basis of sound asset management.

Engineers have for years been involved in asset management, although it may not have been called that in the past. Having custody of physical assets has always involved the need to maintain those assets in the best condition possible with the available funds. Methods may have been ad hoc or seat of the pants, but generally the intent was to keep assets in a serviceable condition.

As better technologies have been developed, new tools have evolved to assist in the decision making process. The best example of this is the evolution of pavement management systems that rely heavily on computerised databases that enable the recording of pavement defects, and the ranking of pavement works in some form of objective priority. Research overseas has provided deterioration models that enable engineers to predict the future condition of pavements given certain rehabilitation treatments and budgets. These tools greatly assist in the better management of these assets, to enable better use of continually decreasing funding sources.

In terms of asset management, Councils need to be able to identify:

i) What is the condition of the road network.
ii) Is the condition improving or getting worse over time.
iii) How does the condition of the network compare with other local government areas.

These are important questions to be asked if Council is to monitor its performance over time in managing the road network.

An important further consideration is that Council is custodian for the communities assets, and it is imperative that Council is managing this asset in an appropriate fashion. This is best demonstrated by implementing recognised asset management systems that -

* ensures project selection is not biased, in any fashion
* ensures project selection is based on sound asset management principles
* ensures that user benefits and costs can be incorporated, which address the needs of Council's clients in the provision of a satisfactory service

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