

Top 10 Tips for LG Financial Professionals

From Ongoing Consultancy Experiences

AEC Group Pty Ltd Presentation to LGFP Conference

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> Keep the Asset Register Tidy

- Keep a **tidy asset register!**
- We come across asset registers in **all shapes and sizes**
- The following is essential at a bare minimum:
 - **Activity and function** to which it is assigned (e.g. transfer station, landfill, library)
 - **Location**
 - **Cost** information (RC, WDV, useful life, residual value)
 - **Depreciation** method
 - **Valuation** date and method
 - **Age** and date for renewal (and/or condition assessment)

> Keep the Asset Register Tidy

- The first part of any service review is to define the activities undertaken and **identify the resources utilised**
- Quite often, we find assets are **either missing** from the asset register **or should have been written off**
 - e.g. there should be no assets associated with closed landfills
- Ensure that **land holdings** and their purpose are included in the asset register or land holdings register
- Any land surplus to requirements – including portions of parcels of land not required for service provision – should be **clearly identifiable** for potential alternative use or sale

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> Fit for Purpose Valuations

- The first step is ensuring that all different **asset types are categorised by function** – without this, the valuer has no initial context from which to value your assets appropriately
- Generic asset valuation on a unit x cost rate basis **may not provide an accurate reflection of value** for specialist function assets
- Valuers provide a recommendation on useful lives BUT Councils as **asset custodians should have the final say** in what the useful lives are given practical local experience on the ground
- We have come across a **range of different treatments** due to different valuers, different valuation methodologies and different thoughts on what an ‘asset’ actually is!


> Fit for Purpose Valuations

- **Landfills:**

- Landfill cell useful lives = operating life (3-5 years)
- Other landfill asset useful lives = landfill life only
 - > getting these wrong understates your actual depreciation
- Landfill land should be valued on the basis of incorporating land holding costs, approvals, legals, etc. but their value should be impaired as disposal capacity is consumed
 - > failing to appropriately value landfill land may understate or overstate your asset value in balance sheet

- **Quarries:**

- Equipment has an 'in use' value and a 'market' value if sold offsite
- Generally, quarry assets are significantly overvalued relative to both their 'in use' and 'market' values



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> More Info. on Capital Works

- Capital works programs generally **do not have sufficient information** to consider financial sustainability implications
- Include **useful lives** and estimated depreciation charges for each works component, in addition to whether the new asset will replace an existing asset
- Projects should be classified as **growth/renewal/service level**
- Include the **operating expenditure implications** (\$ cost and timing) for each project to feed into long-term financial modelling
- Certain projects may also result in **cost savings** (e.g. stormwater works reducing inflow/infiltration)



> Recognise Your Future Liabilities

- It is important to appropriately **consider and quantify the future liabilities** accrued as a result of today's service provision, e.g. quarrying, waste disposal to landfill
- Both of these activities ultimately leave sites that require considerable **closure works and post closure maintenance**, both of which can come at a significant cost
- If no recognition or appropriate funding provision is made during their operating lives, then Councils will face a serious **funding crunch** when they are to be met
- Rehabilitation works are not assets and **should not be debt-funded**

> Recognise Your Future Liabilities

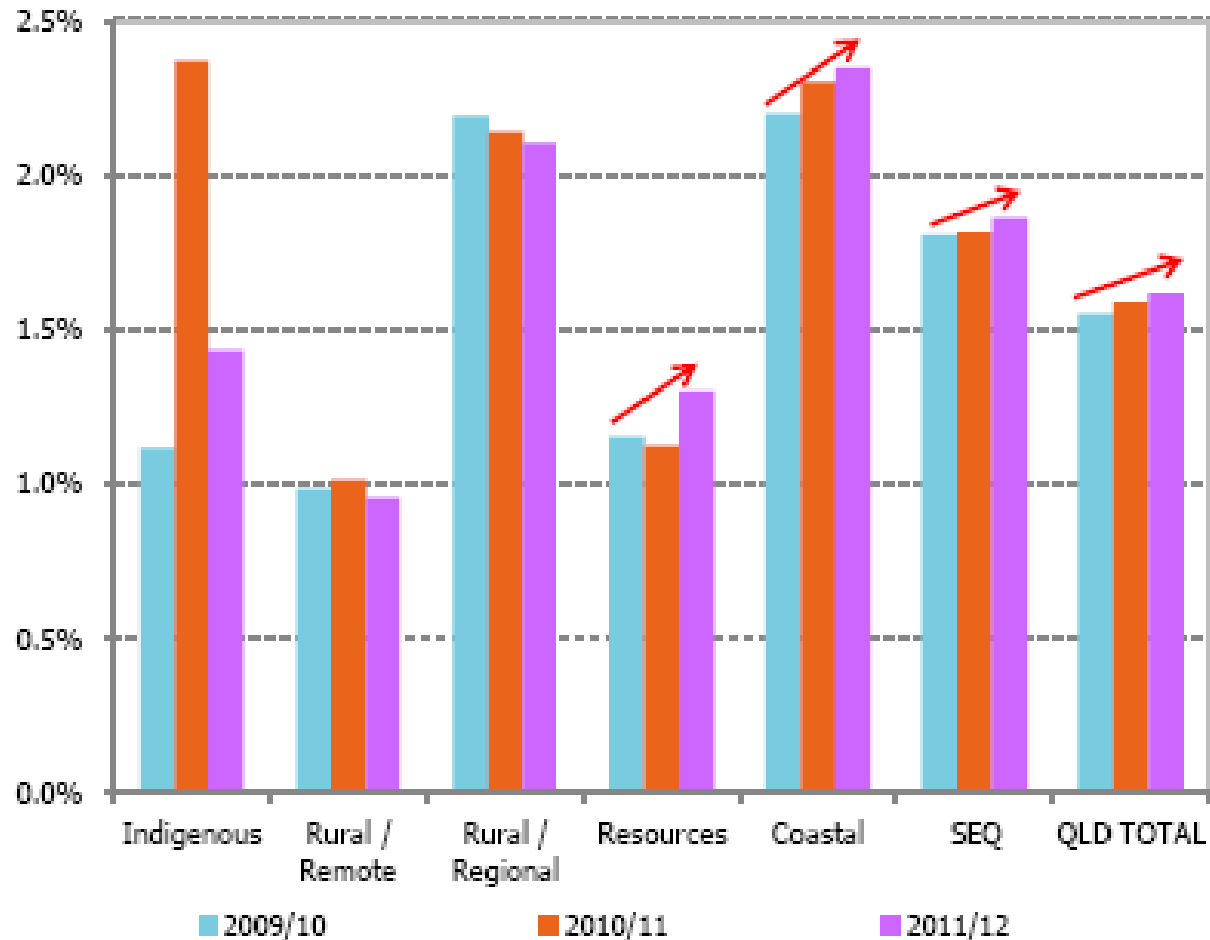
- Clear **funding strategies** should be in place to manage these liabilities when they fall due
- Strategies should also be in place to manage **historic, unfunded liabilities**

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> Maximise Your Rates

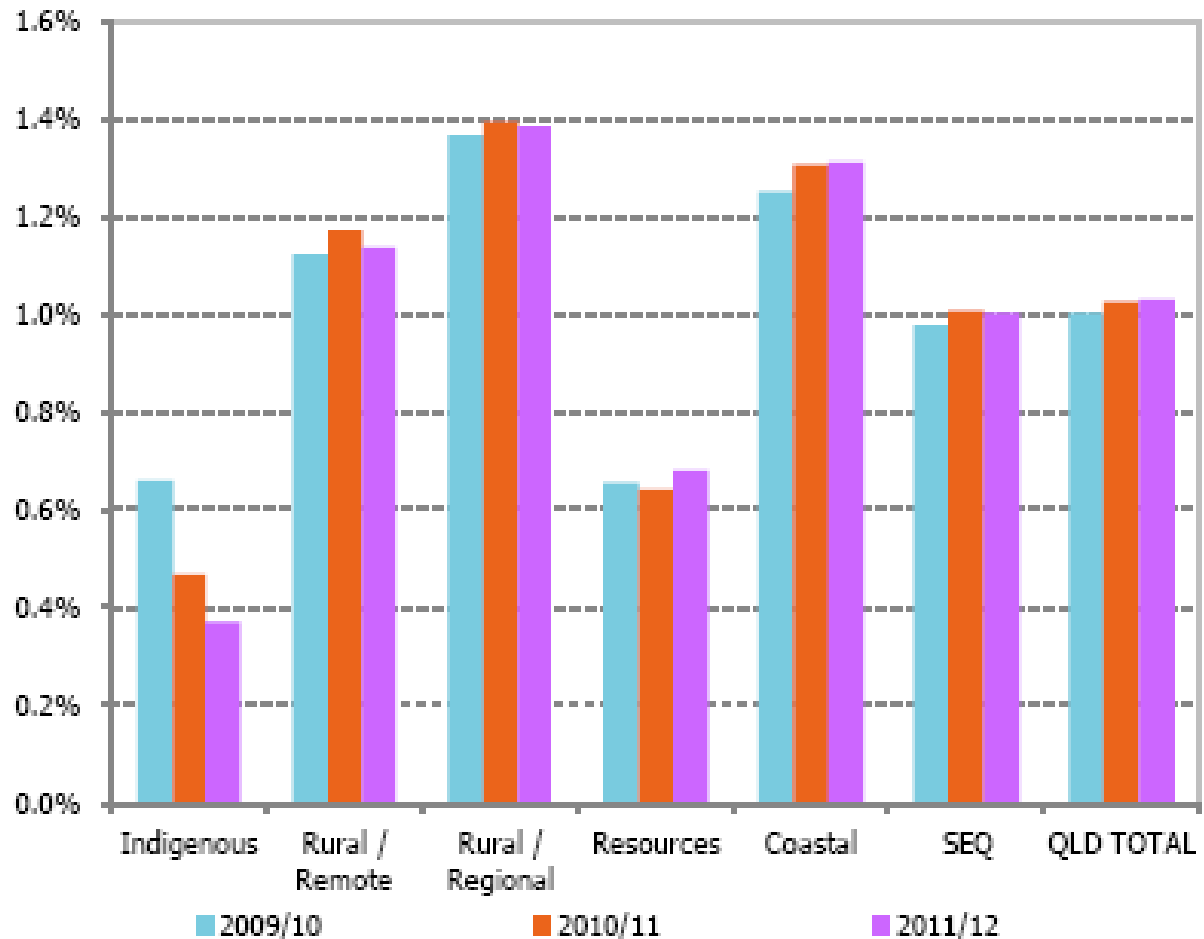
- Maximise your **own source revenue**, even if it is limited by the size of your ratepayer base
- Evaluate your degree of rating/taxation effort by **comparing outcomes** with similar Councils
- **Rating/taxation effort measures** include:
 - Average rates levied relative to average household income
 - Total rates levied relative to economic activity
- Ensure you are collecting an appropriate amount of rates from each **ratepayer group**
- Graphs from our LGAQ financial sustainability project are provided on the following two slides

Figure 5.24: General, Separate and Special Rates as % of Household Income (Average)



Source: AECgroup, DLGCRR (unpublished)

Figure 5.27: General, Separate and Special Rates as % of GRP (Aggregate)



Source: AECgroup, DLGCRR (unpublished)



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> Convey Sustainability Impacts

- Take advantage of the fact that **financial sustainability indicators** are required to be reported/audited
- Evaluate the financial **sustainability implications of proposals/decisions** from internal stakeholders (e.g. Councillors) or external stakeholders (e.g. State/Federal Govt)
- Identified sustainability impacts need to be raised early on to protect Councils and staff from and future ramifications of **failing to meet indicators**
- Outcomes can also be utilised in **public relations campaigns** to inform the community of the financial sustainability impacts of government decisions

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> Infrastructure Planning

- Asset Management Plans (AMPs) and Priority Infrastructure Plans (PIPs) **don't exist to 'sit on the shelf'**
- Integrated Planning Framework relies on the integration of the PIP with overarching **asset management planning**
- Identified trunk works, timing of works and growth projections should be **reconcilable between PIP and LTFP**
- Changes to planning regulations means **Local Government Infrastructure Plans (LGIPs)** will be required instead of PIPs
 - Focus on ensuring that infrastructure is planned in an efficient and orderly manner (timing and service level impacts)
 - Planning for infrastructure in a financially sustainable manner

> Infrastructure Planning

- Significant **changes in the funding environment** for infrastructure over the last decade
- Accepting capped charges is not enough – Councils should understand what their **real infrastructure charges** should be ... and what impact the gap is having on their general rates and debt levels
- Give some consideration to potential benefits/costs of using the State's '**Fair Value**' schedule to gain possible access to co-investment funding for priority infrastructure
- However, any potential benefits WILL differ for each Council and there **remains some uncertainty** over the extent of co-investment



> Fees & Charges Cost Recovery

- Adopting fees using last year + CPI or what the neighbouring Council is charging less a few \$ has **financial sustainability implications**
- Shortfalls in cost recovery **can add up quickly** across fees and charges
- Need to find a balance between equity, sustainability and affordability using a **manageable and transparent process**
- Straight forward Excel cost recovery **calculation tools** can help (although some activities such as waste and airports can be more complicated)
- Ensure **informed decisions** are made about any funding gaps



> Promote Value for Money

- **Inform your community** of where their general rates are spent and the value for money they are receiving
- No one reads the details in the budget apart from 'nitpickers' and there is a need for Councils to promote the range of **services they provide in each local community**
- Outline the **\$ contributed by average ratepayer to each function** (roads, parks, libraries, planning, etc.)
- Spending can then be **compared to prior years** if necessary to show changes in spending patterns
- May also help highlight to communities the **impacts of cost shifting** from other levels of government

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> Performance Benchmarking

- Benchmark your performance!
- AEC has been commissioned to work with the LGAQ in producing an **online benchmarking tool** using available information
- Benchmarks will include:
 - Information on the region's **profile**
 - Financial **sustainability** indicators
 - **Revenue** indicators
 - **Efficiency** indicators
 - **Service level** indicators
- Initial release at the **LGAQ Finance Summit** in March 2015
- Any input you have on the **appropriateness of selected indicators** would be appreciated at any time

SUMMARY

1. Keep your asset register tidy and expand its detail
2. Adopt fit for purpose assets valuation methods
3. Include useful lives and opex impacts in capex program
4. Funding strategy for landfill / quarry rehabilitation liabilities
5. Review rating effort to maximise own source revenues
6. Convey sustainability implications of proposals and decisions
7. Infrastructure planning should tie in with financial planning
8. Recover the true cost of your fees and charges activities
9. Communicate the average ratepayer \$ spent on functions
10. Use performance benchmarking to evaluate efficiency



Finish

Thanks for listening!