



## The Victoria Story, Pt 1

The Great Ocean Road,  
Victoria

This story is a continuation in the series on AM success. In SAM 301 we looked at ways to improve the odds of success, in SAM 302, how to track success and in SAM 303, how to promote success. In “The Victoria Story” we look at how local government across an entire state has worked to improve its asset management by a combination of state and council activity.

Part One looks at some of the activities carried out by the State through its Office of Local Government and Part Two will look at the activities of the councils themselves. Both are significant. We look at the situation as it was in 1998 and the situation some ten years later.

A few years ago Victoria suffered calamitous bush fires that swept through the region, killing many and destroying much property. Victorians are now battling disastrous floods. It is not for nothing that Australia is described as a land of extremes. When regions face fire or flood, it is not only personal property that is lost but also community property, local government infrastructure.

Good asset management practice will not avoid such losses, but it can help to prioritise and speed recovery.

So this is the Victoria Story. Enjoy!

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## THE VICTORIA STORY

**In 1997, councils in Victoria had little understanding of the cost and timing of renewal of their asset portfolios.**

Councils were increasing asset holdings but failing to sustain what they already had, and were significantly under-providing for renewal. The Renewal Gap (the difference between what was need to sustain the portfolios and the financial provision being made) was large and it was growing - rapidly.

**Now,**

some councils have completely eliminated their Gap, whilst others have greatly reduced it. All councils are more financially sustainable than they were predicted to be given the increasing demands of renewal as their asset portfolios aged.

**In 1997, whilst staff were becoming aware of asset management, there was little support at elected member level.**

**Now,**

Elected Members across the State have voted to fund continuing improvements in AM and financial sustainability improvement. They are doing this as a group effort.

**Both outcomes have come about through consistent and informed action at both State Government and Council levels.**



Parks Equipment and Hardworks – High maintenance and high risk

From “Facing the Renewal Challenge”

## **THE VICTORIA SITUATION IN 1997**

### **Councils wanted to borrow more - but the State was reluctant to grant it.**

An increasing number of councils began to petition the State Government to raise the borrowing caps to which they were subject, arguing that they could not manage the renewal of ageing infrastructure within their current borrowing limits. The State was reluctant to do this for two reasons: they were themselves limited in global borrowings by the Federal Government, which would be affected by the amount borrowed by councils, and further they believed that the caps on council borrowing encouraged prudence.

### **State wanted to model renewal need - but much data was missing.**

The Treasury and the Office of Local Government called for a consultancy to build a model that would enable it to determine which councils really needed the increased limits and which did not. The short list consisted of two very large management consulting companies who offered to construct such a model and a consortium of three asset management specialists who argued that there were too many variables to construct a model that would be both reliable for Treasury and acceptable to councils and, in any case, neither the State nor the councils had a good idea of what assets they held and the replacement cost and timing of future renewal which such a model would need. They suggested an alternative that would enable councils to construct the databases needed in a consistent manner for reporting to the State. This approach was accepted.<sup>1</sup>

### **Initial data gathering and modelling revealed a rapidly accelerating problem.**

The report that was produced, "Facing the Renewal Challenge"<sup>2</sup> introduced the concept of the "Renewal Gap" - the difference between the funding required in a given five year period and the funding that the council had provided. It was found that whilst most councils would experience only small increases in renewal requirements in the five years to 2002, some 22 councils (out of a total of 78) would experience increases in their renewal requirements of over 50%. About half of these could manage if they switched their funding from new works to renewal. The other half couldn't even manage their renewal if they did this. And, looking to the next five years and the five years after that, the numbers of councils who would need to make serious management changes increased significantly. Which is clear in the picture on the next page.

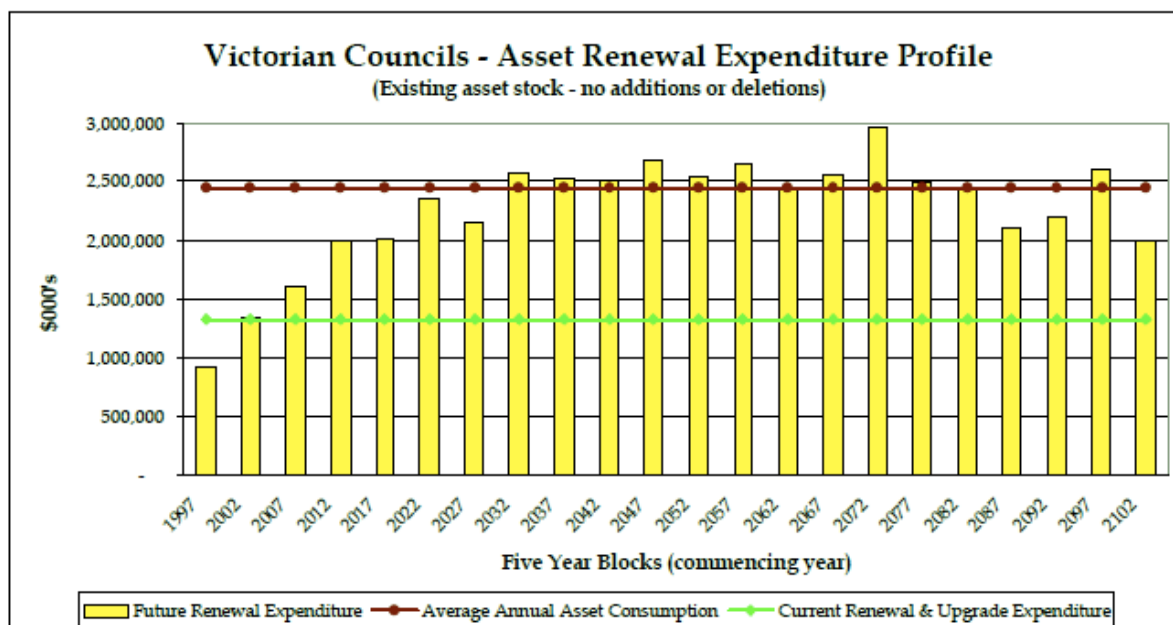
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<sup>1</sup> In the event this turned out to be a wise decision as the day before the consultancy began the Premier of the State decided to remove the borrowing caps.

<sup>2</sup> While the Report was completed in December 1998 and distributed electronically to councils, the printed public version did not become available till January 2000.

## Situation Critical

The situation was considered critical as the rate of increase in renewal was projected to more than double in the 15 years to 2012.



## Modelling Assumptions

Every modelling exercise requires certain assumptions to be made. The forecast above used the following default assumptions:

- All existing assets are to be renewed
- Only existing assets are included (assets yet to be acquired represent additional renewal costs)
- Assets will be renewed at same standard (upgrading is an additional cost)
- Economic lives remain unchanged at current assumed levels
- Real costs of renewal will not change over forecast period (ie no miracle technology or breakthrough assumed)
- Maintenance and management practices continue as now

Default assumptions relate to the status quo. Basically they are 'minimum change' assumptions. Each assumption gives rise to a suggestion for improvement in the renewal situation.

## WHAT VICTORIA DECIDED TO DO

If the Renewal Gap was to be met by increased funding alone, expenditures would be very large and the imposition on the communities would also be very large. However, the State and the Councils realised that, with changes in their maintenance, management, financial practices and improvement in their information bases, the forecasts could be improved.

**So Victoria chose Asset Management.**

### Action at the State Level<sup>3</sup>

The “Facing the Renewal Challenge”<sup>4</sup> report was a game changer for Victoria. It was the first study to consider each council’s infrastructure and asset management practices individually but on a consistent basis across the entire state.<sup>5</sup> It focussed attention on asset renewal requirements rather than simply measuring current condition, and it looked to the renewal challenge itself and how to deal with it rather than seeking to assign blame to individual councils who were struggling.

### Importantly it did two unique things for Victoria:

- **It changed the public sector mindset**, so that when faced, a few years later, July 2001, with a serious threat to the financial viability of councils with the removal of immunity from nonfeasance for all Australian road authorities, it was the only state that reacted *with an asset management solution*.
- **It established a baseline figure for the renewal gap** from which future improvements could be - and were - measured.

**Each of these is looked at in a little more detail below** but the State has done much more. Through the Office of Local Government, the State has provided skills development for councillors and staff and developed Asset Management Plans Guidelines and a Funding Program for the Development of Council Asset Management Plans. It has developed a Local Government Sector Infrastructure Strategy, Investment Evaluation and Depreciation Guidelines and Alternative Service Delivery and Financial Instruments. There is more information on these, as well as links to some of the key documents, in the **Report by Ian Spangler** “Victorian Local Government Asset Management Measures” on the website.

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<sup>3</sup> I am indebted to Ian Spangler, Ian Spangler and Associates, for much of the detail of the Victorian State activity over the past decade. Ian’s full report to me with a great wealth of online references has been uploaded to the website. You can find it under the title in the amqi.com website Special Downloads (along with the original “Facing the Renewal Challenge” Report. )

<sup>4</sup> This report may also be accessed from [www.amqi.com](http://www.amqi.com). It is significant that the Victorian Government has now addressed every one of the recommendations.

<sup>5</sup> It inspired the later South Australian study “A Wealth of Opportunities” and broader studies of local government financial sustainability across Australia. It was also instrumental in the Victorian Treasury applying similar modelling to state budget departments.

Victoria had been grappling with the implications of the 'Facing the Renewal Gap' report for a couple of years, taking seriously the Report's recommendations for action seriously when a change at the national level gave them an opportunity to put their new thinking into action.

## HOW A CHANGED PUBLIC SECTOR MINDSET SET VICTORIA ON THE ROAD TO ASSET MANAGEMENT EXCELLENCE

### Legislative Change at the National Level

**Nonfeasance and malfeasance** Until 2001, councils (and public road authorities more generally) enjoyed the benefit of protection against accidents on their roads and footpaths that resulted from maintenance or repair works not being done, or warnings not given. This was immunity from nonfeasance. However they were liable if the cause of the accident was directly or indirectly related to works carried out. That is there was no immunity from misfeasance. **In asset management terms, this meant it was better for councils not to know of problems and certainly not to address them!** Doing nothing was safer (from a risk liability point of view) than doing something.

**In 2001 the rules were changed.** The Federal Government removed the immunity from nonfeasance. Road authorities protested loudly and angrily, demanding the protections be reinstalled. In some states, they were replaced by State-granted immunity, in others, mutual insurance funds were set up to help the authorities cope with the financial fallout. Neither reaction, however, made the roads safer for users.

**Victoria alone took the opportunity to implement better asset management** The Victorian Government legislated to extend nonfeasance protection to Road Authorities (Vic Roads & Local Government) – *but only until Dec 31<sup>st</sup> 2004*. This was done to provide some consistency whilst the **Victorian Road Management Bill** was being drafted. It is now in place as the Road Management Act 2004. This approach was reinforced by the Victorian Auditor General.

Under The Road Management Act 2004, **Victorian road authorities are required to put in place a formal asset management plan**, BUT they may choose the most appropriate form that and standards that this is to take, and the appropriate maintenance policies and procedures – these are not prescribed. The Bill distinguishes who is responsible for what. In particular, it stipulates that utilities are to be responsible for the repair of road infrastructure damaged by failure of utility infrastructure (eg. burst watermains).

The Road Management Act 2004 sets down specific requirements for Local Government Authorities, including the following:

- Road authorities will be required to make an assessment of the need to put into place a formal road management plan.
- Road authorities will be required to establish a Register of Public Roads listing each public road for which it is responsible.

- Road authorities will be required to establish effective policies, administrative processes and systems to manage roads in order to receive a level of statutory protection against civil liability claims under the Bill.
- Road authorities will be required to prepare a report on road conditions following receipt of notification of an intention to claim for property damage as a result of an incident.
- Management of private roads is not covered in this legislation and will remain the responsibility of private owners.

**In other words, good asset management is now the best (practically only) defence against claims for nonfeasance.**

It is a defence if a council can show that it has a good understanding of the condition of its road assets, has prioritised action according to the limits of its budget, and has - and uses - best practice in reviewing the situation. Road assets vary from as little as 30 % of total assets for the large metropolitan councils to over 70 % for smaller, rural and regional councils. Having road asset management plans made it easier to conceive of asset management plans for all assets - although this is still not complete, it is moving in this direction.

## **REDUCING THE RENEWAL GAP**

### **THE PERFORMANCE MEASUREMENT PROJECT**

Since 2004 all councils in Victoria have been reporting their asset management performance on a consistent state wide basis, to:

1. Meet Councils' needs to measure their own performance and demonstrate continuous improvement to their communities, and
2. Satisfy the Department that local government is effectively managing its infrastructure assets with continuous improvement

The performance survey tracks a range of asset management information of which some key items are:

Improvements in council sustainability (reduction of the Renewal Gap)

Improvements in asset data quality, expenditure and renewal forecasting ability

Service levels and the costs of changes in service levels

**This is now building up into a valuable longitudinal study as this year will mark the 7th year of record keeping.**

In addition to enabling councils to track their own progress (and the Minister to track the aggregate progress), the Performance Measurement Project keeps asset management in view all the time and prevents it slipping onto the back burner.

### **ANALYSIS OF THIS DATA TO COME LATER IN THE YEAR**

I am hopeful that later in the year, and with the permission of the Office of Local Government, I will be able to bring you an analysis of the progress that has been made so far.

### **ALSO COMING UP LATER - WHAT COUNCILS THEMSELVES ARE DOING IN VICTORIA**

#### **KEY THEMES IN ASSET MANAGEMENT HISTORY**

**What event or theme do you consider should on no account be missed in my analysis of key themes in asset management history?**

**Here are some that have been suggested,**

- The story of the IIMM - how it was initially developed and how it has now spread around the world
- The story of the development of professional groups in AM - IPWEA, AMC, IAM as well as within Facilities Management - AAPP/TEFMA. And in the UK, also CIPFA and RICS. What others can you think of?
- Introduction of Accrual Accounting and other Governance changes
- The strengthening of linkages between service levels and asset activities
- The impact of major asset disasters, such as the Auckland Power Failure which led on to the requirement for all electricity distribution companies to prepare and publish their Asset Management Plans
- The different pathways that progress towards AM has taken, e.g. via maintenance, computerised maintenance, reliability centered maintenance, facilities management, etc.
- Key documents and models, eg IIMM, PAS 55, and the AMPLE/SIMPLE model adopted by the water industry in the US.

**what others would you like to suggest?**