Linking Asset Management to Long Term Sustainability

IPWEA SWQ Branch Conference

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Agenda

- QTC overview and context
- Financial sustainability – what is it?
- Asset Management linkages - why is it important?
- Challenges & issues
Who we are … what we do

QTC products and services - supporting the State’s financial success with a focus on whole-of-State outcomes

LG’s benefit from QTC’s AA+ credit rating

Debt and investment
- Debt funding and liquidity management
- Cash management
- $6.6bn debt – local government debt
- $2.3bn total cash currently held by local governments

Debt on issue approx $90b

Advisory
- Credit reviews
- Strategic and Financial Sustainability Reviews
- Project Evaluation and Business Case Assessments
- Financial modelling
- General financial guidance and advice

Education and training

- Open Workshops
- Graduate Certificate in Business Leadership
- Tailored Workshops
- Strategic Capability Building

Business Management Workshops
- Financial Management for Decision Makers
- Governance and Risk
- Credit Analysis
- Understanding Financial Statements 1
- Understanding Financial Statements 2

Financial Management Workshops
- Business Cases in Practice
- Cost of Capital
- Project Evaluation

Asset Management Workshops
- Procurement in Practice
- Asset Management
- Project Management
- Costing and Pricing

Treasury Management Workshops
- Central Treasury Management
- Understanding Debt Products
- Understanding Investment Products
- Understanding Derivatives
Sector snapshot... 77 Councils

- **Total non-current assets**: $104.7 billion FY2016
- **Annual operating expenditure (excl. interest, depreciation and amortisation)** in FY2016: $6.6 billion
- **Average total payments for PPE**: $3.6 billion pa FY2014 to FY2016
- **Government operating contribution in FY2016**: $1,637 million
- **Government operating contribution in FY2016**: $804 million
- **Total Government Grants**
  - FY2016*: ~$2,441 million
  - of which FAGs = $450.7 million

* Figures are based on data provided by the Queensland Audit Office from the Local Government Financial Statements (FY2016) and represent State and Federal Government grants (including NDRRA) and subsidies and contributions.
Financial sustainability – what is it?

A local government is financially sustainable if the local government is able to maintain its financial capital and infrastructure capital over the long term, and

Generating sufficient finances to continue to operate without eroding physical asset bases

QTC’s framework considers both:
- external and internal environments
- qualitative and quantitative factors
Financial sustainability – why is it important?

* The challenge – erosion of infrastructure and financial capital (sustained operating deficits) *

* Source: QAO Audit update March 2017

* Is a requirement of the Local Government Act 2009 *

* Is considered by QAO as part of their audit process *

* Is routinely rated as a priority by ratepayers in the LGAQ community survey *
Financial sustainability framework – integrated planning
Financial sustainability framework – integrated planning

- Long-term financial forecasting, underpinned by robust asset management plan, will assist LG to:
  - understand the full cost of providing services
  - make fully informed pricing decisions
  - set budgets reflective of the true cost of providing services
  - determine what services are affordable

- Robust asset management plan should include:
  - required service levels
  - physical condition of the assets
  - stage at which intervention will be required
  - long-term costs of acquiring, maintaining and disposing of assets
  - actions required to achieve the asset’s useful life
Managing for financial sustainability

Key ingredients for improving capacity…

- Robust financial forecasting – based on integrated planning
  (Community, Strategic, Corporate plans reflecting Council’s strategic objectives, chosen service levels, associated infrastructure requirements and using realistic industry cost driver estimates)

- Revenue raising effort - based on required services and service levels (recognise the cost of service provision at the chosen service level)

- Operating performance – plan for a surplus or balanced operating position (exclusive of capital revenues and capital expenses)

- Liquidity position – plan for a positive current ratio and adequate cash holdings (minimum 3 months cash expenses, after adjusting for constrained funds preferred)

- Asset management plans, systems and processes
  (that are integrated into Council’s financial forecasting process and reflect the services and service levels to be provided)

- Community infrastructure maintained and renewed
  (no significant infrastructure maintenance backlog or delivery backlog)

- Optimal funding strategies (appropriate mix of operating revenues, cash reserves, and debt to fund long term capital expenditure for infrastructure)
Long Term Forecasting

Effective forecasting…

When developing forecasts consider:

- the **purpose** of the forecast
- **required level** of accuracy
- **who is involved** in data gathering and forecast formulation
- **framework** for evaluation
- transparent **assumptions**

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**An effective forecast will use current information, be easy to understand, be regularly reviewed and updated**
Long Term Forecasting – why do it?

Benefits

- Enables realisation of council vision
- Informs decision making/priority setting
- Promotes financial discipline
- Assists with management of cash flows and funding requirements
- Indicates ability to secure and allocate resources
- Assists in managing community growth/contraction and Council’s response
- Assists management of community assets
- Assists in managing risks
Long Term Forecasting for sustainability

Successful (best practise) forecasting looks like…

- organisation culture and focus supporting the process
- Key business objectives well communicated
- Long-term Planning horizon focus, recognising underlying nature of the business, focuses on where business will be in five years and 10 years
- internal supporting systems and processes to bring the information together
- reporting mechanisms across the organisation
- identification of relevant data sources – eg. LGAQ Cost Index integrated to forecasting process
- Business cases developed for all major projects and inclusion of whole of life costs for major capital projects
- comprehensive and robust Asset Management Plans - integrated with long term financial forecasting
- reliable and flexible forecasting model (eg, QTC LGFM)
- ability to understand and interpret results of historical and forecast outcomes
- understanding the Community's requirements, expectations and capacity
  Cost of service provision understood and integrated with whole of life asset management
- Considers implications of regional demographic and economic drivers
Questions?
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