

Taking Asset Management into Public Budgeting



John Howard
NAMS.AU Project Manager

Our Infrastructure and Finances are under Strain



How can we use Asset Management to improve Public Budgeting?



Public Budgeting is often single year cash based

Cash Budget is a projection
over a period of time of:

Beginning cash

Cash receipts

Cash payments

Ending cash



Sustainability in about maintaining financial capital and infrastructure capital

Balance Sheet Example

Assets	Current Year (DKK000)	Previous Year (DKK000)
Cash & Cash equivalents	2,200	2,700
Infrastructure	245,000	250,300
Total	247,200	253,000

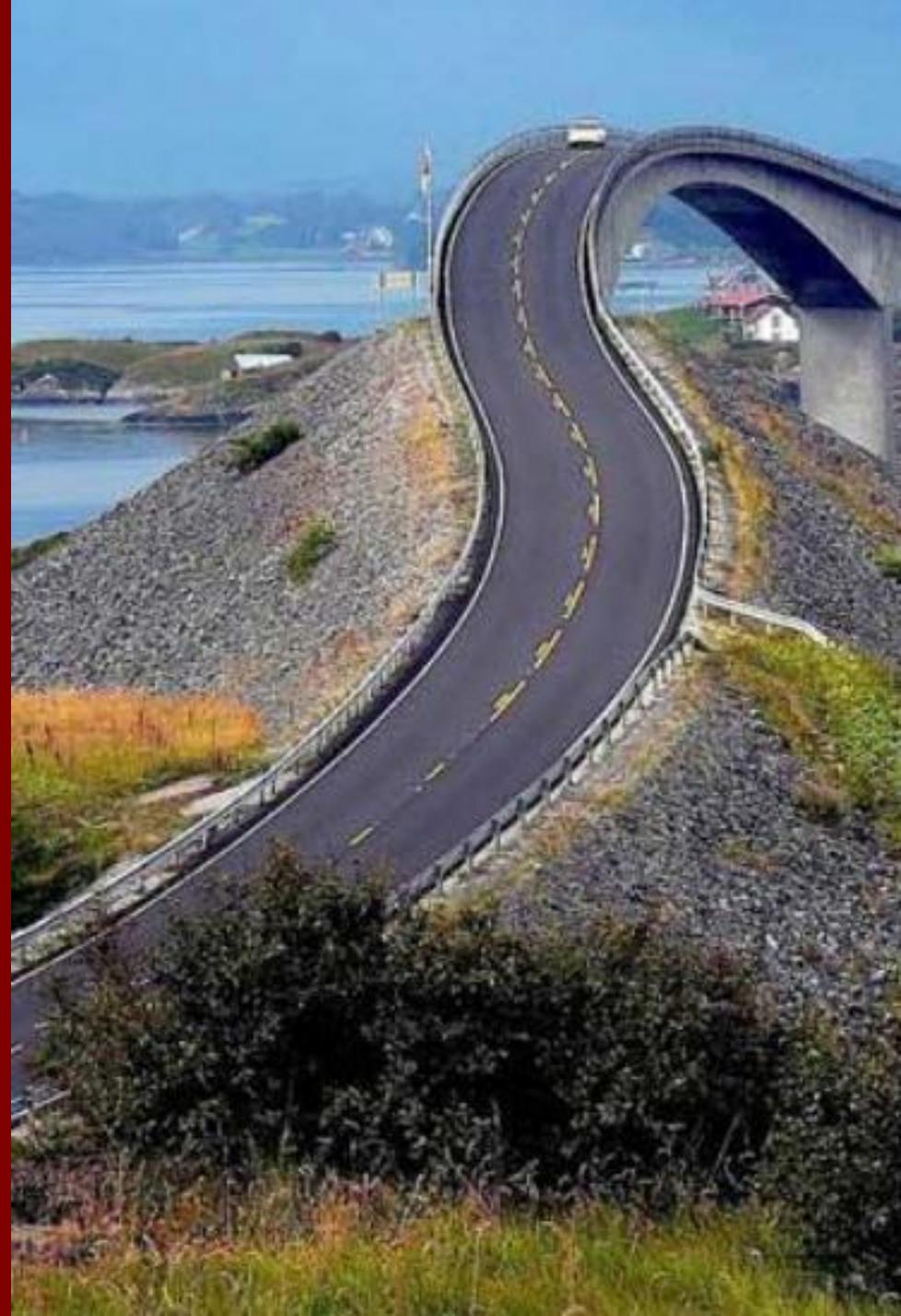
3 Actions for Sustainable Public Budgeting

1. Recognise infrastructure in your financial statements

2. Develop realistic and affordable AM Plans

3. Adopt sustainable long-term financial plan linked to AM Plans

1. Recognise
infrastructure in
your financial
statements



Adopt
International
Accounting
Standards to
recognise
infrastructure
capital



IAS 16 Property, Plant & Equipment

1. Operating costs includes depreciation
2. Adopt the revaluation model



DKK

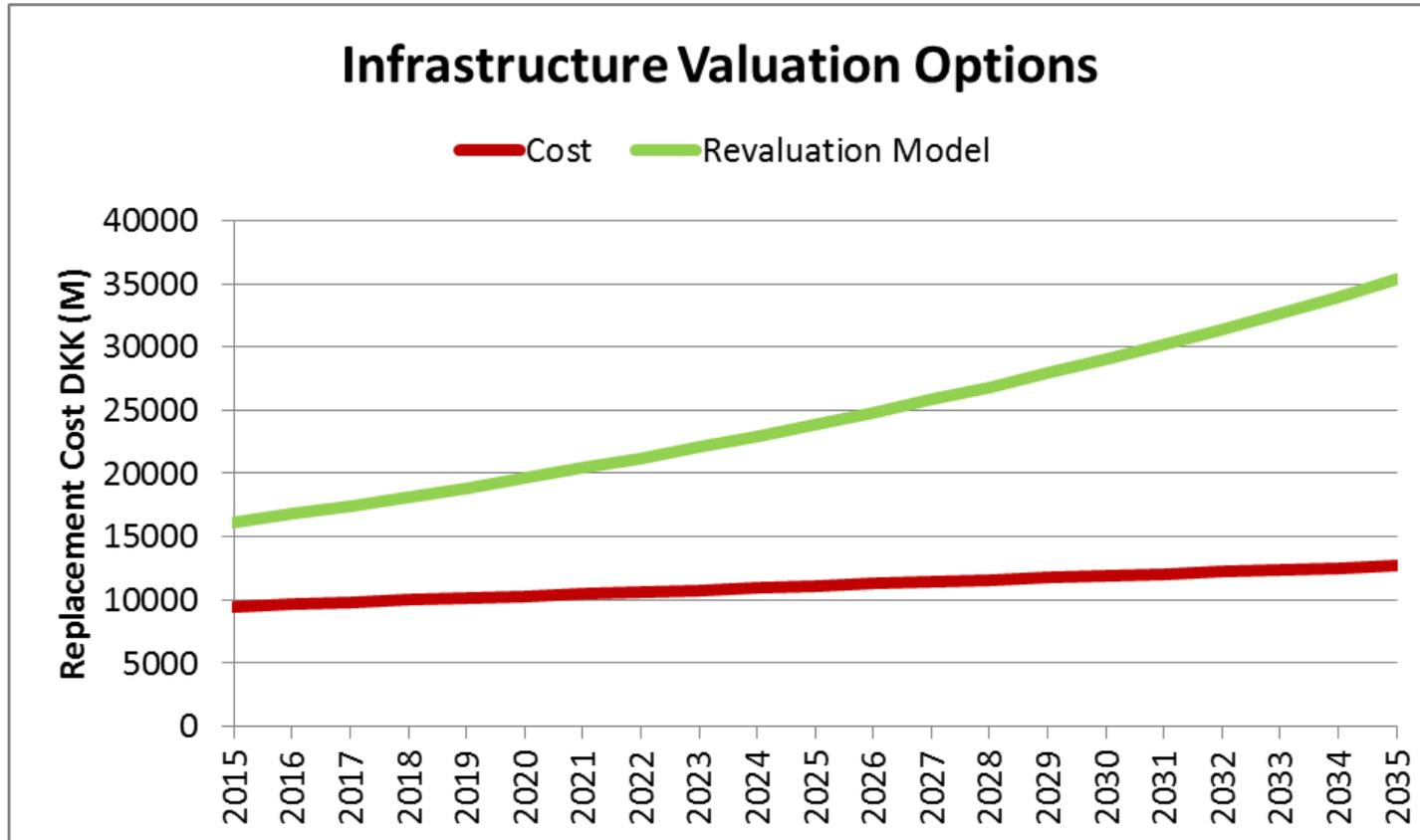


DKK

Regularly revalue
infrastructure
assets

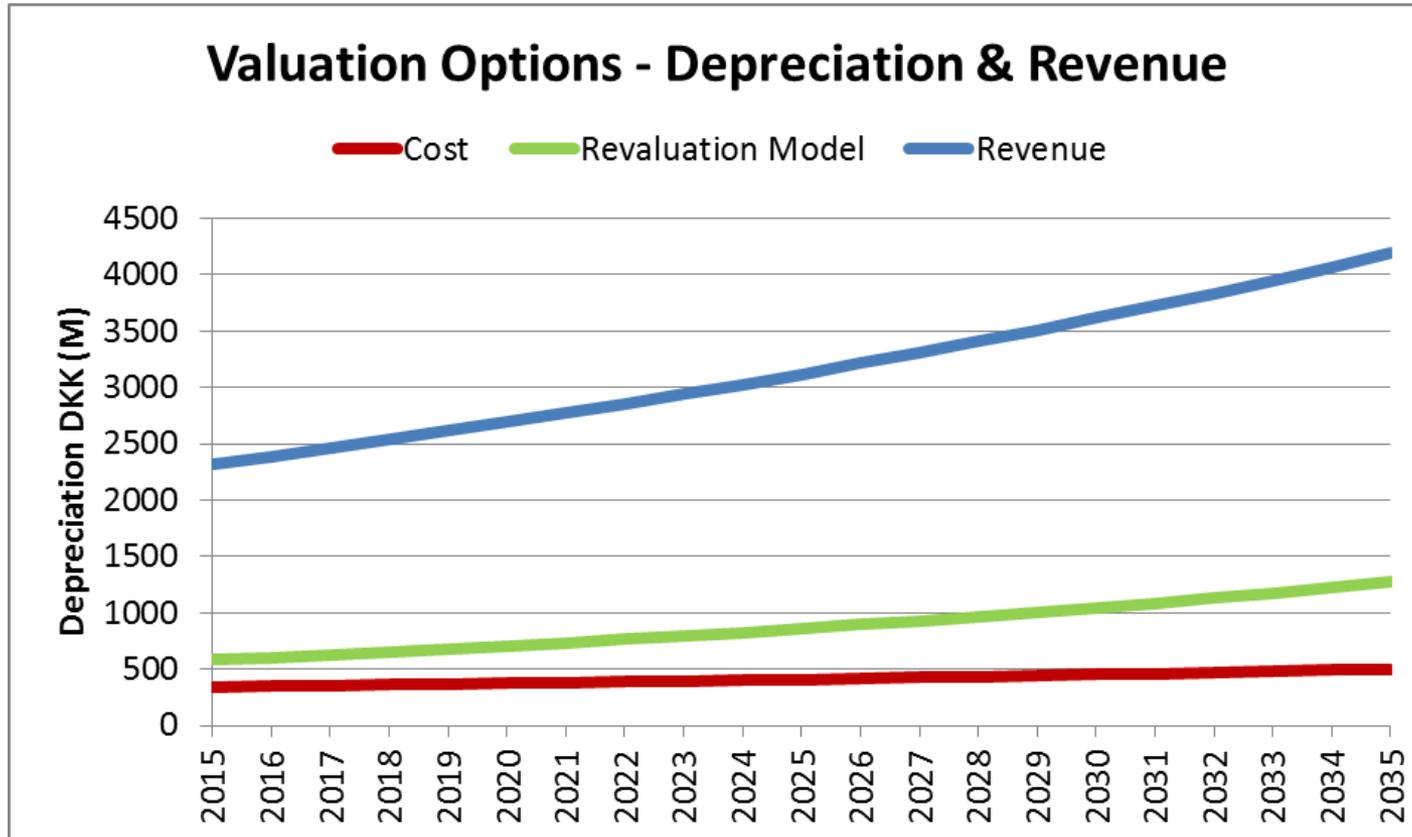


Values should report current values



Adopt the revaluation model in IAS 16

Depreciation should report current consumption



Revaluation model means depreciation will increase to reflect increases in asset replacement costs over time

Aim for a
operating
surplus over the
medium term



2. Develop
realistic and
affordable AM
Plans



20 year AM Plans
set out service
levels to be
provided and at
what projected
cost



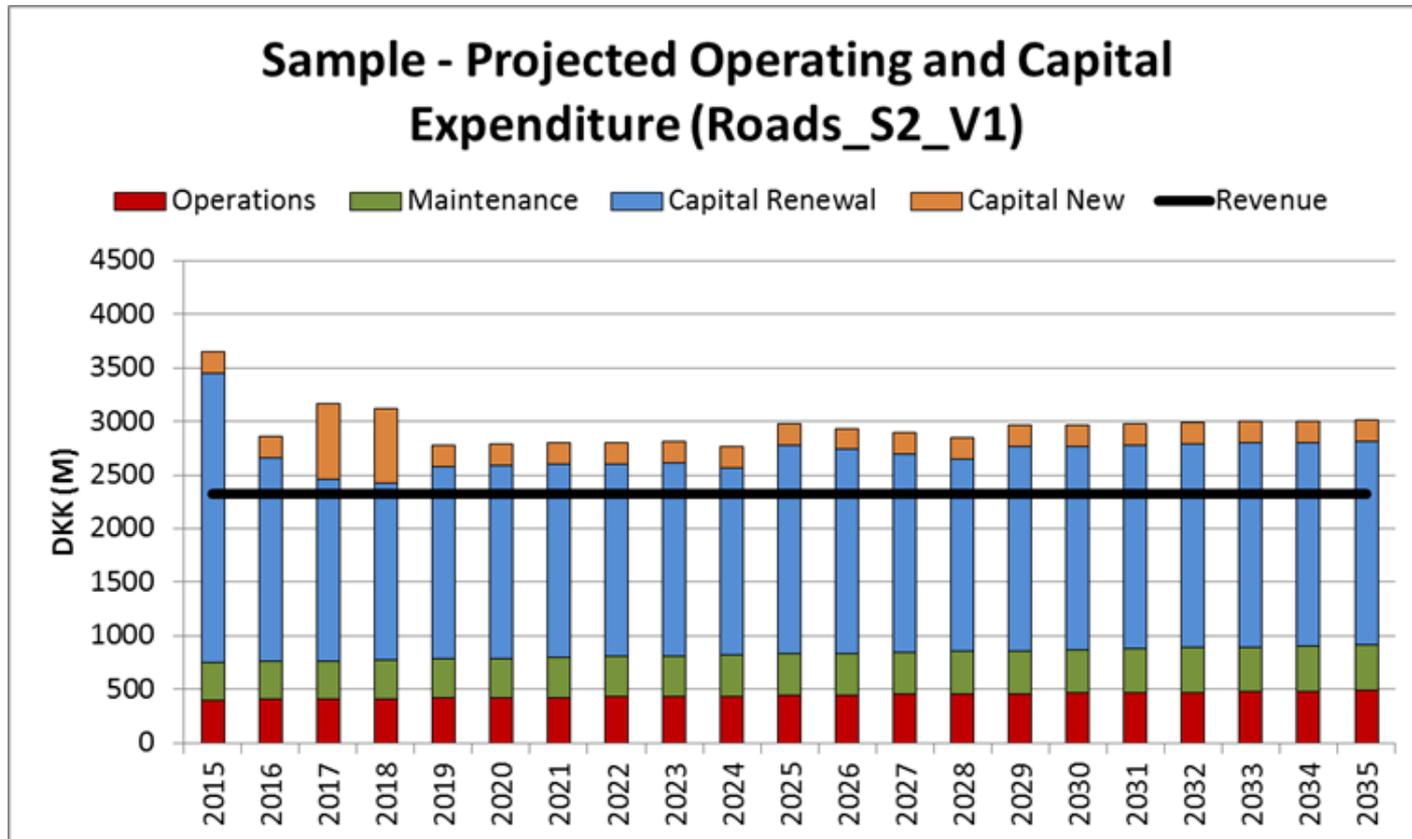
What must be done



What can be done



What it will cost now and in the future



Projections are in current values

Consider scenarios to help determine affordable and acceptable levels of service



Affordability generally means a small
operating surplus

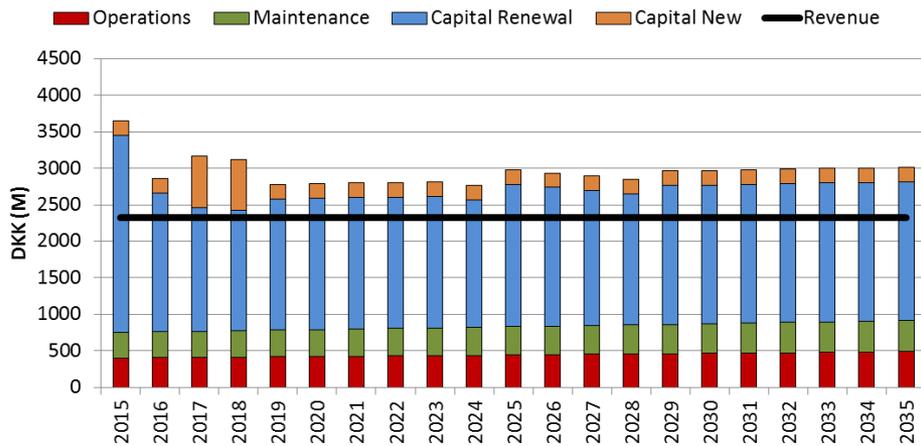


Iterations to achieve balanced position with LTFP

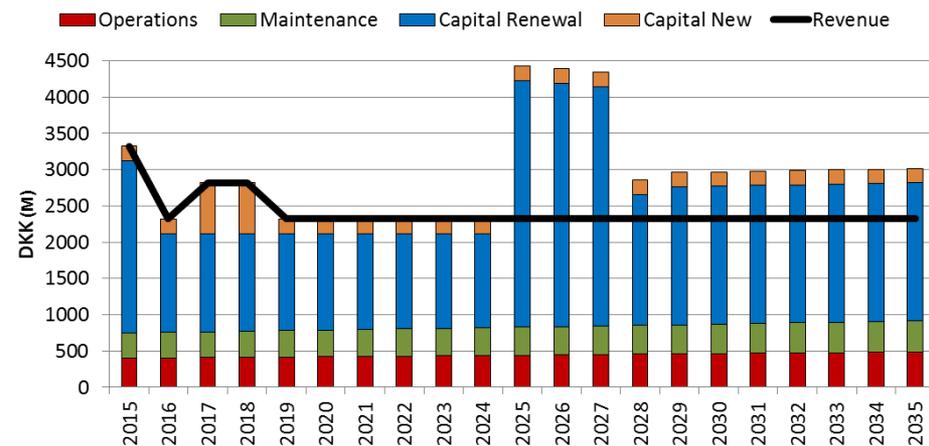
Scenario 2 Aspirational

Scenario 2 Affordable

Sample - Projected Operating and Capital Expenditure (Roads_S2_V1)



Sample - Projected Operating and Capital Expenditure (Roads_S3_V1)



Balanced with 10 year LTFP

AM Plan must
highlight service
and risk
consequence



What has been deferred

	DKK (M)		DKK (M)
Project A	6,000	Project J	16,000
Project B	10,000	Project K	1,000
Project C	2,500	Project L	5,500
Project D	1,800	Project M	3,100
Project E	800	Project N	6,800
Project F	12,500	Project O	6,100
Project G	5,500	Project P	300
Project H	7,800	Project Q	250
Project I	3,400	Project R	5,400

What are the service consequences?



What are the risks?



3. Adopt a sustainable long-term financial plan linked to AM Plans



LTFP shows the expenses on providing ALL services including consumption of infrastructure



Based on accrual accounting

Operating

Expenses recognised when incurred – not when cash received

Asset consumption recognised as depreciation expense

Capital

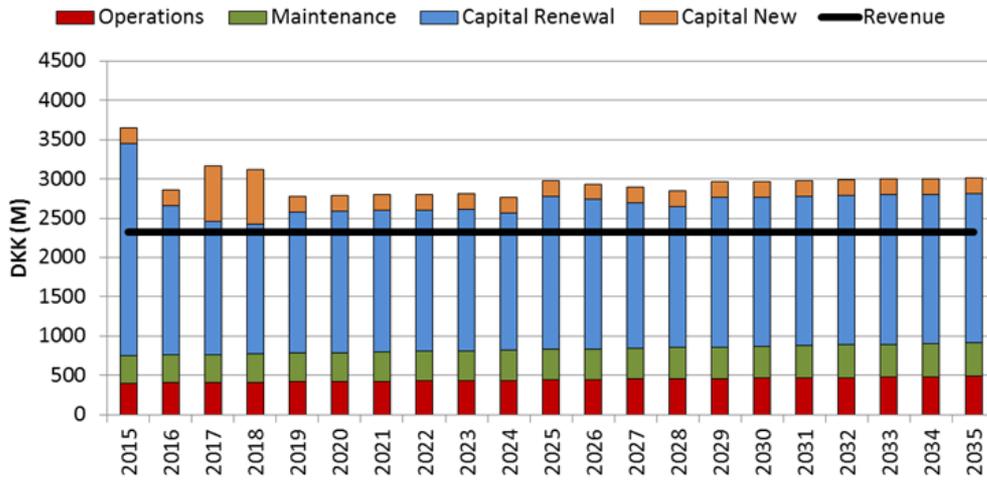
Capital outlays allocated over useful life as depreciation expense

Capital renewal/replacement – no change in operating expense

Capital upgrade/new – adds to future operating expense

Incorporates AM Plan expenditure projections

Sample - Projected Operating and Capital Expenditure (Roads_S2_V1)



→ LTFP

LTFP shows
amount and
source of
required revenue



Operating revenue and source

Taxes, charges, etc.



Borrowings

To accommodate peaks in capital expenditure



LTFP shows how
services are
sustainable over
10 years



1. Operating Surplus Ratio

Are all operating costs covered?

2. Net Financial Liabilities Ratio

Are borrowings needed to accommodate peaks in capital expenditure outlays?

3. Asset Renewal Funding Ratio

Are we replacing assets as they are consumed?

Sustainability in about maintaining financial capital and infrastructure capital

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Long Term Financial Plan

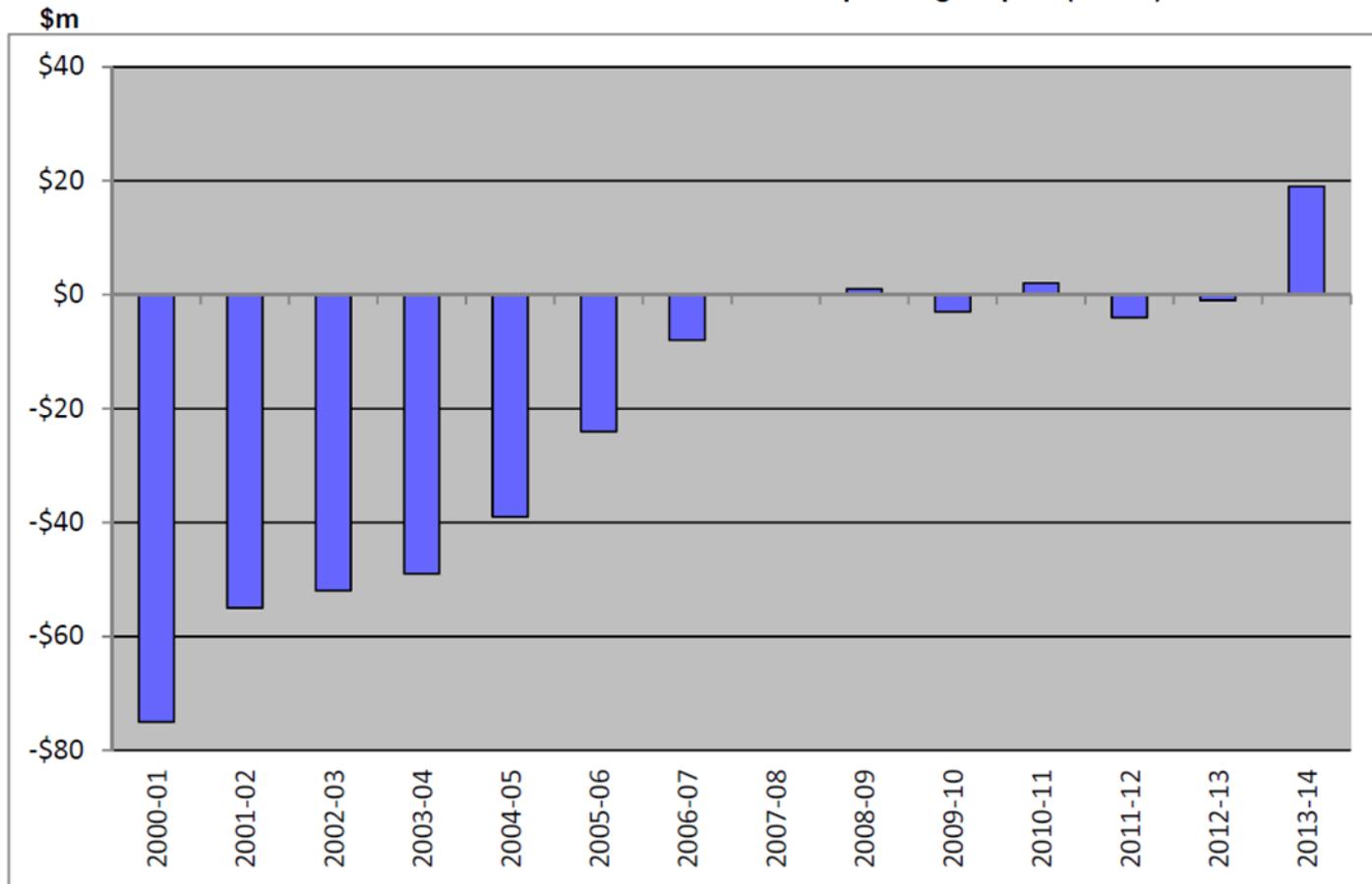
Year ending	2015 Year 0 Actual	2016 Year 1 Budget	2017 Year 2 Plan	2025 Year 10 Plan
	DDK 000	DDK 000	DDK 000	DDK 000
INCOME				
Taxes & Charges	1800	1864	1930	2554
Other	520	536	552	699
Total Operating Revenue	2320	2400	2482	3253
EXPENSES				
Employee Costs	800	833	867	1196
Materials	700	721	743	941
Depreciation	580	597	615	779
Other	200	204	208	244
Total Operating Expenses	2280	2355	2433	3160
Operating Surplus/(Deficit)	40	44	49	93

LTFP Year 1
becomes next
years budget

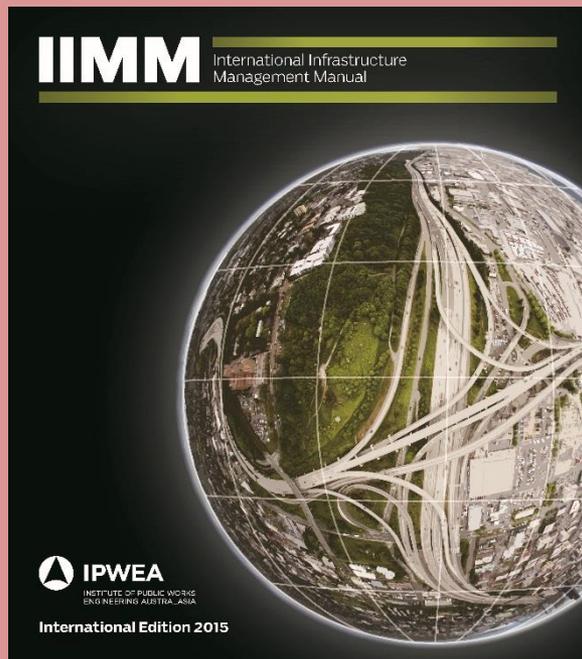
Does it work?

South Australia, Local Govt Financial Indicators Report, 2015

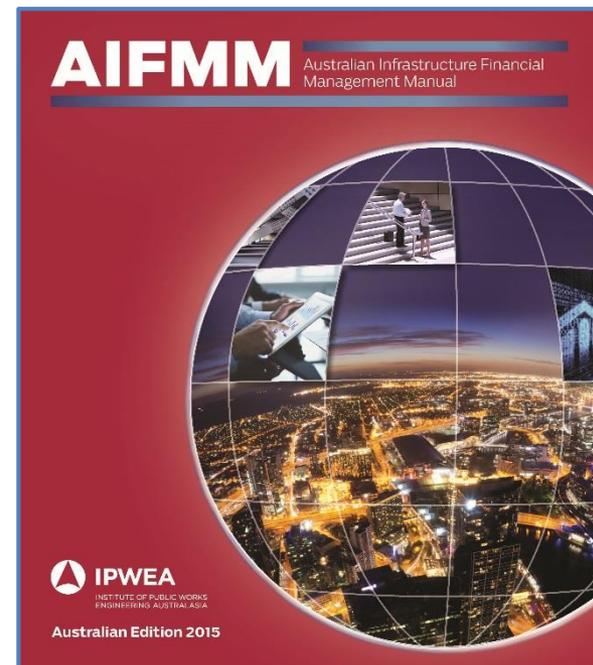
Chart 1 – Local Government Sector – operating surplus/(deficit)



International Infrastructure Management Manual



Australian Infrastructure Financial Management Manual



Thank You

A scenic landscape photograph of Cradle Mountain National Park in Tasmania, Australia. The image shows a calm lake in the foreground, reflecting the surrounding environment. In the middle ground, there are dense, dark green forests. In the background, several rugged mountains are visible, with the highest peaks covered in snow. The sky is a clear, bright blue with a few wispy clouds. The overall scene is peaceful and majestic.

Cradle Mountain National Park, Tasmania, AU

John Howard

IPWEA National Asset Management Strategy Australia (NAMS.AU) Project Manager

E: jhoward45@bigpond.com