

Report 8 of 2020

Examination of the management of
road asset maintenance:
Northern Areas Council



Report of the Auditor-General

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Examination of the management of road asset maintenance: Northern Areas Council

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20 July 2020

The Hon. T J Stephens MLC
President
Legislative Council
Parliament House
ADELAIDE SA 5000

The Hon V A Tarzia MP
Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

**Report of the Auditor-General:
Report 8 of 2020 Examination of the management of road asset maintenance:
Northern Areas Council**

Under section 32(1) of the *Public Finance and Audit Act 1987* (PFAA), I have conducted an examination of the way road asset maintenance is managed by the Northern Areas Council.

The objective of the examination was to assess the effectiveness of the management of road asset maintenance for the period 1 July 2016 to 30 June 2019.

I present to each of you my independent assurance report on the findings of the examination.

A copy of this report has also been provided to the Northern Areas Council.

Content of the Report

We examined the arrangements established by the Northern Areas Council to manage the maintenance of its road assets.

We concluded that overall the Council effectively managed the maintenance of its road assets to enable it to meet the service delivery requirements of its community.

We also concluded that there are important improvements needed to ensure information is included in key documents to help make asset management decisions and keep the community better informed.

My responsibilities

Examinations conducted under section 32(1)(a) of the PFAA are assurance engagements that assess whether a publicly funded body is achieving economy, efficiency and effectiveness in its activities. These engagements conclude on the performance of the activities evaluated against identified criteria.

The Auditor-General's roles and responsibilities in undertaking examinations are set out in the PFAA. Section 32(1)(a) of the PFAA empowers me to conduct this examination while section 32(3) deals with the reporting arrangements.

The examination was conducted in line with the Standard on Assurance Engagements ASAE 3500 *Performance Engagements*. We complied with the independence and other relevant ethical requirements for assurance engagements.

Acknowledgements

The audit team for this report was Andrew Corrigan, Sue Forder and the Local Government Team.

We appreciate the cooperation and assistance given by the staff of the Northern Areas Council.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson
Auditor-General

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1 Executive summary

1.1 Introduction

The Northern Areas Council (the Council) is located in the Southern Flinders Ranges, approximately 200 km north of Adelaide. The Council's local road network is 2203 km, spanning across the total council area of 3070 km², and it was valued at \$119 million as at 30 June 2019. 94% of the Council's roads are unsealed.

Our examination objective was to determine whether the Council effectively managed the maintenance of its road assets to enable it to meet the service delivery requirements of its community. The examination covered the period 1 July 2016 to 30 June 2019.

We determined whether the Council had:

- implemented an adequate strategic asset management framework and practices for maintaining its road assets
- adequate asset information systems in place to monitor and report on the maintenance and performance outcomes of its road assets
- prepared accurate and timely reports on the progress of its maintenance and the performance outcomes of its road assets.

A core service that a local council provides to its community is a safe and reliable network of public roads. The South Australian local government sector is responsible for approximately 75% of the State's road network with a total value of \$12 billion. Councils make important decisions in allocating funds to balance the need to:

- maintain and renew existing road assets and provide a level of service, over the asset life, that is financially sustainable
- maintain their existing road assets and invest in other infrastructure and community assets
- extend the sealed road network and maintain and renew the existing one.

Consequently, councils invest significant funds to maintain their roads. It is important that they manage their roads (and all other physical assets) effectively and efficiently to deliver the required levels of service to meet present and future community needs in a financially sustainable way over the assets' lives. The risks of not effectively managing road assets are:

- an increase in the deterioration of roads if appropriate and timely maintenance and renewal is not performed
- reduced levels of service, which may lead to community dissatisfaction and a council subject to public criticism and mistrust
- an increase in future costs, which may lead to financial burden on the future generation of ratepayers and impact a council's long-term financial sustainability
- a negative impact on the quality of community life and economic activity within the council area
- ramifications for public safety.

1.2 Conclusion

For the three-year period we examined, we concluded that overall the Council effectively managed the maintenance of its road assets to enable it to meet the service delivery requirements of its community.

The Council had implemented a strategic asset management framework and adequate asset management practices and information systems to support the maintenance of its road assets, because it had:

- applied industry guidance on infrastructure asset management in preparing an infrastructure and asset management plan (IAMP) for some infrastructure assets
- consulted with its community on strategic objectives
- assessed the condition of its road assets regularly
- established systems to understand and manage its road asset information
- developed and implemented its road asset maintenance program
- prepared accurate and timely reports to monitor the performance of its road asset maintenance activities.

Since 2016 the Council has made significant improvements in its framework and practices with the limited resources it had available. The Council had key elements of a good framework in place.

We also concluded that there are important improvements needed to ensure information is included in key documents to help make asset management decisions and keep its community better informed. These include:

- formalising the Council's required levels of service and performance measures by including them in the strategic management plans (suite of SMPs) adopted by the Council and communicated to its community
- developing an IAMP for road assets that provides key documented information to better plan and manage road asset maintenance activities. This includes clearly defined required levels of service, and performance measures and targets for road asset maintenance
- performing, and adequately documenting, a risk assessment of road asset maintenance activities
- improving the reporting of the Council's performance in implementing its suite of SMPs and annual business plan against its strategic objectives, including road asset objectives, in the annual report it presents to its community
- improving the timing of information provided to the audit committee to inform the elected body's decision-making process.

1.3 What we found and recommended

Our key findings and recommendations are summarised in figure 1.1 and more details are included in sections 4 to 6.

Figure 1.1: Key findings and recommendations

Key findings	Key recommendations
Strategic asset management	
The Council's suite of SMPs did not include the required levels of service for road assets (section 4.3.1)	Future SMPs should clearly set out the Council's required levels of service for road assets written in terms the community can understand and relate to.
The Council's road asset IAMP did not contain all the recommended information (section 4.3.4)	<p>The road asset IAMP should include information recommended by industry guidance, such as the Council's required levels of service and performance measures, clear links to the Council's objectives, risk management practices and a risk management plan.</p> <p>The IAMP should be written in a way that is easy to read and understand.</p>
The Council's risk management framework is not fully developed (section 4.3.5)	<p>The Council should finalise and fully implement its risk management framework, as a matter of priority. The audit committee should oversee this.</p> <p>The Council should conduct a risk assessment across all its functions to ensure key risks are identified, recorded, assessed and mitigated. The risk register should record the assessment results and a responsible officer allocated to manage individual risks.</p> <p>Significant risks should be monitored by management and the audit committee through regular reporting on the assessment and treatment of these risks.</p>
The Council needs to reassess the risks specific to road assets maintenance functions. This was because the assessment information in the risk register was incomplete, critical road assets were not recorded, and it did not include all risks (section 4.3.6)	The Council should review its risk management process to ensure all risks specific to road asset maintenance functions are identified, adequately recorded, assessed and mitigated.
Monitoring and reporting	
The Council had not established performance measures and targets for road assets (section 6.3.1)	SMPs should clearly set out the Council's performance measures and targets to help the Council assess the effectiveness of its road asset maintenance activities.
The annual report for 2018-19 did not compare outcomes to targets in the annual business plan (section 6.3.2)	The Council's annual reports should clearly present information on its performance in implementing its suite of SMPs and annual business plan against individual strategic objectives.

Key findings	Key recommendations
The Council's audit committee did not receive timely information for input into the elected body's decision-making process (section 6.3.3)	Scheduling of audit committee meetings should be reviewed to enable it to receive and consider information and provide advice to the elected body before decisions are made on relevant matters.

1.4 Response to our recommendations

The Council responded to our detailed findings and advised us the actions being taken to respond to our recommendations, which were accepted as positive improvements. The Council advised that changes had already occurred in some functions as a result of our examination. The Council's response is included in each section of this Report.

The Council also provided the following feedback on the examination:

Council appreciates being able to respond to the findings and recommendations prior to the final report going to State Parliament. The recommendations that have been made will enable Northern Areas Council to comply with the appropriate legislation as well as developing best practice processes for asset maintenance, our responses state that we will be putting processes in place to meet the recommendations.

Council would like to thank the staff of the Auditor-General's department on the manner the examination was conducted. There was a general feeling between all parties that we could all learn from this examination and the way that everyone worked together was very encouraging.

2 Background

2.1 Introduction

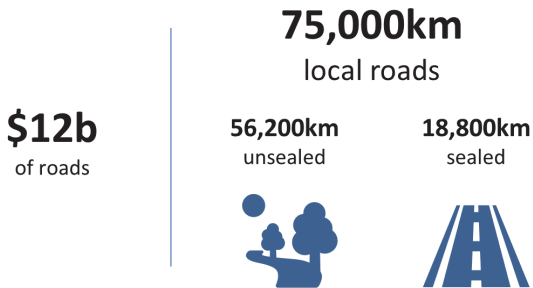
2.1.1 Road assets

South Australian councils are established and governed by the *Local Government Act 1999* (the LG Act). Section 7 of the LG Act provides a council’s functions, which include providing infrastructure for its community and for development within its area, and managing, improving and developing available resources. Further information about the LG Act is provided in Appendix 2.

A council’s infrastructure assets enable it to deliver core services to its community, and support improvements in economic activity and community members’ health and wellbeing. This Report considers road infrastructure assets, which include roads, bridges, footpaths, kerbing and stormwater drainage systems. Councils also manage infrastructure that supports social community activities such as libraries, community centres and recreational hubs.

A core service that a council provides to its community is a safe and reliable network of public roads (local roads). Local roads amount to about 50% of the depreciated replacement cost of total council infrastructure assets and other physical assets in South Australia.¹ The local government sector is responsible for a majority of the State’s road network (75%, 75 000 km) and the SA Government is responsible for the rest (25%, 23 000 km). Figure 2.1 provides a high-level profile of local roads and shows that 75% of the local road network is unsealed and 25% is sealed.

Figure 2.1: Local government sector profile – road assets



Source: Developed from information published in the South Australian Local Government Grants Commission’s 2018-19 annual report and obtained from the Office of Local Government¹ (unaudited).

2.1.2 Why road asset management is important

It is important for councils to manage their road assets effectively and efficiently to deliver the required levels of service to meet current and future community needs.

¹ Office of Local Government, *Local government finances: Financial Performance and Position 2017-18*, viewed 11 June 2020, <https://www.dpti.sa.gov.au/__data/assets/pdf_file/0004/574483/Local_Government_Finances_-_Financial_Performance_and_Position_2017-18.pdf>.

Councils make important decisions in allocating funds to balance the need to:

- maintain and renew existing road assets and provide a level of service, over the asset life, that is financially sustainable
- maintain their existing road assets and invest in other infrastructure and community assets
- extend the sealed road network and maintain and renew the existing one.

Consequently, councils invest significant funds to maintain and develop road assets to continue delivering the same level of service and maintain an acceptable asset renewal gap.² This helps to reduce backlogs of maintenance and renewal works, and supports long-term financial sustainability.

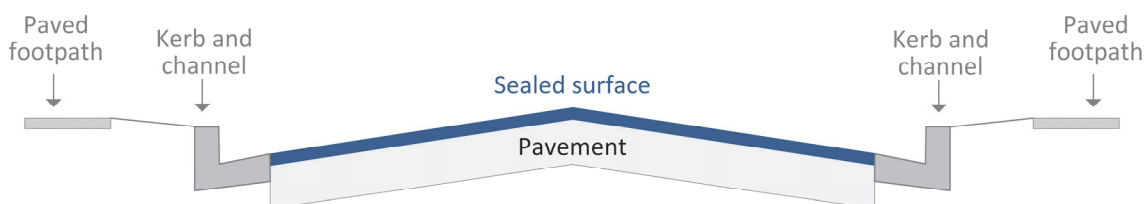
The risks of not effectively managing road assets and the asset renewal gap are:

- an increase in the deterioration of roads if appropriate and timely maintenance and renewal is not performed
- reduced levels of service, which may lead to community dissatisfaction and a council subject to public criticism and mistrust
- an increase in future costs, which may lead to financial burden on the future generation of ratepayers and impact a council's long-term financial sustainability
- a negative impact on the quality of community life and economic activity within the council area
- ramifications for public safety.

2.1.3 The components of a road asset

A road asset is made up of a number of components that have different useful lives. Figures 2.2 and 2.3 show the key components of a sealed and unsealed road asset.

Figure 2.2: Diagram of a sealed road



Sealed roads have an underlying pavement with a service life of 50 to 150 years. The sealed surface has a shorter life and is typically renewed on a 12 to 20-year cycle.³ Roads within towns have kerbs to drain water away and often have a paved footpath.

² The asset renewal gap refers to the difference between the money that councils need to renew their existing assets and the money that is actually allocated.

³ Northern Areas Council Roads Asset Management Plan 2016.

Figure 2.3: Diagram of an unsealed road



The pavement is the renewable asset of an unsealed road. Unsealed roads have a shorter lifecycle than the underlying pavement of a sealed road, at 15 to 30 years.⁴

The road components we examined are shown in blue in figures 2.2 and 2.3.

2.1.4 Asset renewal gap

Each council determines an asset renewal funding ratio target, which is included in its long-term financial plan, and reports on the actual ratio achieved in its annual audited financial statements. The Local Government Association of South Australia (LGA) suggests a ratio of between 90% and 110%.⁵ The ratio is for all infrastructure and physical assets and therefore sector statistics on renewal gaps for road assets are not available.

The LGA's *SA Local Government Sector Financial Indicators Report 2019* states that in 2017-18:

- of the 50 councils for which data on an asset renewal funding ratio was available, 86% of councils had a ratio higher than 60%
- while most councils were renewing and replacing their assets in either a satisfactory or optimal way, some councils could improve on the capital spending needed to cost-effectively maintain desired and affordable service levels from their assets
- there are operational and other reasons why the asset renewal funding ratio result may vary between years. This may not necessarily detract from asset management performance if a council's target is achieved over the medium term (for example over a rolling three or five-year average)
- in the absence of reliable data covering asset management performance in some, mainly rural, councils, it is not possible for those councils to quantify the extent of any annual shortfalls against the optimal level of capital expenditure on renewal and replacement of existing assets to provide desired and affordable service levels.

2.2 Overview of the Northern Areas Council

2.2.1 Council profile

The Council is located in the Southern Flinders Ranges, approximately 200 km north of Adelaide. The Council area comprises part of the traditional lands of the Nukunu and

⁴ *ibid.*

⁵ Local Government Association of South Australia, *Financial Sustainability Information Paper 9: Financial Indicators* (revised May 2015).

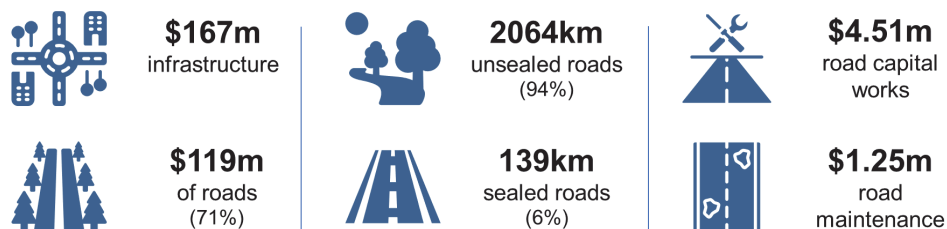
Ngadjuri Aboriginal people. The economy is primarily based in broadacre farming and includes the towns of Caltowie, Georgetown, Gladstone, Jamestown, Laura, Spalding, Stone Hut, Tarcowie and Yacka. The map in figure 2.4 shows the Council area in green.⁶

Figure 2.4: Map of the Council area



The Council’s local road network is 2203 km, which spans across the total council area of 3070 km². Figure 2.5 provides further details of the Council’s profile.

Figure 2.5: Council profile 2018-19



Source: Information provided by the Council (unaudited).

2.2.2 Challenges in managing road assets

The Council faces many challenges in managing its road assets, including:

- the proposed National Heavy Vehicle routes. The Council needed to ensure that it balanced the need of heavy vehicles to access its roads and those of the general road users. The Council consulted the community on the southern entry into Jamestown to determine its position on a long-term strategic solution. This was communicated to the Department of Planning, Transport and Infrastructure and has influenced the programmed design

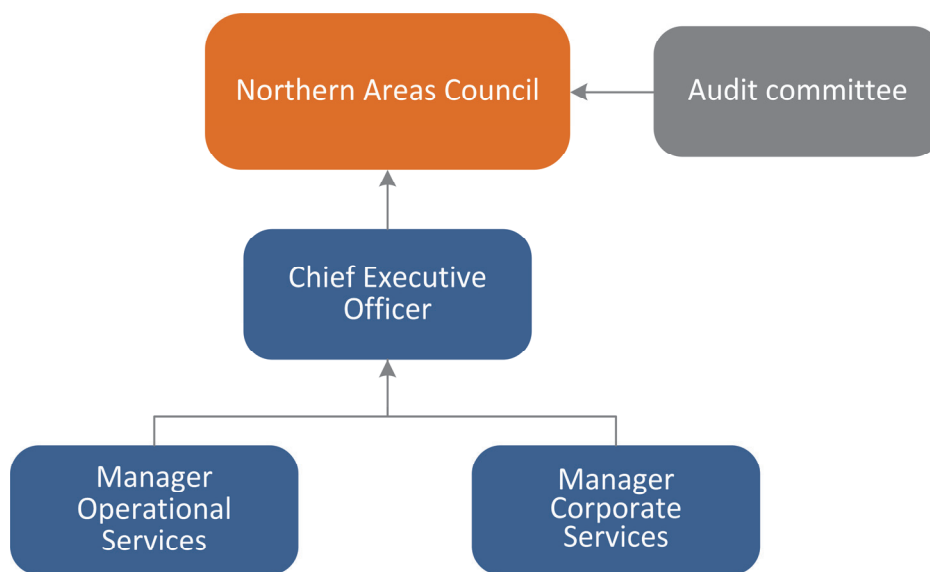
⁶ Northern Areas Council website, viewed on 6 April 2020, <<https://www.nacouncil.sa.gov.au/council/about-council>>.

- the shift from transporting grain by rail to using the road network. This caused traffic issues with more heavy vehicles using local roads. To address this the Council advised us that the SA Government has allocated \$8 million in the 2019-20 State Budget, within a \$55 million program,⁷ to upgrade Horrocks Highway
- instances where utility providers will carry out work on their assets that are located under roads or footpaths. The roads/footpaths are not always reinstated to a design standard and the Council incurs the cost of repairing them to the required standard.

2.2.3 Asset management roles and responsibilities

Figure 2.6 shows the Council’s governance structure for asset management.

Figure 2.6: Governance over asset management



The Council’s elected body is responsible for making informed decisions on providing infrastructure for its community and for ensuring that resources are used effectively and efficiently in providing services.

The Chief Executive Officer (CEO) is required to ensure the Council’s assets and resources are properly managed and maintained; provide information to the elected body to help it assess the Council’s performance against its suite of SMPs; and provide relevant advice and reports to the elected body to make informed decisions.

The Manager Operational Services is responsible for the Council’s Infrastructure Services Department. This Department provides a range of services, including works to maintain and improve existing assets and construct new ones. The Manager Operational Services provides the Council with monthly reports on asset management, including road maintenance activities.

⁷ Department of Transport, Planning and Infrastructure 2019, *Regional Road Projects*, viewed 21 May 2020, <https://www.dpti.sa.gov.au/infrastructure/road_projects/regional_road_projects>.

The Manager Corporate Services is responsible for financial and administrative services to the Council and is the executive officer to the Council's audit committee. The Manager Corporate Services prepares budgets and financial reports, including road maintenance expenditure, for the Council.

The audit committee's role is to oversee and provide independent advice to the Council on financial accountability and internal control matters, including asset management.

2.2.4 Funding of road assets

Councils fund road assets mainly from their rate revenue and grants from the Commonwealth Government. Grants distributed to the local government sector by the South Australian Local Government Grants Commission (SA LGGC) fall under the Local Government Financial Assistance Grant program established under the *Local Government (Financial Assistance) Act 1995* (Cth). \$160 million was provided to the South Australian local government sector in 2018-19.⁸ The funding is untied and consists of a general purpose component of \$118.7 million and an identified local road component of \$41.5 million. The Council's share of the funding for 2018-19 was \$1.04 million, including \$400 000 for local roads.⁹

The Commonwealth Government's decision to freeze indexation on financial assistance grants in its 2014-15 budget had a significant impact on South Australian councils. Regional communities where the grants make up a higher proportion of councils' total revenue were the hardest hit. The reintroduction of this indexation in 2017-18 meant an extra \$4 million for South Australian councils.¹⁰

Other federal assistance that is not distributed by the SA LGGC includes:

- the Roads to Recovery program to help councils repair local roads nearing the end of their economic life. In the five-year program 2014 to 2019, over \$221 million went directly to South Australian councils¹¹ with around 63% of program funds provided to rural councils. The Council did not receive funding in 2018-19 as it was required to spend its allocation of \$532 090 for the final two years of the program in 2017-18. A new Roads to Recovery program commenced on 1 July 2019. The Council is expected to receive \$2 million over five years⁹
- supplementary road funding of \$20 million⁸ paid in 2018-19 to South Australian councils to maintain and upgrade their local road networks. This funding is to address the inequity of the allocation to South Australia as compared to other jurisdictions due to the funding formula.

By agreement with Local, State and Federal Governments, the SA LGGC receives a portion (15%)

⁸ South Australian Local Government Grants Commission December 2019, *South Australian Local Government Grants Commission 2018-19 Annual Report*.

⁹ Northern Areas Council 2018-19 Annual Report.

¹⁰ Local Government Association of South Australia 2016-17 Annual Report.

¹¹ Information provided by the South Australian Local Government Grants Commission on 27 May 2020.

of some roads grants¹² for strategic local road projects recommended by the regional Local Government Associations, known as the Special Local Roads Program.

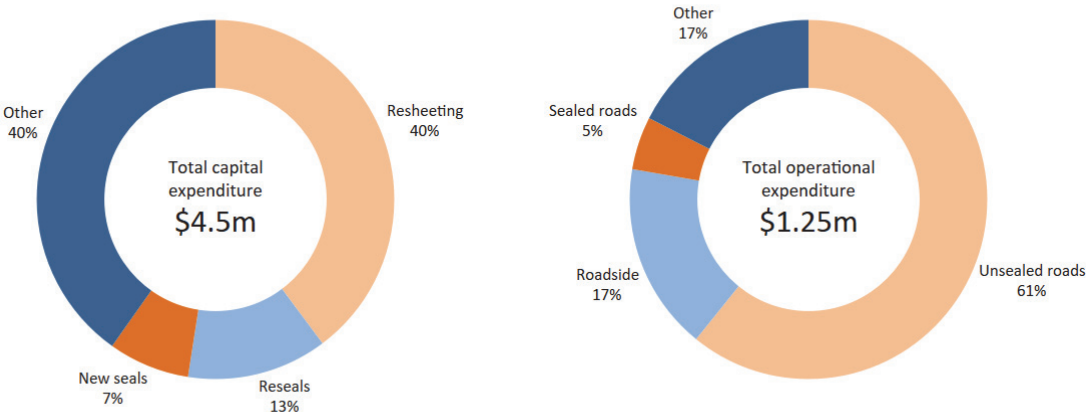
2.2.5 Road expenditure

In 2018-19, the Council’s capital program budget included \$1.7 million for resheeting unsealed roads and \$520 000 for resealing sealed roads. This was 100% of the recommended spending based on the Council’s 2016 asset condition survey.

The actual expenditure in 2018-19 for renewing the local roads was \$2.4 million, which was sufficient to prevent any renewal gap for road assets for that year and catch up on backlogs. The Council reported an asset renewal funding ratio of 105% in 2018-19 for all infrastructure and physical assets.

Resheeting of unsealed roads requires replacement of the pavement (see figure 2.3) and is the most capital-intensive road maintenance activity the Council undertakes. In addition to the town streets, the Council has around 100 km of sealed main roads to maintain. The total expenditure on road infrastructure for 2018-19 is shown in figure 2.7.

Figure 2.7: 2018-19 Capital and operating expenditure – road infrastructure



Source: Prepared from data supplied by the Council (unaudited). The ‘other’ component includes bridges, footpaths, kerbing and drainage.

The Council’s main operational road maintenance activity is patrol grading of the unsealed roads, which is dependent on weather conditions. In 2018-19 a total of 1234 km of unsealed roads was patrol graded at a cost of \$740 000. The Council’s target for each month is based on a six-yearly average of 1659 km per year.

2.3 Asset management and maintenance principles

2.3.1 Asset management defined

Asset management is a systematic, structured process covering the whole life of an asset by which councils manage infrastructure assets to meet current and future levels of service.

¹² Identified local road grants, Roads to Recovery grants and supplementary local road funding.

Some of the terms used in this Report are explained in Appendix 1.

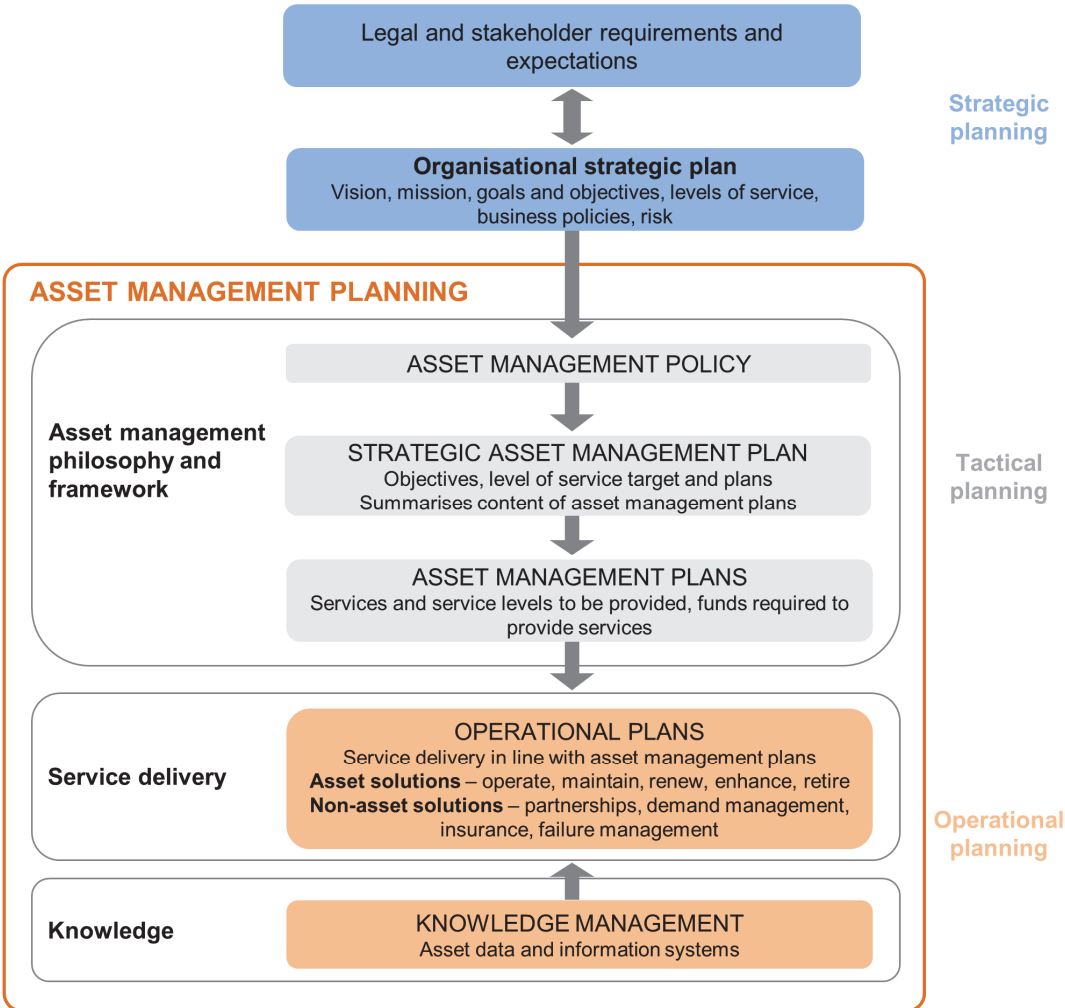
2.3.2 The Council’s strategic asset management framework

The aim of asset management is to meet a required level of service, in the most cost-effective way, by managing infrastructure assets over their expected useful lives for current and future community members, while managing risks and achieving long-term financial sustainability.

The Council’s asset management practices are guided by the Institute of Public Works Engineering Australasia’s (IPWEA) *International Infrastructure Management Manual*, International Edition 2015 (IIMM). Appendix 2 provides more details on asset management guidance and support for councils.

Section 4.1 provides the key elements of a good strategic asset management framework. The Council’s framework, shown in figure 2.8, includes these key elements.

Figure 2.8: The Council’s strategic asset management framework



In 2019, the Council assessed its asset management maturity against the International Standard on asset management (ISO 55001). It found it did well in areas of organisational context and leadership and not so well in areas associated with operational tasks, technical software support and the measurement of Council's progress in monitoring and improving asset management practices.

2.3.3 Maintenance defined

Maintenance is defined as all actions necessary for retaining an asset as near as practicable to an appropriate condition to deliver the required levels of service and ensure that the asset reaches its expected useful life. For the purpose of this examination, this includes the regular, ongoing, day-to-day work needed to keep assets operating and asset renewal activities. Renewal activities for road assets include work to replace the sealed surface or to replace the gravel sheet of unsealed roads.

Maintenance is important to reduce the risks identified in section 2.1.2. Appendix 3 provides further details on the Council's asset management and types of maintenance.

3 Audit mandate, objective and scope

3.1 Our mandate

The Auditor-General conducted this examination under section 32(1)(a) of the *Public Finance and Audit Act 1987*. This section allows the Auditor-General to examine the accounts of a publicly funded body and the efficiency, economy and effectiveness of its activities.

3.2 Our objective

We assessed whether the Council effectively managed the maintenance of its road assets to enable it to meet the service delivery requirements of its community.

The examination covered the period from 1 July 2016 to 30 June 2019 and considered whether the Council had:

- implemented an adequate strategic asset management framework and practices for maintaining its road assets to enable optimal use and capability of those assets for the duration of their expected useful lives
- adequate asset information systems in place to monitor and report on the maintenance and performance outcomes of its road assets
- prepared accurate and timely reports on the progress of its maintenance and the performance outcomes of its road assets.

3.3 What we reviewed and how

We considered the LG Act and guidance provided in the IIMM to assess whether the Council had:

- established and documented required levels of service and performance measures for roads assets
- consulted with its community in establishing the required levels of service for road assets
- adopted objectives, strategies, policies and strategic management plans for maintaining its road assets to enable it to achieve its service delivery requirements. This included whether the financial resources needed to maintain road assets to the required levels of services were identified
- clearly defined the roles and responsibilities of management and relevant governance groups for maintaining its road assets
- established processes to identify, assess and monitor risks in maintaining road assets
- established systems and processes to support correct and adequate road asset records
- established systems and process to identify and manage the road asset maintenance work and monitor and report on its outcomes.

Consistent with procedural fairness principles, on 24 April 2020 we provided the Council with a confidential copy of our examination findings and recommendations and requested a written response. This followed discussions with the Council's CEO on 3 March 2020 and 17 April 2020. The Council formally responded to the examination results on 1 June 2020.

We carefully considered all comments provided during the procedural fairness process and, where necessary, we have addressed them in preparing this Report.

On 23 June 2020 the Council was provided with a confidential draft copy of this Report which included the Councils' formal responses and our conclusion in section 1.2.

3.4 What we did not review

We did not assess whether the Council's road assets were fit for purpose and met its community's service delivery requirements.

Road upgrades by nature are not included in the definition of maintenance and were therefore excluded from our examination.

Our examination was limited to the road surface for sealed roads and pavement for unsealed roads as illustrated in figures 2.2 and 2.3. We did not examine maintenance activities for other road infrastructure assets (such as footpaths, kerbs and stormwater drainage).

We did not assess the relationship between the State and Local Government sectors in managing the State's road asset network.

We did not assess the Council's risk management practices across all of its functions. We focused on the monitoring and reporting of the road asset risks.

4 Council's strategic asset management framework and practices

4.1 Introduction

The key elements of a good strategic asset management framework include:

- ***governance arrangements*** which provide an accountability structure with clearly defined roles, responsibilities and reporting requirements
- ***community consultation*** before setting the required levels of services and adopting asset management plans
- well defined ***levels of service*** which are needed to develop asset management strategies
- well defined and relevant ***performance measures***
- an agreed ***asset management policy*** which provides the principles and requirements for asset management
- an asset management ***strategy and objectives*** which outline the actions to take to implement the policy, achieve the levels of service and manage the impact of changes in demand
- an ***infrastructure asset management plan*** that is in line with the policy, strategy and objectives. The IAMP provides a clear and accurate understanding of the assets owned and managed by the Council and their condition
- a ***long-term financial plan*** which identifies the expenditure needed and source of funds to support the IAMP
- sound ***risk management*** practices to identify, assess and manage risks
- ***monitor, evaluate and report*** on road asset maintenance activities and performance to senior management, the elected body and the community (more information on this element is in section 6).

Levels of service are the fundamental building blocks of asset management and it is important a council understands what levels of service its community requires and its willingness to pay. Councils also need to clearly understand the capability of the asset to deliver those requirements. This knowledge informs asset management planning and decision making.

Levels of service identify the quality and cost-effectiveness of the service that an asset delivers. This will differ according to the choices that a council makes, including when and how an asset is maintained.

4.2 Positive Council asset management practices

The Council is working towards improved asset management for its road assets and we

found a number of good aspects during our examination. We found:

- good stewardship had facilitated asset management improvements since the CEO and Manager Operational Services joined the Council in 2016. They work closely with the Manager Corporate Services to ensure an integrated approach to asset management is achieved with existing and limited resources. The Council had developed and started to implement an asset management improvement program. It adopted a Strategic Plan for 2020-2027 that sets its strategic directions for the future
- the Council regularly reviewed its long-term financial plan. It documents the proposed expenditure including maintenance, renewal and upgrades of roads across a 10-year horizon and this is provided to its community each year as part of consultation on the annual business plan and budget. Quarterly budget reviews incorporate detailed analysis of variances in forecast spending resulting in revisions to long-term forecasts
- the Council had established an asset management policy that provides clear asset management objectives and aligns with its strategic goals. The Manager Operational Services was developing an asset management strategy that will consolidate information in one document to improve the link between the IAMP and the asset management policy and strategic objectives. The asset management strategy is intended to be regularly monitored, and its performance reported to the elected body and the audit committee
- the Council engaged a specialist engineering firm to assess the condition of its road assets and determine road asset valuations in 2016. This condition report compared the results of the 2012 condition assessment and reported that the Council's roads were very well maintained and that standards could be lowered, and costs reduced, while remaining effective. A community survey conducted in late 2017 that sought feedback on Council services and priorities found that the most important function to ratepayers was extension of the sealed road network, and footpaths and street lighting should be prioritised. As a result, Council developed a footpath strategy, undertook a public lighting audit and established a loan-funded program to seal township roads that are unsealed
- for capital works on renewal of road assets, the Council has been guided by the recommended spending levels provided in the road condition survey. This enabled it to better respond to the community by funding the renewal of footpaths and street lighting in its 2016-17 annual business plan, while maintaining road service levels.

4.3 Findings

4.3.1 The Council's suite of strategic management plans did not include the required levels of service for road assets

Recommendation

The Council's suite of SMPs should clearly set out the Council's required levels of service for its road assets, which supports its asset planning and decision-making process. It is important for the levels of service statements to be written in terms the community can understand and relate to.

Finding

The IIMM states that:

Levels of service are the fundamental building blocks of AM [asset management]. To achieve the AM objective, it is important to understand what levels of service customers require and their willingness to pay. Then to clearly understand the asset performance and capability to deliver those requirements. This knowledge feeds into the AM planning and decision making process.

We found the Council's suite of SMPs that applied during the period we examined did not include the required levels of service for its road assets (or associated footpaths and kerbing). Examples of service levels¹³ include:

- the road network is maintained at a safe and functional standard
- the frequency of visual assessments to determine condition.

We were provided an internal draft document, the Northern Areas Council Roads Service Level Document 2017-18, which provided information on the Council's road assets service levels.

The CEO advised us that the 2019-20 road service levels document was being completed and in the interim the draft document was being used by operating staff to program inspections and prioritise maintenance activities. Further details on the 2019-20 road service levels document are provided in section 6.3.1.

These road service levels documents were not finalised and an assessment of the levels of service for road assets was not included in the suite of SMPs adopted by the Council.

The Council adopted its Strategic Plan 2020-2027 in September 2019. We reviewed it and found that it did not set out the levels of service for road assets that the Council intends to provide to its community to meet its strategic objectives. An action it includes to achieve its objectives is to develop service level standards for road assets.

A key element of effective asset management is establishing levels of service at the time of developing plans. This includes incorporating timely input from the community, other stakeholders and expert reports, such as road condition surveys. This is key information that should inform the asset management planning and decision-making process, including the Council's decision to adopt a plan within the suite of SMPs.

Without documenting the levels of service required from its road assets in its suite of SMPs, the Council may not be able to clearly demonstrate, to its community and other stakeholders, the agreed levels of service required from road assets and the level they need to be maintained at. This also may result in road assets not being maintained to the required level, affecting service delivery capacity and quality.

¹³ As many of the Council's roads are unsealed, service levels that may be used by metropolitan councils and at the State level, such as traffic flow, traffic volumes and the number of marked/unmarked bike lanes, would not apply.

Council response

The Council continues to develop its asset management practices from a low base. The IPWEA template will be used to prepare the roads asset management plan. The planned update (February/March 2021) of this plan will include these elements.

4.3.2 The Council did not consult the community on its suite of strategic management plans during the examination period

Recommendation

The Council should adopt a process to ensure the public is given reasonable opportunity to be involved in the review of its IAMPs prior to Council adopting them by February 2021.

Finding

Section 122(6) of the LG Act requires a council to give the public a reasonable opportunity to be involved in developing and reviewing its suite of SMPs.

Council conducted a community survey in early 2017. Survey feedback indicated that improved service delivery for footpaths and street lighting was required and the respondents wanted the Council to seal more roads. The Council provided more funding to these areas but did not align the standards of service required by the community and the costs of delivering them to determine an optimal strategy for providing these services.

Development of a new strategic plan did not occur following the community survey. The Council instead resolved to adopt its Strategic Plan 2011-2016 as the new strategic plan for 2018-2020. We found no documentary evidence that the Council provided an opportunity for public involvement on the draft Strategic Plan 2018-2020 before it was adopted in May 2018.

The Council did provide an opportunity for community involvement in developing its Strategic Plan 2020-2027 by conducting a survey in early 2019. Survey feedback indicated that 79% of respondents were satisfied with the level of service provided, with 48% very satisfied. The survey report also stated that maintaining infrastructure ranked as the first priority overall. However, 53% of those surveyed were dissatisfied with the balance between rates and the services and infrastructure provided. The levels of service required by the community are key business drivers and should influence asset management decisions. Well defined levels of service can be used to develop effective asset management strategies.

The Council then sought the community's feedback on the draft Strategic Plan 2020-2027 in April 2019 before it was adopted in September 2019.

The Council is also required to review its IAMPs (included in its suite of SMPs) by February 2021. Like the Council consulted with its community in developing its Strategic Plan 2020-2027, it will need to involve its community in developing and reviewing its IAMPs.

Without involving the community, the Council may not have an adequate understanding of the community's expectations and the necessary information to make an informed decision about levels of service.

Council response

The Council will factor into its new financial year program a period for public consultation to meet this requirement for facilitating community input into the plan development.

4.3.3 The Council's strategic management plans for the period 2016-2019 did not always cover the required period or were not reviewed in line with the LG Act

Comments

The compliance issues detailed below were addressed in September 2019 when the Council adopted its Strategic Plan 2020-2027. We therefore made no further recommendations for this finding.

Finding

Council adopted the following documents that related to the examination period:

- Northern Areas Council Strategic Management Plan 2011-2016
- Northern Areas Council Strategic Plan 2018-2020
- Northern Areas Council Strategic Plan 2020-2027.

We found that the Council did not:

- have a strategic plan that covered the 2016-17 and 2017-18 financial years
- review its strategic plan by November 2016 as required by the LG Act
- have a strategic plan that covered at least four years when it adopted the Strategic Plan 2018-2020 as required by the LG Act.

Timely review of the SMPs enables the Council to reassess its strategic direction and ensure it maintains both the resource capacity for its long-term strategic objectives and its long-term financial sustainability.

4.3.4 The Council's road infrastructure and asset management plan did not contain all the recommended information

Recommendation

The Council should develop an IAMP for its road assets in the format set by IPWEA and written in a way that is easy to read and understand.

Finding

The LG Act does not prescribe the form or content of an IAMP. The LGA recommends that councils have regard to the IIMM when preparing one¹⁴ and small rural councils use the

¹⁴ Local Government Association of South Australia, *Financial sustainability information paper 6: infrastructure and asset management*, revised December 2019.

template, published by IPWEA to help them develop an IAMP that meets a core¹⁵ level of asset management maturity.

Consistent with the intent of the LG Act, the IIMM states that:

A key purpose of AM [asset management] plans is to drive longer term thinking and planning and ensure the organisation is operating in a financially sustainable manner.

We asked the Council to provide a copy of its IAMP for road assets that covered the period we examined. The Council provided a document titled *Moloney Asset Management Systems Report Following the Survey of Road Assets for Northern Areas Council*, which the Council staff refer to as the Roads AMP 2016. The Council adopted this document as its IAMP for road assets on 13 December 2016. It provides the results of a road condition assessment and is not an IAMP as intended by the LG Act. The Council advised us that at the time it prioritised the development of IAMPs for other major infrastructure assets given its view that the roads were maintained in good condition.

We were advised that Council staff use the Roads AMP 2016 and the draft roads service levels document to create road inspection and maintenance programs.

We reviewed the Roads AMP 2016 against the content recommended by IPWEA. We found that it did not contain key information expected in an IAMP at the core level of maturity as it:

- did not define the Council's required levels of service and performance measures
- did not state its links to the Council's objectives
- did not include information on asset management practices
- did not include a risk management plan
- did not contain an asset management improvement plan.

The Council's CEO acknowledged that the Roads AMP 2016 is missing some of the content and advised that this will be addressed as part of the Council's asset management improvement program, which includes a review of asset management plans.

The Council's IAMPs for other infrastructure assets (eg bridges) were developed after the Roads AMP 2016 was adopted and are in a format consistent with industry recommendations for rural councils to achieve a core level of asset management maturity. The Manager Operational Services advised us that the Council intends to use the IPWEA template to develop the new IAMP for road assets.

In adopting the condition survey report as its Roads AMP 2016, there were gaps in key information to inform decision-making processes, such as setting the strategic direction, objectives and funding allocation for road assets. These gaps heighten the risk of the Council making poorly informed decisions and lessen its ability to manage its road assets effectively and sustainably.

¹⁵ The IIMM provides a range of levels of asset management maturity being aware, basic, core, intermediate and advanced.

Council response

The planned upgrade of the road assets IAMP will use a template consistent with the IPWEA model as has been the case for the Council's IAMPs for bridges, public open spaces, stormwater, plant vehicles and equipment and buildings.

4.3.5 The Council's risk management framework is not fully developed

Recommendation

The Council should, as a matter of priority, finalise and fully implement its risk management framework.

The Council should develop a high-level implementation plan providing the key activities, allocation of responsibilities and time frames to implement its risk management framework.

The Council's audit committee should oversee the implementation of the risk management framework.

The Council should conduct a risk assessment across all its functions to ensure key risks are identified, recorded, assessed and mitigated. The risk register should record the results of the assessment and allocate the responsible officer for managing individual risks.

The Council should also ensure significant risks are monitored by management and the audit committee through regular reporting on the assessment and treatment of these risks.

Finding

The Council received a risk evaluation report¹⁶ in February 2017 which suggested that it should:

- review its risk management policy and framework, which was last due for review in 2015
- review job descriptions for key staff to ensure they adequately cover risk management responsibilities in line with the risk management framework. Further, risk reporting to the Council's audit committee should be clearly defined
- expand the risk register to include strategic, operational, project and emergency risks. It was also raised that some operational risks were included but not all the information was populated, and the Council could not identify the key operational risks in order of priority.

Another risk evaluation was performed in November 2019 with a report presented to the Council in January 2020. That report¹⁷ identified outstanding issues including:

- the risk management framework was in draft and should be developed and endorsed

¹⁶ Local Government Association of South Australia, *2017 Risk Evaluation Summary Report Northern Areas Council*, 20 December 2017.

¹⁷ Local Government Association of South Australian, *2019 Risk Evaluation Summary Report Northern Areas Council*, 16 January 2020.

- the corporate risk register was being developed and the Council should explore and implement options to develop the register and populate it with corporate and operational risks and controls
- there was no formal evaluation of risks in decision-making processes or consistently applied across the Council.

A number of recommendations were made including the Council developing a reporting process for key strategic and operational risks and updating the audit committee's work program to include the monitoring of strategic risks.

The audit committee's terms of reference require it to review the effectiveness of the Council's risk management system. The audit committee received this report on 10 March 2020. We found no documentary evidence that the audit committee provided advice to the Council on the report's recommendations and management's proposed actions regarding risk management. The Council received and noted the report on 17 March 2020.

In the absence of a response to the 2019 risk evaluation report's recommendations, it is unclear whether the Council has agreed to the recommendations, the responsive actions it has or will take, and the time frames set to implement the agreed actions. This may result in risks not being identified promptly and managed effectively.

Council response

Council management has developed a program, in conjunction with the Local Government Risk Services – Risk Coordinator, to address the issues in the 2019 risk evaluation report. This program will be completed by October 2020 and will capture all of the issues listed in the recommendation.

The audit committee currently only receives a report on the year's activities and outcomes relating to risk. In the future the audit committee will oversee the implementation of the risk management framework.

Currently, significant risks to the organisation and the treatment of these risks are managed by the Senior Management Team. In the future the identification and treatment of significant risks will be regularly reported to the audit committee for review and advice.

4.3.6 The Council needs to reassess the risks specific to road asset maintenance functions

Recommendation

The Council's IAMP for roads should include its risk management practices and describe how critical risks will be managed, monitored and reviewed by management and the audit committee.

The Council should review its risk management process to ensure all risks specific to road asset maintenance functions are identified, adequately recorded, assessed and mitigated.

Finding

The IIMM provides that an IAMP, at a core level of maturity, should include a risk management plan that identifies and explains how an entity will manage its high risks and identify assets that are critical to service delivery.

We found that the Council's Roads AMP 2016 did not include a risk management plan. We found that some risk information is provided in the Council's draft asset management strategy document. This and the draft road service levels document are being used by asset managers to prioritise maintenance activities based on a risk approach.

We found the Council's risk register includes risks relevant to road assets but the risk assessment was incomplete; critical road assets were not recorded, and it did not include risks specific to quality, efficiency, service delivery, asset condition and resilience (such as assessing how robust the Council is to respond to, and its readiness for, change).

Risks for road assets include structural failures, substandard condition, storm damage, contractor underperformance, non-compliance and operator error. There are potential consequences to public safety, cost efficiency, effectiveness of service delivery and the resilience of the road network if risks are not managed effectively. Risks need to be identified, analysed, mitigated, monitored and reported.

The failure to identify and manage risks affecting maintenance increases the risks that road assets are not maintained properly. This may lead to ineffective maintenance activities and increased future maintenance costs.

We noted that the Council's bridges asset management plan has detailed information on risk management. The Council advised us that it intends to use the same format when reviewing its roads asset management plan.

Council response

The Council advised that the roads asset management plan will be reviewed and will include a section on risk. This will correspond with details in the Council's revised risk register for road assets.

4.3.7 Improvements needed in policy review and finalising key documents

Recommendation

The Council should review its policies by the due date and have them signed by the responsible officer/authority.

The Council should finalise and approve key documents before they are operational. In doing this it should ensure information is current and references are correct.

Finding

We found that many of the Council's policies had not been reviewed by the due date and were not evidenced as signed by the responsible officer/authority. The policies for asset management were:

- risk management strategy – due for review in May 2015
- risk management policy – due for review in November 2018
- asset management policy – due for review in October 2018.

The risk management and asset management policies were reviewed in June and December 2019, after we started our examination. The revised policies did not show the correct date of adoption and when the next review was due.

We also found:

- key asset management documents were in operation while still in draft, such as the draft roads service level documents for 2017-18 and 2019-20
- documents prepared using templates were not reviewed by the Council, resulting in information that was no longer current, and instances where references to other documents were incorrect or did not exist.

Council response

The Council advised that the policies referred to in this section were identified in the 2019 risk evaluation report as non-compliant.

As stated in section 4.3.5, a program has been developed in conjunction with the Local Government Risk Services – Risk Coordinator. It will be completed by October 2020 and will capture all of the issues listed in the recommendation.

5 Asset management information systems

5.1 Introduction

Good asset management is enabled by effective asset management information systems (AMIS) which provide current and accurate asset information to make informed and strategic decisions. Information that provides an understanding of the road assets (such as useful life, condition, costs) to enable decisions to be made that optimise the asset's performance and costs in delivering the required level of service over its expected useful life. For example, to decide whether to maintain or renew/upgrade individual road assets and how and when to manage backlogs of road works.

Collecting, processing, managing and maintaining asset information can be costly. In determining what should be collected councils need to consider the value of the information for decision-making and operational processes relative to the costs. The IIMM provides further guidance on analysing the benefits and costs of an AMIS and determining the level of functionality needed. It also provides the core functionality that an AMIS should provide, which includes:

- an asset register to store primary asset attributes (road type, materials, dimensions, construction date)
- information to support accounting requirements (financial reporting disclosures and valuations)
- the ability to report on key measures of road asset condition and performance
- the ability to manage customer service/complaint request management
- the ability to manage road maintenance.

An AMIS can also help the council to meet the legislative requirement to keep a register of the public roads in its area.

5.2 Positive Council asset management practices

We found the Council's maintenance program was developed and implemented using various datasets and spreadsheets, a project management system and a customer request log. The Council intends to replace this with an integrated system that also aims to help mitigate the risk of relying heavily on the knowledge of personnel.

We found that the Council had an adequate AMIS that enables it to:

- understand its road assets and record road asset attributes and valuations
- develop, manage and report on road maintenance programs and outcomes
- facilitate budget monitoring and financial reporting
- manage road maintenance requests received from the community.

The Council's leadership team works closely together to ensure an integrated approach to asset management is achieved with existing resources. It established an asset management improvement program in July 2017 which, in the Council's view, aimed to mitigate the risks in asset management, data management and organisational knowledge, and provide a basis for confidence in the Council's long-term financial plans. This program provides the following actions:

- implementing a new AMIS
- implementing an integrated system for capture and capacity building
- improving asset information.

5.3 Findings

5.3.1 The Council did not keep a public roads register for its area

Recommendation

The Council should assess whether its new AMIS can cost-effectively generate a public roads register that complies with the LG Act.

Finding

Section 231 of the LG Act requires a council to keep a register of public roads in its area that is available for public inspection and prescribes the details to be kept in the register.

The Council did not have a public roads register with the required information. While it could compile one from its roads asset register, it would be a complex exercise to do this on request.

The Council advised us that it had not received any recent requests for access and the cost of developing a register of public roads from its current records was not warranted. There is potential to build this function into the new AMIS with much less cost and effort.

Council response

The Council has commenced work on a current road register, generated from spatial data collected in the past 12 months. This information, in line with LG Act requirements, will be accessible from the Council's website as soon as it is completed.

6 Monitoring and reporting on asset maintenance and performance

6.1 Introduction

A key element of good asset management is to monitor, evaluate and report on road asset maintenance activities and performance to enable senior management and the elected body to make informed decisions and a council to discharge its accountability to the community.

A council discharges its public accountability by reporting on its performance in its annual report.

6.2 Positive Council asset management practices

Management regularly monitors maintenance outcomes and informs the elected body at council meetings of asset performance through monthly progress reports and quarterly budget reviews.

6.3 Findings

6.3.1 The Council had not established performance measures and targets for road assets linked to its required levels of service

Recommendation

The Council's suite of SMPs should clearly set out the Council's performance measures and targets to help it assess the effectiveness of its road asset maintenance activities.

The performance measures should be relevant to the Council's road asset objectives and the required levels of service and allow them to be measured and achieved within the time frame determined by the Council.

Finding

Section 122(1)(d) of the LG Act requires a council's suite of SMPs to provide the financial and non-financial measures used to monitor and assess a council's performance against its objectives.

The IIMM provides:

Performance measures are specific indicators ... used to demonstrate how the organisation is doing in relation to delivering levels of service, sometimes differentiated between ... a 'customer performance measure'; which measures the service the customer receives ... and a 'technical performance measure'; which measures how effectively the organisation provides the service.

Determining performance measures is dependent on first establishing the required levels of service. As discussed in section 4.3.1, the Council's suite of SMPs did not set out the levels of service for road assets. Consequently, we also found the suite of SMPs did not provide the performance measures and targets to enable the Council to objectively assess and report on its performance in delivering its required levels of service and the effectiveness of its road asset maintenance activities.

The Council's draft 2019-20 road service levels document provides performance measures for unsealed and sealed roads. For example:

Sealed roads are to be maintained to ensure that people travelling in motor vehicles have:

- *Smooth ride*
- *Safe travel*

And that the pavement is protected from water penetration which weakens the road and is expensive and disruptive to repair.

We found this draft document did not:

- adequately describe the service level from the customer's perspective, such as the road quality (based on its appearance (eg extent of potholes and cracks within the road surface), road widths (eg maximise its width where required) and responsiveness to inspect failures and to address complaints) and function (where the road network meets the need for all types of road users/vehicles).
- indicate the performance measures from an operational or technical perspective, such as the condition range that would satisfy the performance requirements and the frequency of condition inspections.

The Council's Strategic Plan 2020-2027 provides actions and measures for enhancing the Council's road network. The measures include community satisfaction with road assets, implementation of plans for scheduled maintenance activities and implementation of service level standards for road assets.

We found that it did not provide performance measures for road asset maintenance activities or measures used to demonstrate how the Council went in delivering levels of service. The IIMM outlines the benefits of measuring asset management performance against levels of service, which include:

- evidence of actual versus the desired level of service
- accountability to members of the public
- identification of areas for improvement in asset management
- a means of monitoring performance of service delivery providers.

Without establishing measures and targets to make an objective assessment of the Council's performance, there may be uncertainty over the effectiveness of road asset maintenance activities and whether the Council has delivered the required levels of service. This also reduces the ability of the Council to monitor, report and be held accountable by the community on its asset maintenance and performance. Further details on monitoring and reporting is provided in section 6.

Council response

The Council responded that its roads asset management plan is not in the format of the IPWEA template which includes this important detail. The planned update (February/March 2021) of the plan will include performance measures and targets.

6.3.2 The annual report for 2018-19 did not compare outcomes to targets in the annual business plan

Recommendation

The Council should clearly present information in its annual reports on its performance in implementing its suite of SMPs and annual business plan against individual strategic objectives, including commentary on its performance against targets/indicators.

Finding

Clause 2 of Schedule 4 of the LG Act requires a council to report the following in its annual report:

- The council's performance in implementing its suite of SMPs during the relevant financial year, and its projections and targets under its plans for the next financial year.
- The council's performance against its annual business plan for the relevant year.

Its suite of SMPs provides the Council's strategic objectives and actions it will take to achieve them. One objective was to effectively manage infrastructure, assets and built environment with an outcome that the road repair program continues at an achievable level.

The activities in the Council's 2018-19 annual business plan to achieve this objective were:

- resheeting works of at least 72 km at a cost of \$1.7 million
- resealing a priority list of roads as provided by the IAMP at a cost of \$500 000.

The Council's 2018-19 annual report did not clearly present information that enabled the community to determine its performance against these targets.

Where performance information in the annual report is not directly linked to strategic objectives and indicators/targets it is unclear and difficult to understand whether the Council has achieved its objectives, and to easily assess its performance.

Council response

The Council advised that its future annual reports will have a commentary on performance against targets/indicators. The annual business plan will be used as the target/indicator for its projects for a financial year and then measured for performance. The Strategic Plan 2020-2027 has a number of objectives that have measures that need to be reported on annually, which will also be reported in the annual report.

6.3.3 The Council's audit committee did not receive timely information for input into the elected body's decision-making process

Recommendation

The Council should review the scheduling of audit committee meetings to enable it to receive and consider relevant information, consistent with its role and responsibilities, and provide timely advice to the elected body. The audit committee's advice should be provided to the elected body before decisions are made on relevant matters.

Finding

Section 126 of the LG Act requires a council to have an audit committee. The audit committee's role is to oversee and provide independent advice to the council on financial accountability and internal control matters. A council determines its audit committee's membership and reporting and other accountability requirements in line with section 41(8) of the LG Act.

Section 87(9) of the LG Act requires the CEO to ensure that committee members are provided with any documents or reports that are to be considered at a meeting.

We noted that the Council's audit committee's terms of reference do not clearly outline its responsibilities and reporting requirements prior to Council adopting SMPs, annual business plans, financial statements, annual reports or internal control policies.

We found instances where the Council's audit committee did not receive information to enable it to, where necessary, provide advice to the elected body before a decision was made. This practice does not enable the audit committee to perform its function effectively and diminishes its role and responsibilities to the elected body. This is because the audit committee is unable to provide independent assurance and advice on key financial and internal control matters to the elected body before it makes a decision. The following are examples.

6.3.3.1 The audit committee's review of strategic and annual planning documents

The minutes of the audit committee meetings held from November 2016 to March 2019 did not record that the audit committee had reviewed or discussed any of the Council's suite of SMPs. The audit committee had received several documents for noting after they were adopted by Council.

The audit committee's 2017-2020 work plan required it to endorse the draft 2018-19 annual business plan and budget in May or June 2018 prior to community consultation.

The minutes of the audit committee meetings did not record its review of the draft 2018-19 annual business plan and budget before it was released for community consultation by the Council on 1 May 2018. The minutes of the audit committee meeting held on 6 June 2018 record:

That following Council approval of the 2018-19 Draft Annual Business Plan and budget for community consultation that the Audit Committee confirm its review of these documents.

The LGA's *Financial Sustainability Information Paper 3* on audit committees, revised February 2015, provides that the audit committee has responsibilities to ensure the council is aware of the impact on its financial sustainability of proposals in its suite of SMPs and annual business plans. The guidance provides that the audit committee should be satisfied there is consistency between a council's suite of SMPs, and that they are based on a sound framework and consider the likely impact on the council's service levels and standards and its financial sustainability.

If the audit committee does not review key documents to ensure all significant matters have been considered prior to public consultation, there is a risk that an additional phase of public consultation may be required if the audit committee recommends significant amendments after the initial public consultation.

6.3.3.2 The audit committee's review of policies

The minutes of the ordinary Council meeting on 18 June 2019 record a review of Council policies, which included internal control policies, that had been undertaken. The minutes of the audit committee meetings around that time did not record that it had reviewed or discussed the internal control policies before they were presented to the Council. The minutes of the audit committee meeting of 10 December 2019 record that the revised policies were noted by the audit committee, after the Council had reviewed them.

Council response

The Council accepted the recommendation. It responded that a review needs to be undertaken of the timing and number of audit committee meetings to be able to include reviewing various financial and strategic documents prior to Council adoption or community consultation in the case of the annual business plan.

This review should encompass a review of the terms of reference and future work programs of the audit committee. Video conferencing technology could be a solution for additional short meetings to reduce travel time for the independent chairperson.

In the short term the Council has taken on board the recommendation to have the audit committee review documents and provide advice before the Council makes decisions.

The annual business plan for 2020-21 was referred to the audit committee for review and advice prior to Council making a decision to send it out for public consultation.

Appendix 1 – Glossary of abbreviations and terms

The terms and descriptions used in this Report were sourced from legislation, the Council and IIMM.

Term	Description
AMIS	asset management information system.
Asset management	a systematic, structured process covering the whole life of an asset by which councils manage infrastructure assets to meet current and future levels of service.
Asset renewal/renewal of assets	planned maintenance to restore existing assets to original service capability. (This excludes improvements to the asset through upgrades to extend the life or improve functionality, such as adding a sealed surface to an unsealed road.)
Asset renewal funding ratio	quantifies the extent of any annual shortfalls against the optimal level of capital expenditure on renewal and replacement of all existing assets specified in asset management plans to provide desired and affordable service levels.
IAMP	infrastructure and asset management plan.
IIMM	<i>International Infrastructure Management Manual</i> , International Edition 2015 issued by the Institute of Public Works Engineering Australasia.
Infrastructure	a council's physical assets that enable it to deliver core services to its community, support improvements in economic activity and community members' health and wellbeing. This includes parks, community hubs, road infrastructure and community wastewater management systems.
IPWEA	Institute of Public Works Engineering Australasia.
Levels of service	identify the quality of the service and the cost-effectiveness of the service that an asset delivers. This will differ according to the choices that a council makes including when and how an asset is maintained.
LG Act	<i>Local Government Act 1999</i>
Lifecycle management	how existing and future assets will be managed to provide defined levels of service.
Maintenance	maintaining assets including all actions necessary for retaining an asset as near as practicable to an appropriate condition to deliver the required levels of service and ensure that the assets reaches its expected useful life. For the purposes of this examination, this includes regular ongoing day-to-day work necessary to keep assets operating and asset renewal activities.

Term	Description
Performance measures	specific indicators used to demonstrate how the council is delivering levels of service. Customer performance measures assess the service the customer receives. Technical performance measures show how effectively the council provides the service.
Patrol grading	routine maintenance of the unsealed pavement through light formation correction that is reactive in nature based on weather conditions and traffic use.
Planned maintenance	has three sub-categories and includes renewal activities: <ul style="list-style-type: none"> a) Periodic. Activities necessary to ensure the reliability or to sustain the design life of an asset. b) Predictive. Condition monitoring activities used to predict failure. c) Preventive. Maintenance that can be initiated without routine or continuous checking and is not condition-based.
Public road	a road vested in a council under the LG Act.
Renewal gap	a shortfall in required annual funding to renew assets. If this is not carried forward and funded, there is a backlog which risks deterioration of the assets and service levels.
Resealing	planned, periodic replacement of the top layer of a sealed road with spray seal and selected small stone.
Resheeting	planned, predictive maintenance for unsealed roads by adding additional material (gravel).
Road assets	sealed and unsealed roads.
Road infrastructure	council assets including roads, bridges, footpaths, kerbing and stormwater drainage systems.
Road pavement	the hard-layered structure that forms a road carriageway, generally compacted gravel.
Routine maintenance	day-to-day operational activities to keep the asset operating (line marking, potholing) which form part of the annual operating budget.
Sealed roads	roads surfaced with bitumen impregnated with small stone or some other hard material.
Suite of strategic management plans (SMPs)	The Council's suite of SMPs includes its strategic plan, the long-term financial plan and asset management plans.
Unplanned maintenance	corrective work required in the short term to restore an asset to working condition so it can continue to deliver the required service. This will address isolated surface defects in Council's roads including potholes, seal cracking, ruts and deformation, often required in response to customer reports or weather conditions (eg storms and flooding).
Unsealed roads	do not have a bituminous waterproof seal, usually found in low traffic and rural areas.

Appendix 2 – Relevant law and guidance

A2.1 *Local Government Act 1999*

The LG Act provides for the care, control and management of local roads by a council. A council's local roads are recorded in a public register. The CEO is required to ensure the council's assets and resources are properly managed and maintained.

A council is required to develop and adopt plans for the management of its area, to be called collectively the strategic management plans (suite of SMPs). In developing them, a council is required to set its long-term strategic objectives, assess its capacity to deliver the extent or levels of service to its community and determine performance measures and targets. Councils may review their suite of SMPs at any time but are required to undertake a comprehensive review within two years of each council general election.

A council's capacity to meet its long-term strategic objectives is demonstrated through its long-term financial plan and infrastructure and asset management plans (IAMPs). These plans identify the financial and infrastructure resources required to meet a council's strategic objectives and protect its long-term financial sustainability.

Short-term plans (annual business plan and budget) are developed each year in consultation with the community and adopted by a council to identify the principal activities to meet objectives and state the measures (financial and non-financial) that will be used to monitor and assess the performance of the council.

A council discharges its operational and financial accountability by reporting on its performance through its annual report, which includes its audited annual financial statements. A council's audit committee has a role in ensuring integrity of financial records and regularly reviews the adequacy of internal controls.

The LG Act provides an integrated process of consulting, planning, monitoring, reviewing and reporting where each stage depends on the other.

A2.2 Industry guidance – Institute of Public Works Engineering Australasia

The LG Act requires councils to develop IAMPs that cover a period of at least 10 years. The form and content of an IAMP is not prescribed. The LGA recommends¹⁸ that councils follow the guidance provided in the Institute of Public Works Engineering Australasia's *International Infrastructure Management Manual*, International Edition 2015 (IIMM) and templates when preparing their IAMPs.

¹⁸ Local Government Association of South Australia, *Financial sustainability information paper 6: infrastructure and asset management*, revised December 2019.

The IIMM outlines how infrastructure assets should be managed across their lifecycles to support service delivery objectives and is in line with the asset management best practices issued by the International Organization for Standardization.

A2.3 Local Government Association support

The LGA provides support and guidance to councils by publishing various information papers and model templates on asset management and financial sustainability. At the time of this Report, the LGA had commenced a project¹⁹ to produce:

- a sector-wide asset management and financial planning maturity assessment report
- a model infrastructure and asset management plan with model templates. The recommendations of the South Australian Productivity Commission report into local government costs and efficiency are being considered in the form and structure of these documents.

¹⁹ Local Government Association of South Australia, *Asset Management Program*, viewed 1 May 2020, <<https://www.lga.sa.gov.au/member-services/infrastructure-and-assets/asset-management-program>>.

Appendix 3 – Asset management and maintenance principles

A3.1 Asset management defined

Asset management is a systematic, structured process covering the whole life of an asset by which councils manage infrastructure assets to meet current and future levels of service.

Some terms used in this Report are explained in Appendix 1.

A3.2 The Council's strategic asset management framework

The aim of asset management is to meet a required level of service, in the most cost-effective way, by managing infrastructure assets over their expected useful lives for current and future community members, while managing risks and achieving long-term financial sustainability. In summary, the IIMM provides:

As highlighted by ISO 55000 [the International Standard], good AM [asset management] is about achieving best value through the right balance between cost, risk and performance.

In addition to its aim, another important concept the IIMM highlights is lifecycle asset management. This is where management strategies and decisions are considered as part of the asset lifecycle. Road assets have a long-term lifecycle to deliver the required level of service. So it is important that road asset management strategies and decisions are focused its long-term service delivery.

Section 4.1 provides the key elements of a good strategic asset management framework. The Council's framework includes these key elements, as shown in figure 2.8.

For each asset management component, the IIMM provides a range of levels of asset management being aware, basic, core, intermediate and advanced. The LGA reports that typically councils will start at a core level and develop to a more advanced level by identifying strategies to reduce lifecycle costs through improved practices and new technology.

Deciding on the level of asset management is a key strategic decision made by individual councils depending on the value that will be gained against the cost of applying it. This will differ between councils and should be considered in the context of their resource capacity, risks and other funding priorities.

We reviewed the asset management maturity levels in the IIMM, and it is our view that councils should be operating at the core level for many of the asset management components to meet LG Act requirements. For example, setting the strategic direction at a

core level of maturity requires that the organisation’s asset management policy and asset management objectives be aligned to its goals and strategic context.

In 2019, the Council assessed its asset management maturity against the International Standard on asset management (ISO 55001). The Council found it did well in areas of organisational context and leadership and not so well in areas associated with operational tasks, technical software support and the measurement of Council’s progress in monitoring and improving asset management practices

A3.3 Maintenance defined

Maintenance is defined as all actions necessary for retaining an asset as near as practicable to an appropriate condition to deliver the required levels of service and ensure that the asset reaches its expected useful life. For the purpose of our examination, this includes the regular, ongoing, day-to-day work necessary to keep assets operating and asset renewal activities. Renewal activities for road assets include work to replace the sealed surface or to replace the gravel sheet of unsealed roads (see figures 2.2 and 2.3).

Maintenance is important to reduce the risks provided in section 2.1.2.

A3.4 Types of maintenance

Activities to maintain road assets are driven by their condition and the required levels of service. Maintenance can be planned, unplanned or routine. Renewal of road assets is a major activity of councils and is planned maintenance to restore existing assets to original service capability. This excludes improvements to the asset through upgrades to extend the life or improve functionality, such as adding a sealed surface to an unsealed road.

Figure A3.1 outlines the different road maintenance activities carried out by the Council.

Figure A3.1: Types of road maintenance activities

Maintenance type	Sub-category	Activity description	Nature of expenditure
Planned – renewal of assets	Resheeting	Predictive maintenance for unsealed roads by adding additional pavement material (gravel).	Capital
	Resealing	Periodic replacement of the top layer of a sealed road with spray seal and selected small stone.	Capital
Unplanned maintenance	Reactive	Required to address isolated surface defects including potholes, seal cracking, ruts and deformation often through customer requests reporting, such as after storms and flooding.	Operational

Maintenance type	Sub-category	Activity description	Nature of expenditure
Routine works	Sealed roads	Line marking and potholing.	Operational
	Patrol grading	Operational maintenance of the unsealed pavement through light formation correction that is reactive in nature based on weather conditions and traffic use.	Operational

Figure A3.2: Examples of road defects and maintenance works



A pothole with cracking



Deformation (washout) due to flooding



Damaged edge causing a drop off (safety issue)



Resheeted unsealed road

Source: images supplied by the Council.

