

Aquasan Position Paper

Ensure the sustainability of communal water services through adequate management of municipal infrastructure

The Association for Water and Environmental Protection "Aquasan Network in BiH" advocates adequate management of fixed assets - municipal infrastructure used in the process of providing water services as a good host, which aims to ensure the sustainability of water companies and overall sustainability of water services.

Efficient management of fixed assets - municipal infrastructure is a significant challenge for local government units (LGUs) and public water / utility companies (PUCs) in Bosnia and Herzegovina (BiH). LGUs and PUCs have been facing this challenge for many years. Among other things, inadequate asset management is the result of a lack of adequate information and data on municipal infrastructure and its current condition, as a basis for making sound business decisions and defining adequate tariff policy. Due to the lack of information on the locations, characteristics and condition of the constructed municipal infrastructure used for the delivery of water services, there is an inability to adequately manage and plan current and investment maintenance. Assets that make up municipal infrastructure age, lose value and deteriorate over time, which affects the increase in costs of operation and maintenance of water systems, and leads to a decline in the quality of water services. Adequate management of fixed assets used in the process of delivery of water services by LGUs and PUCs is one of the key preconditions for ensuring the sustainability of PUCs, and ultimately the sustainability of utility water services.



Water services are often said to be capital intensive, which means that PUCs are constantly working on maintaining pipes, valves, pumps, tanks and all other parts of municipal infrastructure, while controlling costs and reducing risks to service quality and health of service users. With deteriorating infrastructure, limited financial resources, limited flexibility in setting economic prices for water services and growing expectations from service users, PUCs are continuously facing technical and financial challenges in the asset management process.

Some of the main challenges faced by LGUs and PUCs in BiH when it comes to municipal infrastructure management:

- Asset records are incomplete or non-existent,
- Impossibility to calculate the legally prescribed depreciation costs for municipal infrastructure used for the provision of water services due to incomplete records,
- Inadequate knowledge of how to manage assets as a good host,
- Lack of asset management plans at the level of LGUs and PUCs,
- The asset is old and decaying,
- Small investments in the construction of new infrastructure due to lack of financial resources,
- Limited financing of current and investment maintenance from existing prices of water services,
- The tariffs of water services are not economic and do not fully cover the costs.



Asset management at PUCs implies the application of **knowledge, techniques and plans** for asset management - municipal infrastructure, in order to reduce management costs and regular maintenance with the delivery of optimal levels of service. A quality **Asset Management Plan** is based on an asset register, a determined level of service, critical assets (periodic analysis of the condition and criticality of fixed assets), lifetime costs and financing strategy.

Municipal infrastructure is owned by local government units, and it is most often entrusted to PUCs for management and maintenance with the aim of delivering municipal water services.

However, one of the main challenges facing LGUs and PUCs in BiH is that records on municipal infrastructure in use are often non-existent or incomplete. As one of the key priorities for improving the management of fixed assets, decision-makers in LGUs and PUCs should initiate activities of **identification, inventory, revaluation and registration of fixed assets – municipal infrastructure**, which will prevent further deterioration of fixed assets and ensure preconditions for long-term sustainability of communal water services.

In order to implement the processes of inventory and identification of fixed assets that are not registered in LGUs and PUCs, it is necessary that, as a first step in the process of registration of municipal infrastructure, at the level of LGU by the decision of the mayor, the Commission for the inventory and identification of unregistered fixed assets is formed. Through the work of the Commission for Inventory and Identification of Unregistered Fixed Assets, unregistered fixed assets should go through the procedure of identification and inventory through the preparation of "auxiliary" book of fixed assets, as well as the revaluation procedure based on cost and current "fair" value of fixed assets. Such revalued fixed assets will ultimately be the subject of a decision of the city / municipal council on the registration of fixed assets in the business books of the LGUs, ie the transfer of fixed assets and registration in the PUCs' main asset book.

Why is it necessary to register fixed assets - municipal infrastructure?

The registration of fixed assets will create a basis for calculating the statutory depreciation costs for assets used in the process of providing water services, which is also required by IAS 16 - Real estate, Plant and Equipment, as well as the Law on Communal Activities applicable at the Republika Srpska entity and level of cantons in the Federation of BiH, which stipulate that the assets should be disposed of as a "good host". Also, the calculation of depreciation costs will provide the basic prerequisites for calculating **the economic tariffs of water services**. Through the economic prices of water services, **full coverage of costs** incurred in the provision of water services for current and investment maintenance of fixed assets will be ensured, which will ensure continuity in the delivery of water services. In order to ensure the long-term sustainability of water utilities in BiH, the Aquasan Network in BiH continues to advocate and support processes to improve asset management in LGUs and PUCs and to provide support to relevant actors to stop the stagnation of the water services sector. The ultimate goal of efficient and sustainable asset management is to establish the basic preconditions for improving the current state of water services, but also the further development of the water services sector in BiH.



Advantages of adequate management of municipal infrastructure:

- Extended life cycle and improved asset reliability;
- Making informed decisions on rehabilitation, reconstruction, upgrade and replacement of asset;
- Providing quality and sustainable services to end service users;
- Business planning and investment planning based on economic foundations;
- Improved financial results through reduced labour costs and capital expenditures;
- Calculation of tariffs of water services based on good operational and financial planning and actual depreciation costs of fixed assets;
- Priority-oriented budgets with an appropriate allocation of resources required;
- Reporting decision makers based on results.