



**NORTHERN
MIDLANDS
COUNCIL**

ASSET MANAGEMENT STRATEGY



Version: February 2016

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Executive Summary

This asset management strategy is prepared to assist council in improving the way it delivers services from infrastructure including roads, bridges, footpaths, stormwater drainage, buildings and plant and equipment and any other classes of assets. These infrastructure assets have a replacement value of \$330 million.

The asset management strategy is to enable Council to show:

- how its asset portfolio will meet the service delivery needs of its community into the future,
- enable Council's asset management policies to be achieved, and
- ensure the integration of Council's asset management with its long term strategic plan.¹

Adopting this asset management strategy will assist council in meeting the requirements of national sustainability frameworks, likely State legislation and regulations and providing services needed by the community in a financially sustainable manner.

The asset management strategy is prepared following a review of the council's service delivery practices, financial sustainability indicators, asset management maturity and fit with council's vision for the future outlined in the Strategic Plan 2017-2027. The strategy outlines an asset management improvement plan detailing a program of tasks to be completed and resources required to bring council to a minimum 'core' level of asset maturity and competence.

Strategy outlook

1. Council's long term financial plan provides that Council will have the ability to maintain current service levels for the next 10 years.
2. Council is just able to fund current infrastructure life cycle cost at current levels of service and available revenue.
3. Council's current asset management maturity is slightly below 'core' level, and investment is needed to continue to improve information management, lifecycle management, service management and accountability and direction.

Asset management strategies

| No | Strategy | Desired Outcome |
|----|--|---|
| 1 | Review Annual Budgeting to incorporate Long Term Financial Planning | The long term implications of Council services are considered in annual budget deliberations. |
| 2 | Review Asset Management Plans covering at least 10 years for all major asset classes (80% of asset value). | Identification of services needed by the community and required funding to optimise 'whole of life' |

¹ LGPMC, 2009, Framework 2 *Asset Planning and Management*, p 4.

| | | |
|----|--|---|
| | | costs. |
| 3 | Develop Long Term Financial Plan covering 10 years incorporating asset management plan expenditure projections with a sustainable funding position outcome. | Sustainable funding model to provide Council services. |
| 4 | Incorporate Year 1 of Long Term Financial Plan revenue and expenditure projections into annual budgets. | Long term financial planning drives budget deliberations. |
| 5 | Review and update asset management plans and long term financial plans after adoption of annual budgets. Communicate any consequence of funding decisions on service levels and service risks. | Council and the community are aware of changes to service levels and costs arising from budget decisions. |
| 6 | Report Council's financial position at Fair Value in accordance with Australian Accounting Standards, financial sustainability and performance against strategic objectives in Annual Reports. | Financial sustainability information is available for Council and the community. |
| 7 | Ensure Council's decisions are made from accurate and current information in asset registers, on service level performance and costs and 'whole of life' costs. | Improved decision making and greater value for money. |
| 8 | Report on Council's resources and operational capability to deliver the services needed by the community in the Annual Report. | Services delivery is matched to available resources and operational capabilities. |
| 9 | Ensure responsibilities for asset management are identified and incorporated into staff position descriptions. | Responsibility for asset management is defined. |
| 10 | Implement an Improvement Plan to realise 'core' maturity for the financial and asset management competencies within 2 years. | Improved financial and asset management capacity within Council. |
| 11 | Report annually to Council on development and implementation of Asset Management Strategy, AM Plans and Long Term Financial Plans. | Oversight of resource allocation and performance. |

Asset Management Improvement Plan

The program of tasks and resources required to achieve a minimum 'core' asset management maturity was developed in the asset management strategy. The tasks and program are shown below.

| Ref | Task | Responsibility | Target Date | Budget |
|-----|--|----------------|-------------|----------|
| 2 | Fleet Asset Management Plan | JG | 30/9/2017 | In-house |
| 3 | Review LTFP | MM | 30/6/2017 | In-house |
| 4 | Review requirements for Parks & Reserves | MB/JG | 31/12/2017 | In-house |
| 5 | Overall Asset Management Plan | MB/JG | 31/12/2017 | In-house |

1. Introduction

Assets deliver important services to communities. A key issue facing local governments throughout Australia is the management of ageing assets in need of renewal and replacement.

Infrastructure assets such as roads, drains, bridges, and public buildings present particular challenges. Their condition and longevity can be difficult to determine. Financing needs can be large, requiring planning for large peaks and troughs in expenditure for renewing and replacing such assets. The demand for new and improved services adds to the planning and financing complexity.²

The creation of new assets also presents challenges in funding the ongoing operating and replacement costs necessary to provide the needed service over the assets' full life cycle.³

The national frameworks on asset planning and management and financial planning and reporting endorsed by the Local Government and Planning Ministers' Council (LGPMC) require councils to adopt a longer-term approach to service delivery and funding comprising:

- A strategic longer-term plan covering, as a minimum, the term of office of the councillors and:
 - bringing together asset management and long term financial plans,
 - demonstrating how council intends to resource the plan, and
 - consulting with communities on the plan
- Annual budget showing the connection to the strategic objectives, and
- Annual report with:
 - explanation to the community on variations between the budget and actual results ,
 - any impact of such variances on the strategic longer-term plan,
 - report of operations with review on the performance of the council against strategic objectives.⁴

Framework 2 Asset Planning and Management has seven elements to assist in highlighting key management issues, promote prudent, transparent and accountable management of local government assets and introduce a strategic approach to meet current and emerging challenges.

- Asset management policy,
- Strategy and planning,
 - asset management strategy,
 - asset management plan,
- Governance and management arrangements,
- Defining levels of service,
- Data and systems,
- Skills and processes, and
- Evaluation.⁵

² LGPMC, 2009, Framework 2 Asset Planning and Management, p 2.

³ LGPMC, 2009, Framework 3 Financial Planning and Reporting, pp 2-3.

⁴ LGPMC, 2009, Framework 3 Financial Planning and Reporting, pp 4-5.

The asset management strategy is to enable Council to show:

- how its asset portfolio will meet the service delivery needs of its community into the future,
- to enable Council's asset management policies to be achieved, and
- to ensure the integration of Council's asset management with its long term strategic plan.⁶

The goal of asset management is to ensure that services are provided:

- in the most cost effective manner,
- through the creation, acquisition, maintenance, operation, rehabilitation and disposal of assets,
- for present and future consumers.

The objective of the Asset Management Strategy is to establish a framework to guide the planning, construction, maintenance and operation of the infrastructure essential for council to provide services to the community.

1.1 Legislative reform

There is statutory requirement for long term asset and financial planning for local government in Tasmania.

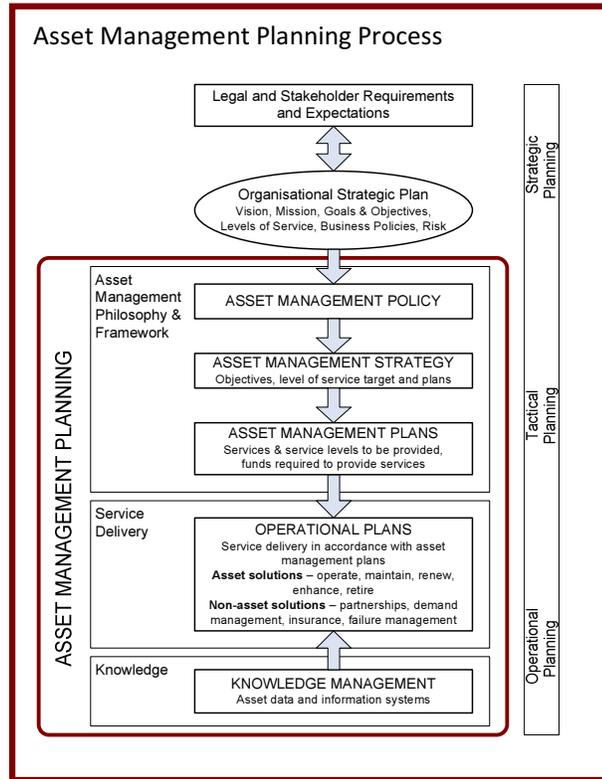
⁵ LGPMC, 2009, *Framework 2 Asset Planning and Management*, p 4.

⁶ LGPMC, 2009, *Framework 2 Asset Planning and Management*, p 4.

1.2 Asset Management Planning Process

Asset management planning is a comprehensive process to ensure that assets are managed and maintained in a way that enables affordable services from infrastructure to be provided in an economically optimal way. In turn, affordable service levels can only be determined by assessing Council’s financially sustainability under scenarios with different proposed service levels.

Asset management planning commences with defining stakeholder and legal requirements and needs, incorporating these needs into the organisation’s strategic plan, developing an asset management policy, strategy, asset management plan and operational plans, linked to a long-term financial plan with a funding plan.⁷



2. What Assets do we have?

Council uses infrastructure assets to provide services to the community. The range of infrastructure assets and the services provided from the assets is shown in Table 1.

Table 1: Assets used for providing Services

| Asset Class | Description | Services Provided |
|-------------|--|--|
| Transport | Road related assets within the road reserve, road formation, road pavement and seal, kerb and channel, footpaths, carparks, bridges, and some street furniture | Manage, maintain, renew and improve road assets to ensure a specified level of service delivery over their entire life. |
| Stormwater | Stormwater assets relate to the urban drainage system and associated pits and valves | Manage, maintain, renew and improve stormwater assets to ensure a specified level of service over their entire life to the community |
| Buildings | Building assets relate to buildings and heritage structures owned or controlled by | Manage, maintain, renew and improve building assets to ensure a |

⁷ IPWEA, 2009, AIFMG, Quick Guide, Sec 4, p 5.

| | | |
|-------------------|---|--|
| | Council | specified level of service over their entire life to the community |
| Plant & Equipment | Relate to fleet, and major plant and equipment used by Council to provide services to the community | Maintain assets to ensure a specified level of service over their entire life to the community |
| | | |
| | | |

3. Council's Assets and their management?

3.1 State of the Assets

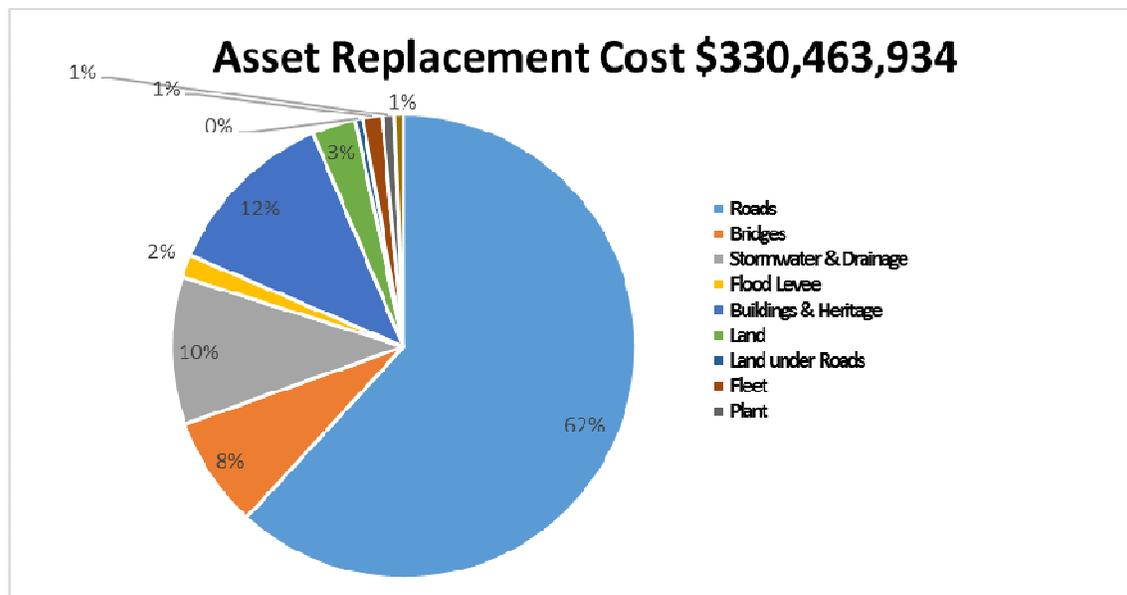
The financial status of Council's assets is shown in Table 2.

Table 2: Financial Status of the Assets

| Asset Class | Replacement Cost (\$000) | Residual Value (\$000) | Accumulated Depreciation | Depreciated Replacement Cost (\$000) | Depreciation Expense (\$000) |
|----------------------------------|--------------------------|------------------------|--------------------------|--------------------------------------|------------------------------|
| Roads | 204,273,284 | | 67,141,263 | 137,132,021 | 3,269,953 |
| Bridges | 25,623,263 | | 7,767,269 | 17,855,994 | 381,622 |
| Stormwater | 34,045,073 | | 8,451,865 | 25,593,208 | 403,693 |
| Flood Levee | 5,205,942 | | 134,442 | 5,071,500 | 18,882 |
| Buildings & Heritage | 40,246,067 | | 13,838,996 | 26,407,071 | 394,836 |
| Land | 10,020,340 | | | 10,020,340 | |
| Land under Roads | 1,772,111 | | | 1,772,111 | |
| Fleet | 4,419,073 | | 2,125,637 | 2,293,436 | 372,720 |
| Plant & Equipment | 2,753,645 | | 1,832,404 | 921,241 | 165,451 |
| Furniture & Fittings & Computers | 2,105,136 | | 1,531,809 | 573,327 | 105,017 |
| Total | 330,463,934 | | 102,823,685 | 227,640,249 | 5,112,174 |

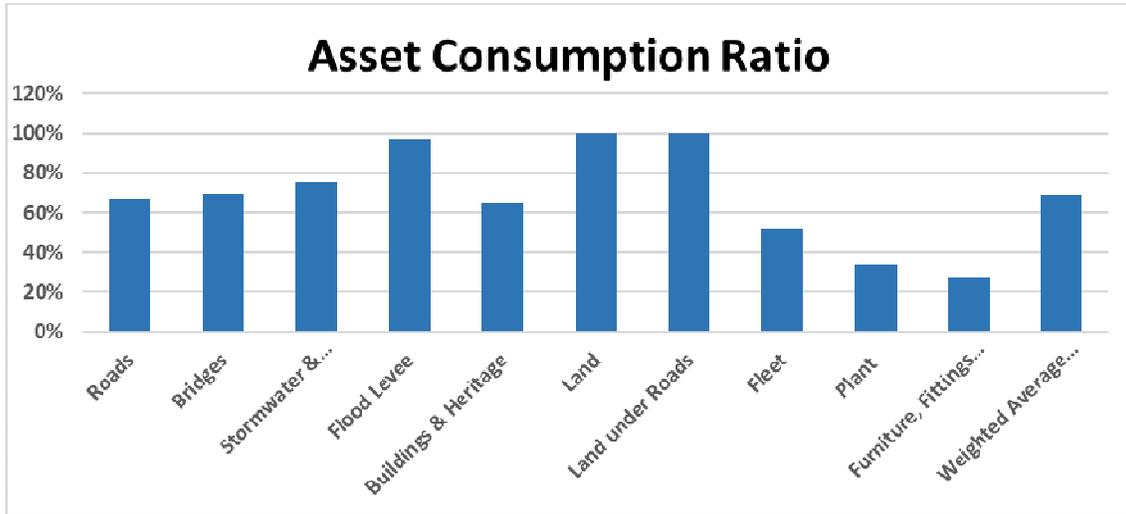
Figure 1 shows the replacement values of Council's assets.

Figure 1: Asset Replacement Cost



The asset consumption ratios of Council's assets (average proportion of 'as new' condition left in assets) are shown in Figure 2.

Figure 2: Asset Consumption Ratio

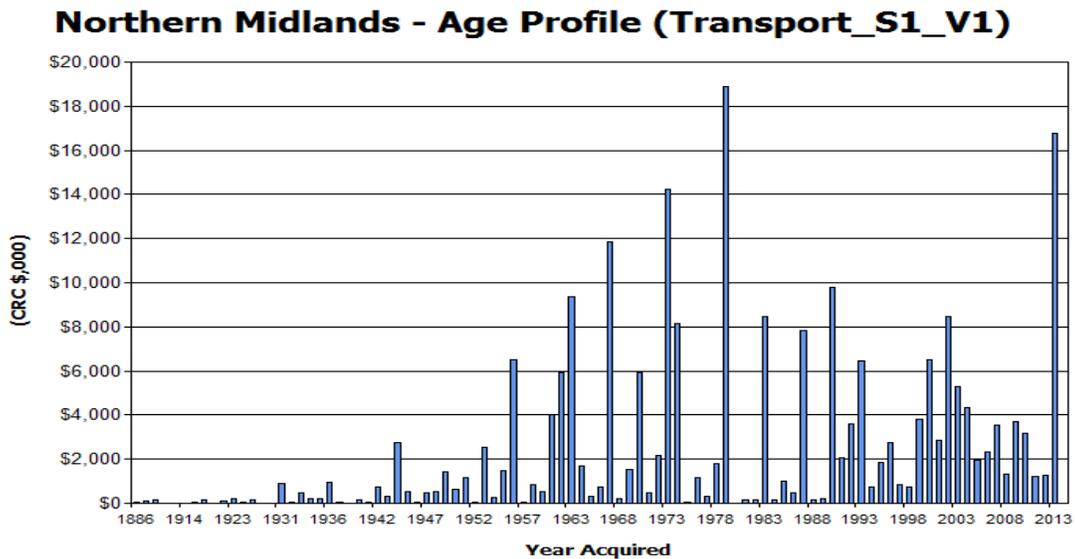


Council asset consumption ratio is on average 69 percent used, with major asset classes all around this level with only minor asset classes substantially below this percentage.

The condition of Council's transport assets is shown in Figure 3.

Asset Condition Profile graph for all assets will be inserted when Asset Management Plans are completed for all asset classes.

Figure 3: Asset Condition Profile



3.2 Life Cycle Cost

Life cycle costs (or whole of life costs) are the average costs that are required to sustain the service levels over the longest asset life. Life cycle costs include operating and maintenance expenditure and asset consumption (depreciation expense). The life cycle cost for the services covered in this asset management strategy is shown in Table 3.

Table 3: Life Cycle Cost for Council Services

| Service | Previous Year Expenditure | | Previous Year Depreciation Exp | Life Cycle Cost (\$/yr) |
|-------------------|---------------------------|-------------|--------------------------------|-------------------------|
| | Operations | Maintenance | | |
| Transport assets | Included with Maintenance | 1,976,091 | 3,791,645 | 5,767,736 |
| Stormwater | 6,458 | 79,402 | 403,693 | 489,553 |
| Buildings | Included with Maintenance | 673,105 | 394,836 | 1,067,941 |
| Plant & Equipment | Included with Maintenance | 565,130 | 392,896 | 958,026 |
| Other | | | | |
| | | | | |
| | | | | |
| TOTAL | | \$3,293,728 | \$4,983,070 | \$8,283,256 |

Life cycle costs can be compared to life cycle expenditure to give an indicator of sustainability in service provision. Life cycle expenditure includes operating, maintenance and capital renewal expenditure in the previous year or preferably averaged over the past 3 years. Life cycle expenditure will vary depending on the timing of asset renewals. The life cycle expenditure averaged over the last 2 years is shown in Table 4.

Table 4: Life Cycle Expenditure for Council Services

| Service | Previous Year Expenditure | | Cap Renewal Exp (\$/yr) | Life Cycle Exp (\$/yr) |
|-------------------|---------------------------|-------------|-------------------------|------------------------|
| | Operations | Maintenance | | |
| Transport assets | Included with Maintenance | 1,976,091 | 4,060,403 | 6,036,494 |
| Stormwater | 6,458 | 79,402 | 25,894 | 111,754 |
| Buildings | Included with Maintenance | 673,105 | 416,682 | 1,089,787 |
| Plant & Equipment | Included with Maintenance | 565,130 | 559,214 | 1,124,344 |
| Other | | | | |
| | | | | |
| | | | | |
| All Services | | \$3,293,728 | \$5,062,193 | \$8,362,379 |

The life cycle costs and life cycle expenditure comparison highlights any difference between present outlays and the average cost of providing the service over the long term, if the life cycle expenditure is less than the life cycle cost, it is most likely that outlays will need to be increased or cuts in services made in the future.

Knowing the extent and timing of any required increase in outlays and the service consequences if funding is not available will assist organisations in providing service to their communities in a financially sustainable manner. This is the purpose of the AM Plans and long term financial plan.

A shortfall between life cycle cost and life cycle expenditure gives an indication of the life cycle gap to be addressed in the asset management and long term financial plan.

The life cycle gap and life cycle indicator for services covered by this asset management strategy is summarised in Table 5.

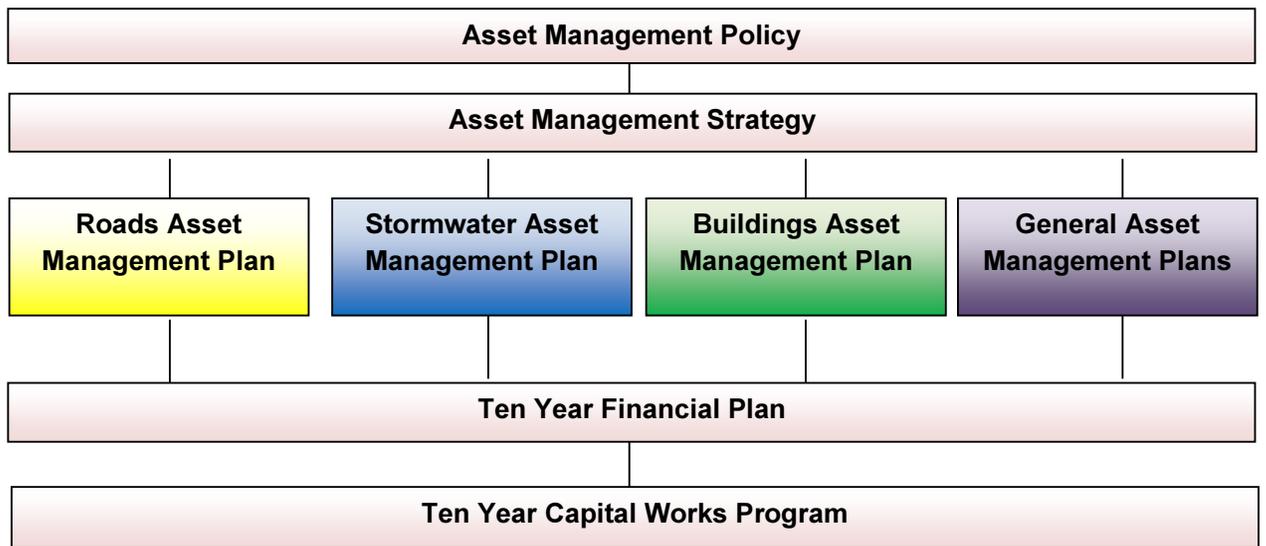
Table 5: Life Cycle Indicators

| Service | Life Cycle Cost (\$/yr) | Life Cycle Expenditure (\$/yr) | Life Cycle Gap * (\$/yr) | Life Cycle Indicator |
|-------------------|-------------------------|--------------------------------|--------------------------|----------------------|
| Transport assets | 5,767,736 | 6,036,494 | -268,758 | 105% |
| Stormwater | 489,553 | 111,754 | (377,799) | 23% |
| Buildings | 1,067,941 | 1,089,787 | -21,846 | 102% |
| Plant & Equipment | 958,026 | 1,124,344 | -166,318 | 117% |
| Other | | | | |
| | | | | |
| | | | | |
| All Services | \$8,283,256 | \$8,362,379 | \$79,123 | 101% |

Note: * A life cycle gap is reported as a negative value.

Northern Midlands Council currently meets its life cycle cost, however asset management plans are not complete for buildings, plant & equipment, and other small asset classes. Life cycle cost compared to average forecasted expenditure over the next 10 year period included in the Long Term Financial Plan shows a sustainability indicator of 100% compared to the current indicator shown above of 101%.

3.3 Asset Management Structure



3.4 Corporate Asset Management Team

A 'whole of organisation' approach to asset management can be developed with a corporate asset management team. The benefits of a corporate asset management team include:

- demonstrate corporate support for sustainable asset management,
- encourage corporate buy-in and responsibility,
- coordinate strategic planning, information technology and asset management activities,
- promote uniform asset management practices across the organisation,
- information sharing across IT hardware and software,
- pooling of corporate expertise
- championing of asset management process,
- wider accountability for achieving and reviewing sustainable asset management practices.

The role of the asset management team will evolve as the organisation maturity increases over several phases.

Phase 1

- strategy development and implementation of asset management improvement program,

Phase 2

- asset management plan development and implementation,
- reviews of data accuracy, levels of service and systems plan development,

Phase 3

- asset management plan operation
- evaluation and monitoring of asset management plan outputs
- ongoing asset management plans review and continuous improvement.

The current position on Council's asset management team is developing the asset management plans, implement a long term financial plan for review over the next 12 months.

3.5 Financial & Asset Management Core Competencies

The National Frameworks on Asset Planning and Management and Financial Planning and Reporting define 10 elements. 11 core competencies have been developed from these elements⁸ to assess 'core' competency under the National Frameworks. The core competencies are:

Financial Planning and Reporting

- Strategic Long Term Plan
- Annual Budget
- Annual Report

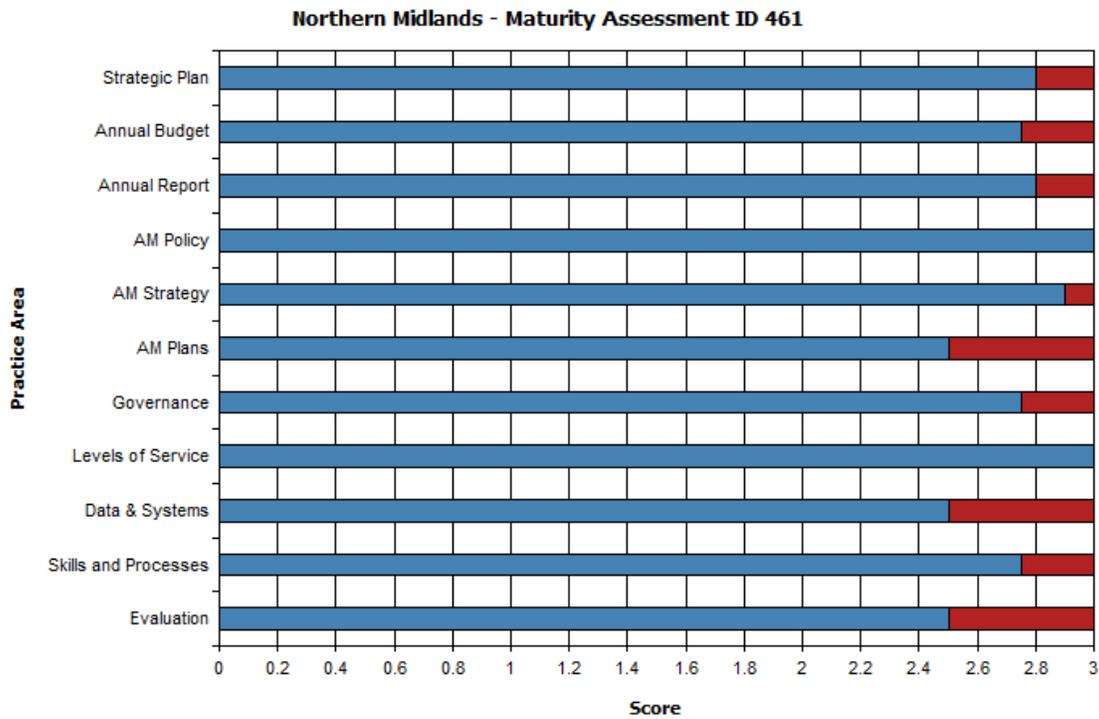
Asset Planning and Management

- Asset Management Policy
- Asset Management Strategy
- Asset Management Plans
- Governance & Management
- Levels of Service
- Data & Systems
- Skills & processes
- Evaluation

⁸ Asset Planning and Management Element 2 *Asset Management Strategy and Plans* divided into Asset Management Strategy and Asset Management Plans competencies.

Council’s maturity assessment for the core competencies is detailed in Appendix A and summarised in Figure 4. The current maturity level is shown by the blue bars. The maturity gap to be overcome for Council to achieve a core financial and asset management competency is shown by the red bars.

Figure 4: Core Asset Management Maturity



3.6 Strategy Outlook

1. Council’s long term financial plan provides that Council will have the ability to maintain current service levels for the next 10 years.
2. Council is just able to fund current infrastructure life cycle cost at current levels of service and available revenue.
3. Council’s current asset management maturity is slightly below ‘core’ level, and investment is needed to continue to improve information management, lifecycle management, service management and accountability and direction.

4. Where do we want to be?

4.1 Council's Vision, Mission, Goals and Objectives

Council has adopted a Vision for the future in the Council Strategic Plan.

Northern Midlands communities will be vibrant, sustainable and resilient, promoting their diversity and conserving the heritage values of our towns.

Our competitive strengths will attract more people to the municipality, increase employment, business activity and property values.

Our community pride will be based on co-operation and self help, evident by our care of natural and constructed assets and our leadership in environmental management.

Each community's needs will be met with fair and appropriate quality services, creating high community satisfaction with Council's performance and high employee morale and well-being.

Council's purpose or reason for existence is set out in the adopted mission statement,

Northern Midlands Council is committed to providing effective, innovative and efficient service to the community it represents. It aims to encourage active local communities of distinct character and to foster a sense of pride in the Northern Midlands area.

The Strategic Plan sets goals and objectives to be achieved in the planning period. The goals set out where Council wants to be. The objectives are the steps needed to get there. Goals and objectives relating to the delivery of services from infrastructure are shown in Table 6.

Table 6: Goals and Objectives for Infrastructure Services

| Goals | Objectives |
|---|---|
| To provide the service needs of our community | Ascertain service level needs. Focus on outputs with a view to continuously improving the match between service requirements and service delivery. Ensure our assets are appropriately used and maintained. |
| To optimise the service potential of our assets | Through improved management of our existing assets, improved flexibility of our asset base, rigorous planning, evaluation and budgetary processes, and by using more cost effective service delivery. |
| To maximise value for money | Take account of the full cost of holding, using and disposing of assets throughout their life, ensure asset management decisions are responsive to performance management and monitoring, and by producing costed options for the delivery of asset services. |
| To contribute to economic growth | Appropriately match assets to meet service delivery demands, and ensure that all asset management decisions are made within Council's overall resource allocation and management framework. |
| To assign responsibility and accountability | Clearly define ownership and control of assets through asset information systems that meet both government and management decision requirements. |

| | |
|---|---|
| To promote balance between development and sustainability | Balance the demand for new assets through the use of non-asset service delivery alternatives where appropriate, and protect the needs of future generations, and consider asset renewal and rehabilitation options whenever feasible. |
| To minimise risks to the community and to Council's financial viability | Apply risk assessment and reduction strategies, undertake regular condition audits, and deliver appropriate asset maintenance and renewal programs. |

4.2 Asset Management Policy

Council's Asset Management Policy defines the council's vision and service delivery objectives for asset management in accordance with the Strategic Plan and applicable legislation, community needs and affordability.

The asset management strategy is developed to support the asset management policy and is to enable council to show:

- how its asset portfolio will meet the affordable service delivery needs of the community into the future,
- enable Council's asset management policies to be achieved, and
- ensure the integration of Council's asset management with its long term strategic plans.

4.3 Asset Management Vision

To ensure the long-term financial sustainability of Council, it is essential to balance the community's expectations for services with their ability to pay for the infrastructure assets used to provide the services. Maintenance of service levels for infrastructure services requires appropriate investment over the whole of the asset life cycle. To assist in achieving this balance, Council aspires to:

Develop and maintain asset management governance, skills, process, systems and data in order to provide the level of service the community need at present and in the futures, in the most cost-effective and fit for purpose manner.

In line with the vision, the objectives of the asset management strategy are to:

- ensure that the Council's infrastructure services are provided in an economically optimal way, with the appropriate level of service to residents, visitors and the environment determined by reference to Council's financial sustainability,
- safeguard Council's assets including physical assets and employees by implementing appropriate asset management strategies and appropriate financial resources for those assets,
- adopt the long term financial plan as the basis for all service and budget funding decisions,
- meet legislative requirements for all Council's operations,
- ensure resources and operational capabilities are identified and responsibility for asset management is allocated,

- provide high level oversight of financial and asset management responsibilities through reporting to council on development and implementation of Asset Management Strategy, Asset Management Plans and Long Term Financial Plan.

Strategies to achieve this position are outlined in Section 5.

5. How will we get there?

The Asset Management Strategy proposes strategies to enable the objectives of the Strategic Plan, Asset Management Policy and Asset Management Vision to be achieved.

Table 7: Asset Management Strategies

| No | Strategy | Desired Outcome |
|----|--|--|
| 1 | Move from Annual Budgeting to Long Term Financial Planning | The long term implications of Council services are considered in annual budget deliberations. |
| 2 | Develop and annually review Asset Management Plans covering at least 10 years for all major asset classes (80% of asset value). | Identification of services needed by the community and required funding to optimise 'whole of life' costs. |
| 3 | Develop Long Term Financial Plan covering 10 years incorporating asset management plan expenditure projections with a sustainable funding position outcome. | Sustainable funding model to provide Council services. |
| 4 | Incorporate Year 1 of Long Term Financial Plan revenue and expenditure projections into annual budgets. | Long term financial planning drives budget deliberations. |
| 5 | Review and update asset management plans and long term financial plans after adoption of annual budgets. Communicate any consequence of funding decisions on service levels and service risks. | Council and the community are aware of changes to service levels and costs arising from budget decisions. |
| 6 | Report Council's financial position at Fair Value in accordance with Australian Accounting Standards, financial sustainability and performance against strategic objectives in Annual Reports. | Financial sustainability information is available for Council and the community. |
| 7 | Ensure Council's decisions are made from accurate and current information in asset registers, on service level performance and costs and 'whole of life' costs. | Improved decision making and greater value for money. |
| 8 | Report on Council's resources and operational capability to deliver the services needed by the community in the Annual Report. | Services delivery is matched to available resources and operational capabilities. |
| 9 | Ensure responsibilities for asset management are identified and incorporated into staff position descriptions. | Responsibility for asset management is defined. |
| 10 | Implement an Improvement Plan to realise 'core' maturity for the financial and asset management competencies within 2 years. | Improved financial and asset management capacity within Council. |
| 11 | Report six monthly to Council by Audit Committee/CEO on development and implementation of Asset Management Strategy, AM Plans and Long Term Financial Plans. | Oversight of resource allocation and performance. |

6. Asset Management Improvement Plan

The tasks required to achieve a 'core' financial and asset management maturity are shown in priority order in Table 8.

Table 8: Asset Management Improvement Plan

| Ref | Task | Responsibility | Target Date | Budget |
|-----|--|----------------|-------------|--------|
| 2 | Plant & Equipment Asset Management Plan | JG | 31/12/2017 | |
| 3 | Review LTFP | MM | 30/6/2017 | |
| 4 | Review requirements for Parks & Reserves and other assets. | MB/JG | 31/12/2017 | |
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Appendix A Asset Management Maturity Assessment