5.11. STRATEGIC ASSET AND SERVICE MANAGEMENT PLAN

REPORT AUTHOR(S):	Michael Kriedemann, Manager Infrastructure
GENERAL MANAGER:	Darryl Crees, General Manager Corporate Services Paul Hoye, General Manager Operations
DEPARTMENT:	Sustainable Communities Finance and Information Technology Governance Infrastructure Services Water and Wastewater

RECOMMENDATION

That Council adopts the Strategic Asset and Service Management Plan dated 28 June 2016.

EXECUTIVE SUMMARY

The Strategic Asset and Service Management Plan provides the overarching strategy and principles to ensure the sustainable management of Council's infrastructure and the assets listed in Council's asset register.

The plan also provides a framework to develop detailed asset management sub-plans for each asset class. Each sub-plan will incorporate detailed information on council's assets, maintenance planning, useful life tables, proposed budget allocations (renewal expenditure, depreciation etc.), levels of service, risk assessment and any external drivers.

Council has adopted an Asset and Service Management General Policy and the goal is for Council, on behalf of the community, to meet a required level of service in a way that is financially sustainable through the creation, acquisition, operation and maintenance, renewal and disposal of assets to provide for present and future expectations.

BACKGROUND

In June 2015 Council adopted an Asset and Service Management General Policy and the goal of this policy is for Council, on behalf of the community, to meet a required level of service in a way that is financially sustainable through the creation, acquisition, operation and maintenance, renewal and disposal of assets to provide for present and future customers and communities.

Local government is guided by specific legislation that focuses on asset management and the *Local Government Regulation 2012* specifies the following requirements in relation to Council's Long-term Asset Management Plan:

> *167* ***Preparation of long-term asset management plan:***
>
> *(1) A local government must prepare and adopt a long-term asset management plan.*
>
> *(2) The long-term asset management plan continues in force for the period stated in the plan unless the local government adopts a new long-term asset management plan.*

(3) The period stated in the plan must be 10 years or more.

168 ***Long-term asset management plan contents:***

A local government's long-term asset management plan must—

(a) provide for strategies to ensure the sustainable management of the assets mentioned in the local government's asset register and the infrastructure of the local government; and

(b) state the estimated capital expenditure for renewing, upgrading and extending the assets for the period covered by the plan; and

(c) be part of, and consistent with, the long-term financial forecast.

Non-compliance with legislative requirements may result in adverse audit findings being received from the Queensland Audit Office (QAO) therefore Council's asset management should aim at the very least to achieve legislative compliance. The plan being presented to Council not only achieve legislative compliance it also introduces practices to demonstrate it exercises a duty of care in all asset management activities.

As part of Council's final audit for the 2014/15 financial year the Queensland Audit Office (QAO) recommended that Council develop a robust asset management strategy and asset management plans linked to its long term financial projections. The adoption of the Strategic Asset and Service Management Plan, coupled with Council's existing policy and the ongoing development of asset management sub-plans, will fulfil the QAO's recommendation.

Under the principles of Council's Asset and Service Management General Policy an Asset Steering Committee (ASC) was created and provides a cross functional team responsible for the management of the end to end process. The committee is tasked with developing strategic goals to drive effective asset management and to ensure a risk management approach is taken with regard to decision making.

The ASC membership includes the two General Managers and five Group Managers and this committee has reviewed and endorsed the final draft of the Strategic Asset and Service Management Plan.

COMMENT

The Strategic Asset and Service Management Plan will provide the overarching strategy and principles to ensure the sustainable management of Council's infrastructure and the assets listed in Council's asset register.

The next stage in the development of Council's complete asset management plans is for asset owners to develop individual Asset Management Sub Plans that will contain detailed information on Council's assets, maintenance planning, useful life tables, proposed budget allocations, levels of service, risk assessments and any external drivers.

These sub plans will be developed and refined by asset managers over the next one to two years.

PROPOSAL

The Strategic Asset and Service Management Plan which has been developed and endorsed by Council's internal Asset Steering Committee is presented to Council for adoption.

FINANCIAL/RESOURCE IMPLICATIONS

This plan sets the overarching strategy and principles to ensure sustainable management of Council's infrastructure. As asset managers begin to review and refine the asset management sub plans, internal resources and some external resources will be required to complete various tasks. This will be absorbed into existing operational budgets.

RISK MANAGEMENT IMPLICATIONS

The asset management approach is a risk based approach and this will ensure that Council sets strategic direction and guiding principles that align with long term financial forecasts and capital works programs. Through a robust asset management system, Council will be able to provide maintenance or renew assets before they become a safety hazard or incur large upgrade costs.

SUSTAINABILITY IMPLICATIONS

Economic: Asset Management is closely aligned to long term capital works programs, long term financial forecasts and current year budgets. This document will ensure that financial sustainability in asset management is one of the guiding principles.

Environmental: Sustainable use of resources and asset management decisions incorporating risk based approaches will enhance Council's environmental management.

Social: Levels of service informed through community input will ensure Council's asset management strategies align with community expectations.

CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE

This report has been prepared in accordance with the following:

Corporate Plan 2014-2019 Initiatives:

Theme 2 - Building a Sustainable Economic Base

2.1.1 - Develop management plans for all Council assets and adequately resource their implementation.

Theme 5 - Governance

5.1.1 - Establish and develop long term financial, resource and infrastructure planning to ensure ongoing capacity to fund operations and capital works programs.

COUNCIL'S ROLE

Council can play a number of different roles in certain circumstances and it is important to be clear about which role is appropriate for a specific purpose or circumstance. The implementation of actions will be a collective effort and Council's involvement will vary from information only through to full responsibility for delivery.

The following areas outline where Council has a clear responsibility to act:

Asset-Owner	Meeting the responsibilities associated with owning or being the custodian of assets such as infrastructure.

CONSULTATION

Internal: In finalising the draft document, consultation was undertaken with:

General Manager Operations;
General Manager Corporate Services;
Manager Infrastructure;
Manager Water & Waste;
Manager Sustainable Communities;
Manager Finance & IT; and
Manager Governance.

External: Nil

ATTACHMENTS

Attachment 1 - Strategic Asset and Service Management Plan

Douglas Shire Council - Strategic Asset and Service Management Plan

Asset Steering Committee

28 June 2016

DOUGLAS SHIRE COUNCIL

Contents

Strategic Asset and Service Management Plan

Intent

This plan provides an overarching strategy and principles to ensure the sustainable management of Council's infrastructure and the assets listed in Council's asset register.

The plan also provides a framework to develop detailed asset management sub-plans for each asset class. Each sub-plan will incorporate detailed information on council's assets, maintenance planning, useful life tables, proposed budget allocations (renewal expenditure, depreciation etc.), levels of service, risk assessment and any external drivers.

Council has adopted an Asset and Service Management General Policy and the goal is for Council, on behalf of the community, to meet a required level of service in a way that is financially sustainable through the creation, acquisition, operation and maintenance, renewal and disposal of assets to provide for present and future expectations.

Scope

This Plan applies to all Douglas Shire Council assets.

Reference / Linkages

Legislation:

- Local Government Regulation 2012

Other:

- Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB);
- Corporate Plan;
- Operational Plan;
- Asset and Service Management General Policy;
- Asset Capitalisation General Policy;
- Revaluation of Non-Current Assets General Policy;
- Long Term Financial Forecast;
- Long Term Capital Works Program;
- Annual Budget; and
- Financial Management (Sustainability) Guideline (DILGP).

Introduction

An asset can be generalised as something owned by Council that is expected to provide benefits to the community for a period in excess of twelve months from its date of purchase, construction or 'on maintenance' date.

Local Government is guided by specific legislation that focuses on asset management. Non compliance with legislative requirements may result in a modified (qualified) audit opinion on Council's annual financial statements. Legislative compliance should be the minimum level of compliance for asset management. Council should introduce practices to demonstrate it exercises a duty of care in all asset management activities.

The *Local Government Regulation 2012* specifies the following requirements in relation to Council's Long-term Asset Management Plan:

Section 167 Preparation of long-term asset management plan

> (1) A local government must prepare and adopt a long-term asset management plan.
>
> (2) The long-term asset management plan continues in force for the period stated in the plan unless the local government adopts a new long-term asset management plan.
>
> (3) The period stated in the plan must be 10 years or more.

Section 168 Long-term asset management plan contents

A local government's long-term asset management plan must—

> (a) provide for strategies to ensure the sustainable management of the assets mentioned in the local government's asset register and the infrastructure of the local government; and
>
> (b) state the estimated capital expenditure for renewing, upgrading and extending the assets for the period covered by the plan; and
>
> (c) be part of, and consistent with, the long-term financial forecast.

Council has recognised the significance of asset management through its Corporate Plan. Under the theme "Building a Sustainable Economic Base", goal 2.1.1 states "Develop management plans for all Council assets and adequately resource their implementation". Additionally, under the theme "Governance" goal 5.1.1 states "Establish and develop long term financial, resource and infrastructure planning to ensure ongoing capacity to fund operations and capital works programs".

Council has adopted an Asset and Service Management General Policy and the goal is for Council, on behalf of the community, to meet a required level of service in a way that is financially sustainable through the creation, acquisition, operation and maintenance, renewal and disposal of assets to provide for present and future customers and communities. An Asset Management System approach is central to asset management by taking account of the total cost of an asset throughout its life. A successful asset management plan is judged through better service at an improved costing, not a better asset.

The Council's Asset Management System follows the recognised Plan, Do, Check, Act cycle. This cycle is used to affect both major performance breakthroughs as well as small incremental improvements in projects and processes.

The development of a Strategic Asset and Service Management Plan is the key to managing assets throughout the lifecycle from acquisition to disposal. It is part of an overall framework that includes an Asset and Service Management General Policy and Asset and Service Management Sub Plans.

Asset management requires Council to maintain its focus on funding services and facilities that are sustainable in the long term. This allows a rational approach to capital acquisition and renewal and the adoption of a risk management approach to asset management and for business driven maintenance.

A number of steps must be undertaken if asset management is to be a valuable tool and to form the basis for Council's Asset Management Strategy. The steps occur in logical sequence and failure to undertake any step may result in poor decision making and sub-optimal performance of the asset and service delivery or adverse cost impacts. Council will use the "Asset Lifecycle" approach as a basis for its approach to asset management.

1. The Asset Lifecycle

This considers all management options and strategies as part of the asset lifecycle. The asset lifecycle approach is a developmental or holistic approach, enabling the issues that impact an asset to be reviewed at different stages of an asset over its life. This will ensure that available information is analysed and financial implications are understood and considered, and that the longer-term or whole of life asset cost and management implications can be realised rather than focusing on the short term cost and implications of the creation / acquisition of the asset alone.

The lifecycle based asset management strategy for Council is detailed below. It is an expansion of "Acquisition, Operations, Maintenance and Disposal" and outlines Council's overall system for managing the assets held to satisfy service levels on behalf of the community.

2. Asset Planning

The goal of asset management is to meet the required level of service in the most optimal way. In this process, Asset Planning is fundamental to the effective management of assets, as it is the first phase in the asset's lifecycle. It is also an area where the greatest impact on the lifecycle costs for an asset can be optimised.

Asset Planning involves confirming the service level that is required by the customer and ensuring that the proposed asset is the most effective solution to meet the customer's needs.

2.1. Needs Analysis

Assets should be created only where there is sufficient community demand to warrant their creation or upgrade. The process for identifying this need will vary depending on the asset to be created. It may involve the physical demand placed on the asset (e.g. flow rates that require the upgrade or creation of a new asset to meet the demand and anticipated demand based on population projections). There also may be a need to seek community views about their requirements for assets such as sporting fields, libraries and cultural facilities. Valid statistical

techniques would be required to support data gathering to ensure the need identified is not biased by the sampling technique or lobbying processes.

Whatever process is used for identifying demand, it must be documented and capable of rigorous evaluation.

2.2. Levels of Service

Demand and customer expectations will provide the basis for the level of service required from the assets. Much work has already been done in identifying levels of service through the Corporate Plan. This should be used when identifying levels of service.

2.3. Examination of all Alternatives

As part of the planning approach, alternatives to asset creation must be considered. This may be the augmentation of existing assets to meet the new service demand rather than creating a new asset. It may include demand management practices, sharing of facilities within Douglas Shire or by other levels of government or the private sector, or the use of regional facilities not located within the Shire. These will need to be documented as part of any proposal.

Asset planning will be undertaken to ensure that Council has as a minimum, a ten (10) year forecast of its infrastructure requirements.

3. Asset Creation and Acquisition

Asset creation and acquisition is recognised when the outlay for the provision or improvement to an asset can reasonably be expected to provide benefits beyond the year of outlay. The main reasons for creating an asset are to satisfy or, where necessary, improve the level of service; provide for new demand from users, or to provide a commercial return.

Traditionally, the organisation has focused on preliminary costs of asset creation or acquisition only. However the inclusion of new and contributed assets into the asset portfolio increases the demand on the maintenance budget, if not immediately then at some future time due to recurring operational and maintenance costs for the new asset. It also increases Council's depreciation expense from the date that these assets are placed into service. It is therefore necessary to evaluate those full lifecycle costs as well.

3.1. Cost Projection

Full estimates on lifecycle costs should be undertaken as part of the evaluation of asset creation or acquisition. As such, the following costs should be projected:

- Preliminary investigation and feasibility study costs;
- Design and construction costs/acquisition costs;
- Operating costs;
- Recurrent maintenance costs;
- Rehabilitation and renewal costs;
- Ultimate replacement costs;
- Disposal costs;
- Depreciation costs;
- Cost of capital; and
- Risk abatement costs.

Consideration should also be given to any income generating potential (fees, charges and grants).

To take account of the time value of money, consideration should be given to costing the asset over its lifecycle via a Net Present Value (NPV) analysis. The Queensland Treasury Corporation "Whole of Life Costing Tool" may be useful for this purpose.

As well as the costs, the expected useful life associated with each component cost should be stated. The assessment of useful life and associated costs should be considered to component level where those components might be reasonably expected to generate a need for capital investment sometime in the future. This enables "whole of life" costs to be determined for the asset. Improved revenues or longer-term reductions in cost from asset expenditure should be documented for consideration.

All assets will be managed by Council from a lifecycle perspective. Environmental and social impacts associated with the asset will also need to be considered (but may not be financially quantifiable).

3.2. Project Management Approach

Project management is the preferred method for managing asset creation or upgrading. This process will facilitate clear outcomes, timeframes and costs to be stated forming the basis for budget decision making required for funding the asset. The detail required to manage the project will vary depending upon complexity. The more complex projects will require a detailed analysis to allow decisions to be made.

3.3. Evaluation of Projects

Council's Long-term Capital Works Program that is used when developing the annual budget is the appropriate method to evaluate the various asset creation/upgrade projects for budget and resource allocation purposes. This will occur on an annual basis with a rolling ten-year program being developed. New proposals should be evaluated against all proposals contained in the existing capital works program listing to ensure that the program remains current and relevant to community needs.

Asset creation and/or acquisition must consider the best use of available funding, property and other resources, with a view to maximising the value the community receives through their use.

4. Asset Operations

Asset operations refer to the day-to-day running and availability of the asset. It considers working hours, cleaning, and qualifications needed for operation, energy management and programming of down time, to name a few. It refers primarily to dynamic assets such as motor vehicles, plant, machinery and equipment but can provide information on strategies for all asset operations. For the short-lived dynamic class of assets, the operational and upkeep costs (including recurrent maintenance expenditure) represent a significant proportion of the total lifecycle costs. Therefore, the day-to-day efficiencies with which operations are carried-out are important in optimising the overall lifecycle cost of the asset.

The operational costs must be factored into the total asset costs and they will be budgeted for annually. Implementing efficiencies in asset operations is the responsibility of the asset

assignees. Benchmarking against similar assets internally and with other service providers will assist in this process.

5. Asset Maintenance

Maintenance functions include any work undertaken on an asset that preserves its material and / or safe condition and to ensure it provides service potential for at least the extent of its useful life.

To achieve this, the developed maintenance regime needs to be both regular and appropriate. Implementation of a structured maintenance plan can lower the long-term total lifecycle costs of an asset and thereby greatly increase the efficiency of its performance. It can improve public perception of the organisation's service and safety standards. Maintenance planning and application also helps to preserve an asset's value.

5.1. Development of Maintenance Plans

A method of changing the organisation from reactive maintenance to a more pro-active mind-set is through the development of ongoing maintenance plans. To assist with the implementation and updating of these plans, condition inspections will be required. Some may be annual, others more frequent and some at longer intervals.

These will need to be scheduled based on the asset class and also an assessment of the risks associated with that asset not being adequately maintained. The Asset and Service Management Sub Plans provide general guidelines for scheduling condition inspections.

Asset maintenance should be based on a cost benefit approach to ensure that the asset is meeting service requirements without excessive maintenance expenses. The level of maintenance priority should be reflected by the asset's ability to deliver on the organisation's strategic priorities and customer service standards. The effects of failure due to inadequate maintenance must be considered when prioritising maintenance budgets and programs amongst all asset classes.

5.2. Maintenance Types

There are two types of maintenance that must be considered - Planned maintenance that includes preventive, predictive, servicing and corrective maintenance and unplanned maintenance, which includes repair, redesign and modifications.

Council will develop planned maintenance programs for all asset classes to establish budgets for maintenance. Funding for unplanned maintenance will also be required on an annual basis.

5.3. Software Tools

The use of software tools will be required to assist in maintenance planning. The asset management software system currently being used by various work groups will be reviewed to establish its capability for whole of Council integration.

6. Asset Condition and Performance

All management decisions regarding maintenance, rehabilitation, renewal and service delivery revolve around the condition and performance of assets. Having a clear knowledge of these aspects will limit Council's exposure to business risks and potential loss of service potential

caused by premature failure of assets. It will also allow for timely application of maintenance to be undertaken.

6.1. Condition and Performance Monitoring

By undertaking regular condition and performance monitoring exercises, lifecycle strategies including maintenance and/or rehabilitation options can be determined, updated and refined. Ultimately, replacement programs can be more accurately predicted and planned.

If failure is imminent, asset managers will have had sufficient time to look at options other than replacement. Additionally they will be able to manage the failure and minimise some of the consequences. The performance of assets is closely aligned to the level of service provided to customers and this can generally be measured in terms of reliability, availability, capacity and meeting customer demands and needs.

6.2. Developing Key Performance Indicators

Key performance indicators are required for each asset class. Reporting against indicators on a regular basis will improve the decision-making for the asset and it is more transparent and accountable and visible to the community. Indicators should cover the assets':

- Capacity or utilisation;
- Levels of service;
- Condition or mortality; and
- Costs.

6.3. Establish Systems and Techniques

To assist implementing condition based assessment or performance, Council will establish systems and techniques to enable reliable comparisons to be made among similar asset classes. This may involve detailed testing methods or visual assessment by trained and competent staff. The assessment processes and standards used will be documented as part of the asset management sub plans.

Benchmarking of assets with similar service providers is seen as a potential method of moving towards better practices in asset management.

6.4. State and Federal Government Requirements

Council will need to be aware of any requirements from state or federal governments that require assessment of its assets in accordance with specified requirements to obtain future funding. Those Council staff responsible for obtaining this funding will need to ensure the organisation is not disadvantaged by any changes in current practices.

7. Asset Rehabilitation and Replacement

Decisions taken to rehabilitate/replace assets are often associated with potentially large investments by Council. This is generally because the assets have become uneconomical to own and operate in their existing state. The measure that indicates rehabilitation or replacement is their degree of failure to deliver the services in the manner set down for them.

Asset renewal and rehabilitation refers to capital activities associated with assets that have been identified through a strategic planning process as requiring a change to ensure effective service delivery.

7.1. Risk Management

Arguably, the most important aspect here is the ability to understand the different failure modes that each asset may suffer, and then predict when each of these is likely to take place. Therefore risk management processes that also target criticality should form part of the preliminary study of all assets within this plan.

It is through the business risk assessment that Council will be better able to assess the relative merits of, and therefore optimise the decision making process with regard to the various strategies available through this plan.

7.2. Process of Review

As there are limited funds for rehabilitation or replacement, each proposal will be subject to the same review as if it were for the creation of an asset however rehabilitation or replacement will be allocated a higher priority over new assets. The process of developing/updating the long term capital works program will be the way in which this is managed.

8. Asset Disposal and Rationalisation

Asset disposal terminates the use and control of a particular asset, but may generate the need for a replacement to support the continuing delivery of a service. Decisions to dispose of an asset require thorough examination and economic appraisal.

8.1. Context for Decision Making

Like acquisition decisions, disposals should be undertaken within an integrated planning framework that takes account of service delivery needs, corporate objectives, financial and budgetary constraints and Council's overall resource allocation objectives.

Any such decisions must be made in consideration with the Corporate Plan and service delivery needs of the community.

Options to consider include alternative methods of service delivery through other Council facilities, providers and levels of government or the private sector. This should include consideration of regional facilities.

8.2. Performance Monitoring

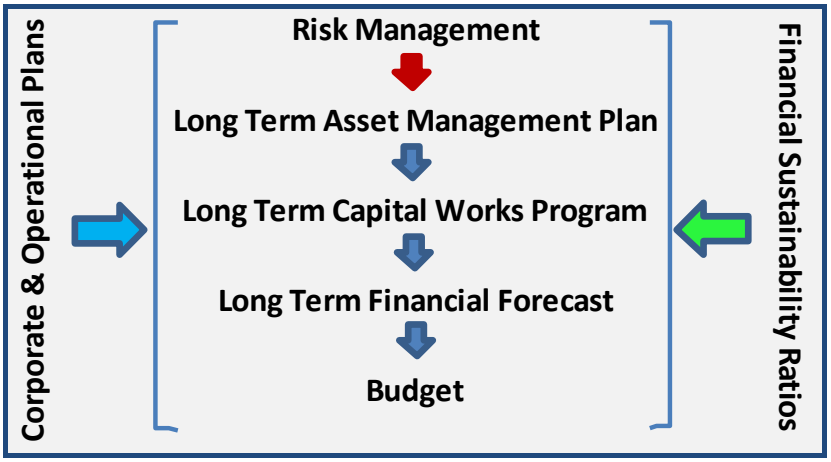
Performance monitoring forms an important part of the decision-making process. Where assets are under utilised or under performing, an assessment must be made about continuing to fund the asset.

Where an asset is under utilised, then prior to any decision to construct another similar asset, the potential for using the existing under utilised asset, should be considered.

9. Financial Management

Accurate recording, valuing and reporting procedures are required so that decisions to modify, rehabilitate, find alternative use for, or dispose of an asset can be soundly based. To be accountable for the operation, maintenance and financial performance of the assets and services that they are delivering, staff must be able to make informed decisions about those assets. Although some information has to be kept to meet statutory requirements, maintenance costs and other data is required as part of sound asset management practices.

The following diagram shows the linkages between the Asset Management Plan and other financial planning documents.



9.1. Financial Sustainability Considerations

The *Local Government Regulation 2012* specifies the following requirements in relation to financial sustainability and the preparation and content of Council's budget:

Extract from Section 169 Preparation and content of budget

> (4) The budget must include each of the relevant measures of financial sustainability for the financial year for which it is prepared and the next 9 financial years.
>
> (5) The ***relevant measures of financial sustainability*** are the following measures as described in the financial management (sustainability) guideline—
>
> (a) asset sustainability ratio;
>
> (b) net financial liabilities ratio;
>
> (c) operating surplus ratio.

The Financial Management (Sustainability) Guideline 2013 issued by the Department of Infrastructure, Local Government and Planning (DILGP) provides the following information in relation to the financial sustainability ratios:

Ratio	How the measure is calculated	Target
Operating surplus ratio	Net result (excluding capital items) divided by total operating revenue (excluding capital items)	Between 0% and 10%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense.	Greater than 90%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	Not greater than 60%

The Guideline includes the following information in relation to asset management:

The sustainability of local governments in Queensland has been directly linked to the development and ongoing use of asset management plans to provide a basis for the maintenance of the infrastructure of the local government, together with the development and use of long-term financial forecasts to assess the ongoing financial viability of the local government.

Approach to Sustainability

The Department is facilitating progression towards local government Sustainability by:

- encouraging an emphasis on long-term financial forecasting and asset management planning;
- encouraging tighter integration between financial and asset management planning processes; and
- encouraging transparency through requirements to review and report key Sustainability measures.

Capital Expenditure on Replacement of Assets (Renewals) refers to expenditure on existing assets to return the assets to their original service potential (or useful life) while satisfying current construction and required standards. Such expenditure is required periodically to reinstate existing service potential, and may reduce operating and maintenance costs. Capital Works-in-progress and non-cash contributions in relation to existing assets are also included in this expenditure.

Capital Expenditure on Upgrades refers to expenditure on existing assets that provides a higher level of service or increases the life of the asset beyond that which it had originally. Such expenditure could also increase future operating and maintenance expenditures.

Capital Expenditure is considered to be “Upgrades” rather than “Renewals” where the expenditure results in a substantial change in the nature of an asset (as indicated by significant changes to service levels and useful life). Such expenditure is excluded from the Asset

Sustainability Ratio (ASR) calculations. Note: Any increase to asset life as a result of satisfying current construction and required standards is not considered "Upgrades".

9.2. Council's Capital Works Program

Council should aim to meet the financial sustainability ratio targets, as these ratios are used by the Queensland Audit Office and Queensland Treasury to measure Council's overall financial sustainability. Accordingly, in terms of Council's expenditure on assets, Council should aim to spend the equivalent of 90% of it's depreciation expense on asset renewals, with expenditure on asset upgrades and new assets being funded from the equivalent of the remaining 10% of its depreciation expense and from other funding sources such as grants and subsidies, developer contributions, reserve funds and loan funds.

Council's Long Term Financial Forecast includes estimated capital expenditure of $97,184,494 on renewals, $15,497,684 on upgrades and $23,556,602 on new assets during the period covered by this plan.

9.3. Capital versus Operating Expenses

Australian Accounting Standard AASB 116 defines Property Plant and Equipment and indicates when expenditure on PP&E (construction or purchase) is recognised as a non-current asset. This definition is contained within Council's Asset Capitalisation General Policy, which also establishes the financial thresholds for the capitalisation of non-current assets, in accordance with the requirements of Sections 206 and 224 of the *Local Government Regulation 2012*.

Expenditure which does not meet the definition or is below the relevant thresholds is expensed.

9.4. Asset Valuations

Council's non-current assets are valued in accordance with the requirements of Australian Accounting Standards AASB 13 Fair Value Measurement and AASB 116 Property Plant and Equipment.

In accordance with Council's Revaluation of Non-current Assets General Policy, Council measures plant and equipment, office furniture and fittings, other assets and work in progress at cost and all other asset classes at revaluation (ie land and improvements, buildings and all infrastructure assets). Council's policy also ensures that Council's non-current assets measured at revaluation are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of each reporting period.

Detailed asset information is captured within the supporting databases and is consolidated into Council's asset register.

9.5. Depreciation

Council's assets are depreciated in accordance with the Significant Accounting Policies outlined in Council's Annual Financial Statements.

Land is not depreciated as it has an unlimited useful life. Depreciation on other property, plant and equipment assets is calculated on a straight-line basis to write-off the value of each

depreciable asset, less its estimated residual value (where applicable), progressively over its estimated useful life to Council. Management believe that the straight-line basis appropriately reflects the pattern of consumption of all Council assets.

Assets are depreciated from the date they are placed in service.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining useful life of the asset to Council.

9.6. Capital Works / Contributed Assets

The majority of Council's new assets or additions to existing assets originate from Council's budgeted capital works program. A significant portion also comes from assets contributed by developers in the form of sub-division development (e.g. Roads, Water, Wastewater and Stormwater).

9.7. Capitalisation

This is the process of recording each asset in Council's asset register. The recording of assets is the responsibility of Finance. Asset Managers are required to provide data in order to capitalise the asset and / or set up the relevant database's equipment screen. Processes to facilitate asset additions are in place.

A capital works project may be comprised of a number of assets or asset components. Upon completing each capital works project, all separate assets / components are identified and recorded in Council's asset register by asset class, with appropriate descriptions (including location details), cost of construction / purchase (or fair value if a contributed asset) and details of estimated useful lives (for depreciation purposes, where applicable).

Until construction projects are completed the accumulated cost of each project is accounted for as "work in progress" (WIP).

9.8. Asset Classification and the Nature of Council's assets

Australian Accounting Standard AASB 116 requires that assets be classified (or grouped), in accordance with generally accepted accounting principles. Asset grouping is based on like function or type. Council has adopted the following asset classifications for financial reporting purposes:

- Land and land improvements;
- Buildings and other structures;
- Plant and equipment;
- Office furniture and fittings;
- Transport assets;
- Water, Sewerage and Solid waste disposal;
- Drainage; and
- Other assets.

10. Risk Management

Each area responsible for an asset class will be required to manage the risks associated with that asset class consistent with standard AS/NZ 4360. Risk management commences at the asset planning stage, identifying the risks associated with owning the asset and then during each phase of the asset's lifecycle to allow the identified risks to be managed.

There may be an increase in the risk facing the organisation through the creation or upgrading of the asset. These should also be identified and mitigated.

10.1. Risk Treatment Plans

Where risks are identified, appropriate treatment plans will need to be developed as part of the management of the asset. An assessment of the risks associated with the failure of the asset must be undertaken. If a significant level of risk is identified then an immediate response plan to secure the asset and prevent any further loss or injury, a business continuity plan to restore basic service provision, and a disaster recovery plan for full restoration, will be required.

10.2. Insurance

Insurance will be arranged for all required assets under Council's insurance program. The Asset Register forms the basis for assets covered by the insurance.

11. Asset Management Sub Plans

Asset Managers are required to develop and maintain Asset and Service Management Sub Plans to cover the assets classes and asset systems that are managed.

General statements common to all assets are included within the Strategic Asset and Service Management Plan to facilitate consistency in the processes and administration in the management of all assets.

12. Data Management

Software and hardware supporting asset management includes mobile devices connected to databases and GIS (which is used extensively to record sub surface assets).

The GIS is becoming increasingly important in managing assets. To date, the major role of the GIS has been to record sub surface assets of water, waste water and storm water (including pipes, manholes, culverts and catch pits). Attention is turning to the GIS's role in recording and managing the above ground assets such as storm water quality improvement devices, bus shelters, car parks, buildings and other. In the future, it is anticipated that a linkage between the GIS and the Asset Database will occur. More work will be required in this area.

Fundamentally, data accuracy and currency rests with the asset manager and is to be verified via stock taking and asset revaluation processes.

FINAL ENDORSEMENT BY ASSET STEERING COMMITTEE: 10/06/2016
REVIEWED BY CEO: 10/06/2016
PRESENTED AT COUNCIL WORKSHOP: 14/06/2016
ORIGINALLY ADOPTED: 28/06/2016
CURRENT ADOPTION:
DUE FOR REVISION: 28/06/2020
REVOKED/SUPERSEDED: