

Latrobe Council

ASSET MANAGEMENT STRATEGY



Version 2

9th November, 2015

Table of Contents

Executive Summary	3
1. Introduction.....	7
1.1 Legislative reform	8
1.2 Asset Management Planning Process	9
2. What Assets do we have?.....	10
3. The Council’s assets and their management.....	10
3.1 State of the Assets.....	10
3.2 Life Cycle Cost.....	14
3.3 Asset Management Structure	16
3.4 Corporate Asset Management Team (Asset Management Steering Group)	16
3.5 Financial & Asset Management Core Competencies	17
3.6 Strategy Outlook.....	18
4. Where do we want to be?	19
4.1 Council’s Vision, Mission, Goals and Objectives.....	19
4.2 Asset Management Policy	20
4.3 Asset Management Vision.....	20
5. How will we get there?.....	21
6. Asset Management Improvement Plan.....	22

Tables

Table 1: Assets used for providing Services	10
Table 2: Financial Status of the Assets	10
Table 3: Life Cycle Cost for Council Services	14
Table 4: Life Cycle Expenditure for Council Services	14
Table 5: Life Cycle Indicators	15
Table 6: Goals and Objectives for Infrastructure Services	19
Table 7: Asset Management Strategies.....	21
Table 8: Asset Management Improvement Plan.....	22

Figures

Figure 1: Asset Replacement Values	11
Figure 2: Asset Consumption Ratio	11
Figure 3: Asset Condition Profile	12
Figure 4: Core Asset Management Maturity.....	17

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, parks and recreation and buildings. These infrastructure assets have a replacement value as at 30 June 2015 of \$172 million.

The Local Government (Content of Plans and Strategies) Order 2014 – Reg 9 requires Council's asset management strategy to include the following matters;

- (a) an outline of all existing assets, and the services provided by the use of those assets;
- (b) an outline of the condition of each existing asset, including financial status and the estimated costs related to the acquisition and use of the asset during its lifecycle;
- (c) details of the goals and objectives of the council relating to the delivery of services provided by the use of its assets;
- (d) details of the asset management strategies of the council to be implemented to enable the objectives of the strategic plan of the council and the assets management policy of the council to be achieved;
- (e) a plan for the improvement of asset management, detailing the program of tasks to be completed and the resources required to achieve the relevant minimum core level of asset maturity and competence required in respect of the asset.

Council has interpreted the intention of item (b) above as being that the strategy should outline the overall condition of each asset group rather than listing the condition of each individual asset.

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.

Adopting this asset management strategy will assist council in meeting the requirements of national sustainability frameworks and the Local Government Act 1993 and assist in 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 – 'Our Place, Our Plan - A Strategic Direction 2012-2017'. 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. The Council expects to be able to maintain current service levels over the next ten years without increasing rates over and above the increase in the CPI.
2. The Council is able to fund current infrastructure life cycle cost at current levels of service and available revenue.
3. The Council's current asset management maturity is below 'core' level and investment is needed to improve information management, lifecycle management, service management and accountability and direction.

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 regularly 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	Annual Review of 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 by December 2015.	Improved financial and asset management capacity within Council.
11	Report annually to Council by Audit Panel/General Manager on 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
1	Review Strategic Longer Term Plan - link to service levels, e.g. - meet the service level targets in the asset management strategy. Align corporate plan with long term financial plan.	General Manager/Corporate Services and Finance Manager/ Accountant	31 March 2016	nil
2	Link the budget with the asset management plan scenario 3 (asset management plan balanced to LTFP) scenario 1 asset renewal, maintenance, operations and new upgrade from asset register compared with LTFP Scenario 2 works activities needed to sustain current service levels compared to LTFP Scenario 3 works activities needed to sustain current service levels balanced with LTFP	Corporate Services and Finance Manager / Accountant	30 June 2016	nil
3	Annual Report 1. Link to service levels, e.g. meet the service level targets in the asset management strategy 2. Add a comment in the annual report that indicate the likely service level and risk impact of the budget, 10 year forward programme in the AMP balanced to the LTFP.	Corporate Services and Finance Manager / Accountant	30 Nov 2015	nil
4	Annual review on the implementation of Council's Asset Management Policy.	Council	November 2016	nil
5	Governance and Management 1. Update the AM Team charter 2. Implement the governance business process maps in appendix C of the Latrobe Council Asset Management Maturity Audit Initial Assessment by JRA in December 2011. . 3. Apply the capital investment decision criteria in the AMPs in the 10 year capital works programme.	Asset Management Steering Group	31 March 2016	nil

Ref	Task	Responsibility	Target Date	Budget
6	Levels of Service Update community service levels for both operational levels and long term sustainability measures for example, Per cent of assets (by value) poor / very poor condition/quality Per cent of assets (by value) poor / very poor function Per cent of assets (by value) poor / very poor utilisation/capacity	Asset Management Steering Group	31 March 2016	Resourcing needs to be assessed.

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, water and sewerage 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.

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.

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.

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.

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.

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

The Local Government Act 1993 was amended in February 2014 to mandate councils to develop and implement several documents that underpin the councils' financial and asset management frameworks. The documents now required under the Act are:

- A long-term financial management plan (10 years) – Section 70;
- Strategic asset management plans (10 years), for each of the council's major asset classes – Section 70B;
- A financial management strategy – Section 70A;
- An asset management strategy – Section 70D; and
- An asset management policy – Section 70C.

The Act also requires councils to review their long-term financial management and strategic asset management plans, financial management and asset management strategies and asset management policy, at least every four years. Council general managers are also required to notify the Director of Local Government (as soon as practicable) when their respective plans, strategies and policies have been adopted by the council.

In addition to the development of the above documentation, the amendments to the Local Government Act now also require councils to:

- report financial and asset management sustainability indicators in their financial statements;

- develop their strategic plan every 10 years, as opposed to at least every five years; and
- establish and maintain an audit panel.

A key aspect with respect to all the amendments is that they provide a power for the Minister for Local Government to make orders with respect to the aforementioned plans, strategies and policies, audit panels and sustainability indicators.

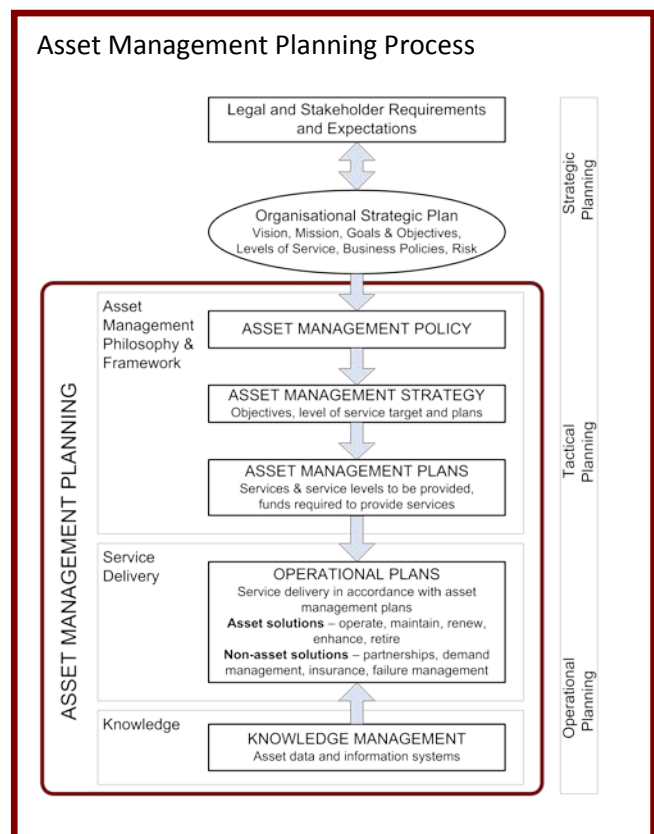
The Local Government (Content of Plans and Strategies) Order 2014 (S.R. 2014, No. 35) outlines the minimum requirements of a council's respective financial and asset management plans, strategies and policies, including the classes of assets for which council asset management plans and strategies must apply.

The Local Government (Management Indicators) Order 2014 (S.R. 2014, No. 36) prescribes and defines the financial and asset management sustainability indicators that councils must now report on in their annual financial statements submitted to the Auditor-General.

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 financial 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.



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 Assets	Includes roads and streets, bridges and culverts, footpaths, kerb and channel and road furniture.	Transport services – facilitates the movement of people and goods throughout the municipality.
Buildings	Community buildings such as halls, recreational facilities, council offices and works depots.	Meeting places for community groups, recreational facilities for sporting and social clubs, Office facilities and goods and equipment storage.
Stormwater Assets	Includes stormwater pipes, pits and other retention facilities, manholes and gross pollutant traps	Capture, storage and disposal of stormwater to protect the community from the impacts of flooding.
Parks and Reserves Assets (Other Infrastructure)	Includes non-building land improvements typically in Council's parks and reserves. Includes lighting, picnic facilities, play equipment and monuments.	Provides the general amenity of the Municipality's Towns and parks and reserves.

3. The Council's assets and their management

3.1 State of the Assets

The financial status as at 30 June 2015 of the council's assets is shown in Table 2.

Table 2: Financial Status of the Assets

Asset Class	Replacement Cost (\$000)	Depreciable Amount (\$000)	Depreciated Replacement Cost (\$000)	Depreciation Expense (\$000)
Transport Assets	105,478	95,577	73,946	1,723
Buildings	26,992	36,992	22,128	381
Stormwater Assets	24,575	24,575	17,958	305
Parks and Reserves Assets (Other Infrastructure)	5,079	5,079	2,619	140
Total	172,124	162,223	116,651	2,549

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

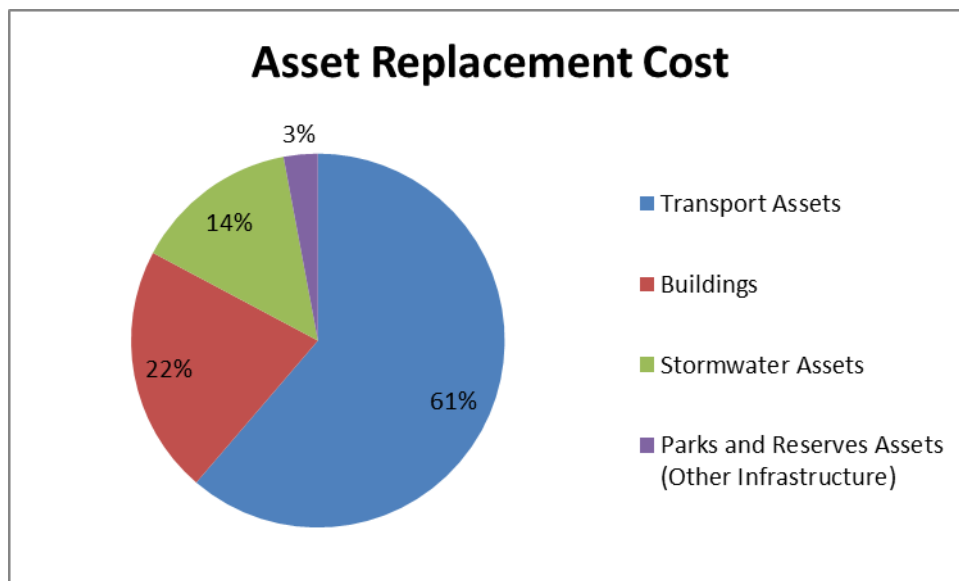


Figure 1: Asset Replacement Values

Council has prepared asset management plans covering all of these infrastructure assets.

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

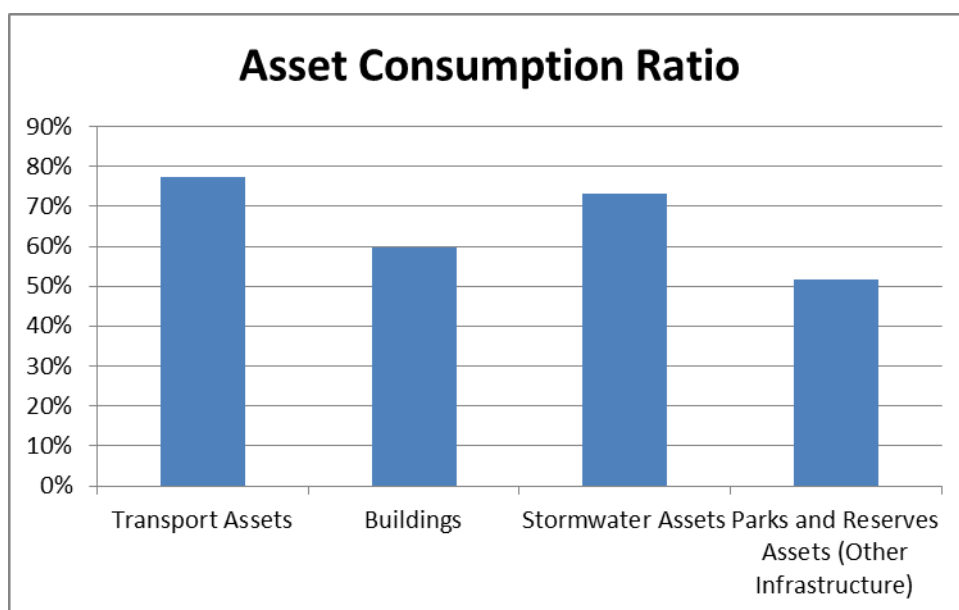


Figure 2: Asset Consumption Ratio

The asset consumption ratios shown above indicate that Council's infrastructure assets on average currently retain a relatively high proportion of 'as new' condition. Higher Asset consumption ratios would indicate lower asset renewal demand.

The condition of Council's transport assets is shown in the Figures below. Condition assessments for the remaining asset classes will be completed during 2015/16.

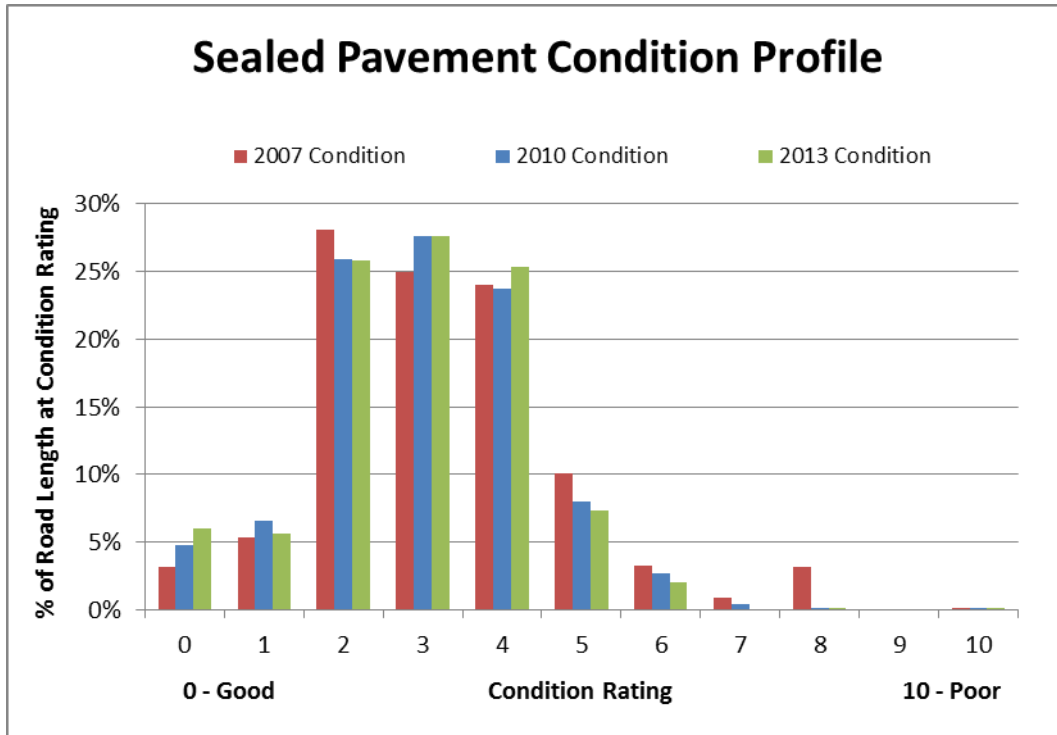


Figure 3: Road Sealed Pavement Condition Profile

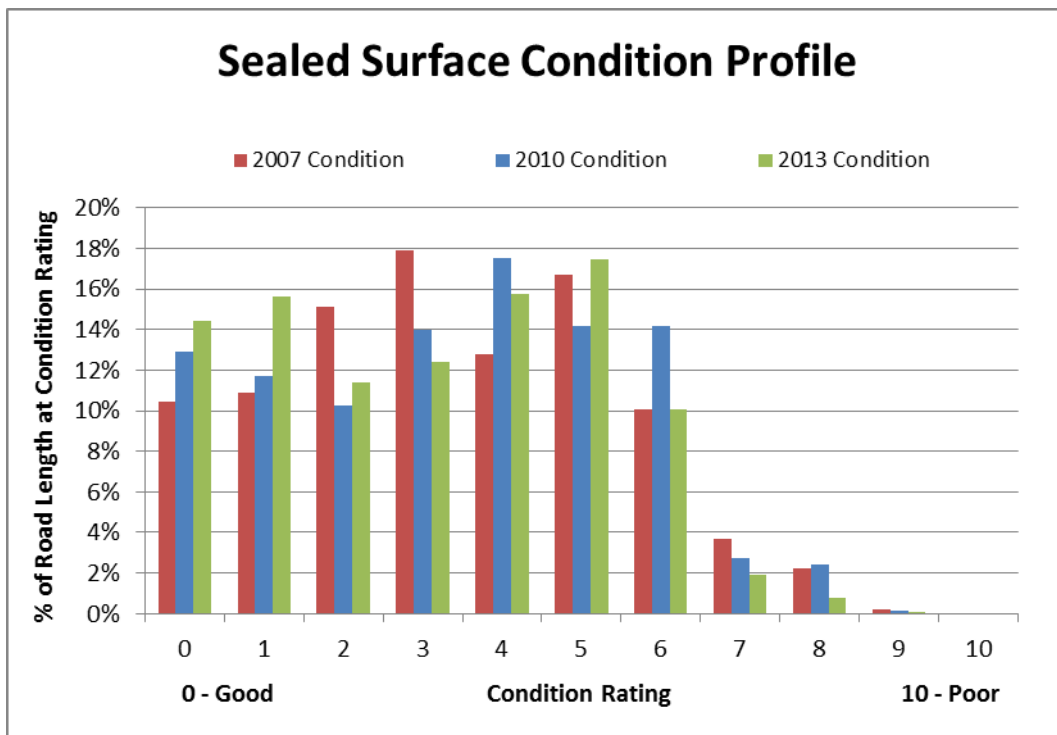


Figure 4: Road Sealed Surface Condition Profile

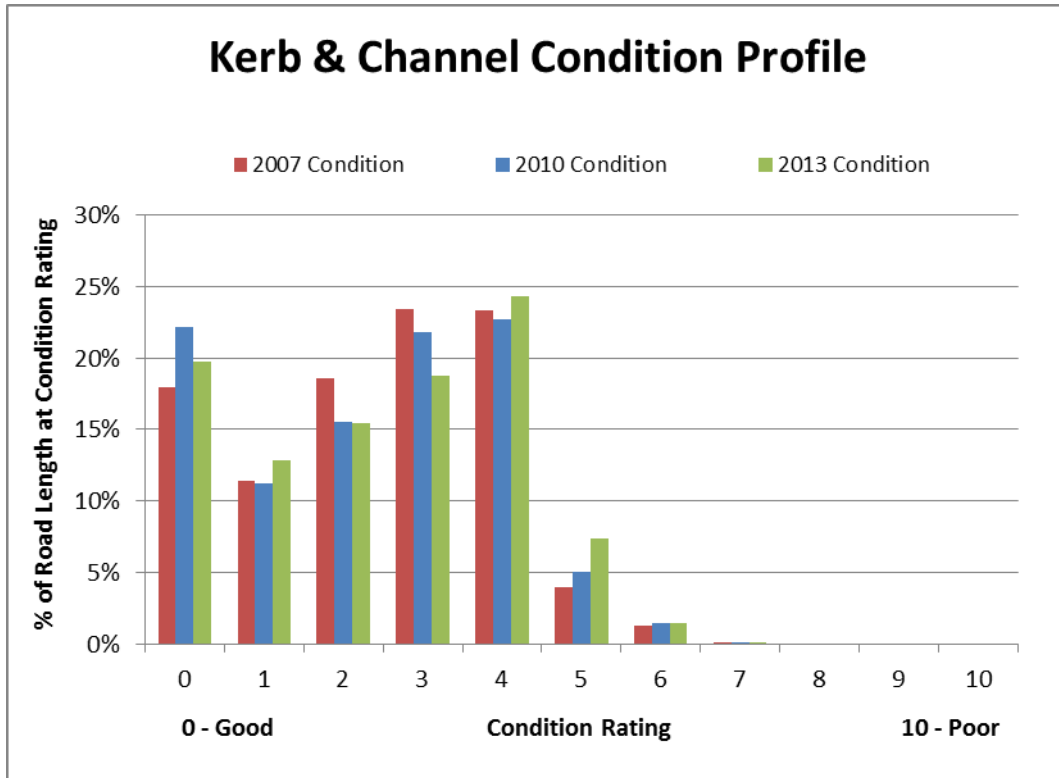


Figure 5: Road Kerb & Channel Condition Profile

Council's transport asset condition was assessed in August 2013 by Moloney Asset Management and found overall to be in very good condition.

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 (\$'000)	Life Cycle Cost (\$/yr (\$'000))
	Operations (\$'000)	Maintenance (\$'000)		
Transport Assets	338	846	1,779	2,963
Buildings	1,315	253	354	1,922
Stormwater Assets	9	19	309	337
Parks and Reserves Assets (Other Infrastructure)	766	586	129	1,481
TOTAL	2,428	1,704	2,571	5,106

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. Life cycle expenditure will vary depending on the timing of asset renewals. Current life cycle expenditure is shown in Table 4.

Table 4: Life Cycle Expenditure for Council Services

Service	Previous Year Expenditure		Cap Renewal Exp (\$/yr (\$'000))	Life Cycle Exp (\$/yr (\$'000))
	Operations (\$'000)	Maintenance (\$'000)		
Transport Assets	338	846	1,175	2,359
Buildings	1,315	253	291	1,859
Stormwater Assets	9	19	3	31
Parks and Reserves Assets (Other Infrastructure)	766	586	29	1,381
All Services	2,428	1,704	1,498	5,630

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 plan is summarised in Table 5.

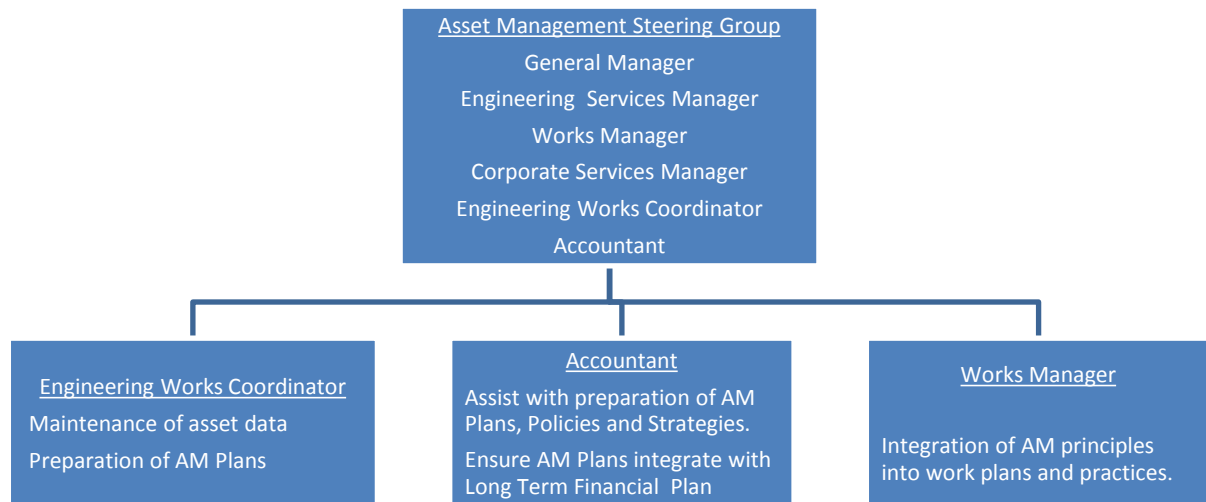
Table 5: Life Cycle Indicators

Service	Life Cycle Cost (\$/yr) (\$'000)	Life Cycle Expenditure (\$/yr) (\$'000)	Life Cycle Gap * (\$/yr) (\$'000)	Life Cycle Indicator
Transport Assets	2,963	2,359	-604	80%
Buildings	1,922	1,859	-63	97%
Stormwater Assets	337	31	-306	9%
Parks and Reserves Assets (Other Infrastructure)	1,481	1,381	-100	93%
All Services	6,703	5,630	-1,073	84%

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

The life cycle indicator of 84% indicates that Council is currently spending 84% of the long term average cost of maintaining and renewing its assets. For asset groups other than buildings this is consistent with the fact that on average, the assets are not far through their useful life, so renewal demand is lower than the long-term average. Renewal demand is expected to increase in the future.

3.3 Asset Management Structure



3.4 Corporate Asset Management Team (Asset Management Steering Group)

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 steering group 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.

Council's asset management steering group is currently moving from a focus on phase one above to phase two.

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 elements to assess 'core' competency under the National Frameworks. The core competencies are:

Financial Planning and Reporting

- Strategic Longer Term Plan
- Annual Budget
- Annual report

Asset Planning and Management

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

Council's maturity assessment as by JRA in December 2011 for the core competencies is summarised in Figure 4 below. The December 2011 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.

The key result is whether Council has materially achieved core maturity for each practice area shown as "Y". Where the judgement is that Council is not at core level, the areas of practice in the following detailed sheets show;

“N”, where characteristics of the practice areas are not commenced,

“P” where the practice area is partially completed such as where there is not sufficient documentary evidence

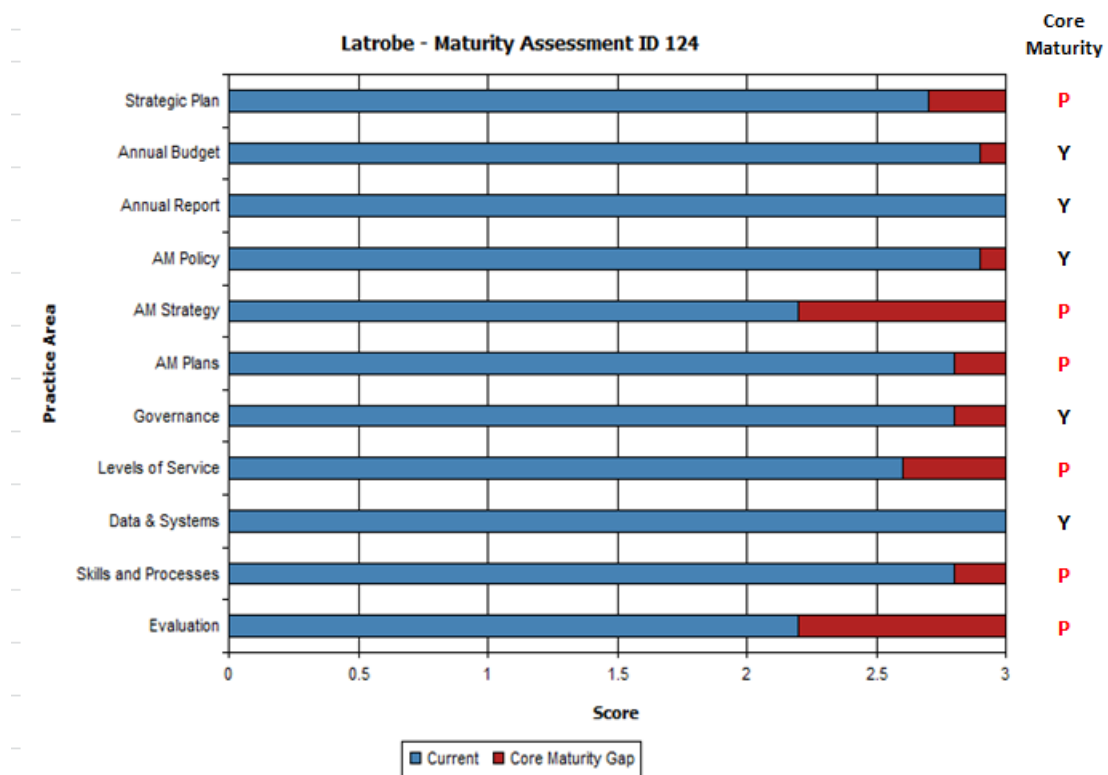


Figure 4: Core Asset Management Maturity

3.6 Strategy Outlook

1. The Council expects to be able to maintain current service levels over the next ten years without increasing rates over and above the increase in the CPI.
2. The organisation is able to fund current infrastructure life cycle cost at current levels of service and available revenue.
3. The organisation’s current asset management maturity is below ‘core’ level and investment is needed 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.

“Our vision is for the Latrobe Council area to be known as a friendly and welcoming community which is recognised for:

- The high quality of life that is enjoyed by our residents and visitors within an attractive built environment including the historic town of Latrobe.
- The preservation of the rural character and rich soils of the area which have secured the rural economy as an essential part of the wider economic base.
- The uniquely beautiful natural environment including the serene and picturesque seaside settlement areas of Port Sorell which are responsibly managed and safeguarded for future generations.
- The well-managed, responsive and adaptive local government which provides strong, visionary and consultative leadership.”

Council's functions as established by section 20 of the Local Government Act 1993 are;

(a) to provide for the health, safety and welfare of the community;

(b) to represent and promote the interests of the community;

(c) to provide for the peace, order and good government of the municipal area.

The Strategic Plan sets goals and objectives to be achieved in the planning period. The goals set out where the organisation 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
1.1 Roads	To provide an appropriate, safe and well-maintained road network that caters for all road users throughout the municipality.
1.2 Stormwater	To develop and improve system for stormwater reticulation and disposal.
1.3 Buildings	To ensure Council owned buildings and community facilities are maintained to a safe and functional standard and meet community needs.
1.4 Parks and Reserves	To maintain our parks and reserves to an appropriate standard to enhance lifestyle.

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

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.

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 Audit Panel/General Manager reporting to council on development and implementation of Asset Management Strategy, Asset Management Plan 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.

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 regularly 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	Annual Review of 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 by December 2015.	Improved financial and asset management capacity within Council.
11	Report annually to Council by Audit Panel/General Manager on implementation of Asset Management Strategy, AM Plans and Long Term Financial Plans.	Oversight of resource allocation and performance.

Table 7: Asset Management Strategies

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.

Ref	Task	Responsibility	Target Date	Budget
1	Review Strategic Longer Term Plan - link to service levels, e.g. - meet the service level targets in the asset management strategy. Align corporate plan with long term financial plan.	General Manager/Corporate Services and Finance Manager/ Accountant	31 March 2016	nil
2	Link the budget with the asset management plan scenario 3 (asset management plan balanced to LTFP) scenario 1 asset renewal, maintenance, operations and new upgrade from asset register compared with LTFP Scenario 2 works activities needed to sustain current service levels compared to LTFP Scenario 3 works activities needed to sustain current service levels balanced with LTFP	Corporate Services and Finance Manager / Accountant	30 June 2016	nil
3	Annual Report 1. Link to service levels, e.g. meet the service level targets in the asset management strategy 2. Add a comment in the annual report that indicate the likely service level and risk impact of the budget, 10 year forward programme in the AMP balanced to the LTFP.	Corporate Services and Finance Manager / Accountant	30 Nov 2015	nil
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Table 8: Asset Management Improvement Plan