Procurement Strategy
September 2013

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1. INTRODUCTION

Strategic procurement management is central to PMHC's efficiency and the delivery of the services that are provided to the community. Each procurement activity, irrespective of size or scope, impacts in some way on the delivery of agreed outcomes to the community.

Procurement is the process of acquiring goods, works and services. The procurement process should span the whole life cycle, from identification of needs through to the end of a works or services contract or the end of the useful life of an asset. Procurement ensures we seek value for money in how we deliver projects, goods and services to our community.

Traditionally procurement has been seen as an administrative / purchasing function, however today, procurement should be seen as a key enabler of organisational strategic objectives. Procurement should involve activities ranging from business planning right through to contract management.

Key procurement activities can be grouped into four key areas:

- **Business case development:** Identifying needs within a business, assessing the level of supply & demand, undertaking an analysis of the available procurement options and selecting the best option based on cost, risk and benefit to the community.

- **Sourcing:** Specifying requirements, identifying suppliers, tendering, evaluating tenders, negotiation of process and service levels and establishing terms and conditions.

- **Purchasing:** Managing the acquisition of products from an existing agreement / contract or through ad hoc purchases.

- **Contract Management:** Once an agreement is in place, monitoring, measuring and managing suppliers to ensure that the right service is being provided at the agreed price.

Effective procurement practices enable:

- **Lower costs** through the leveraging of total spend, standardisation, demand management and improved supplier management;

- **Improved services** from suppliers, resulting in better outcomes for the community and staff;

- **Increased transparency & accountability** of expenditure and supplier performance; and

- **Consistency** in meeting legislative requirements.

A procurement strategy is not a one-off exercise and having a procurement strategy does not in itself, lead to effective procurement. It is the commitment of Councillors and senior management and Council-wide use of the strategy which are the important elements in its success.

A strategic approach to procurement can achieve significant benefits for Council and the community and must be seen in the context of Council's overall objectives. Whilst the driving force has been and will remain focused on obtaining goods, works and services that demonstrate best value for money, it is also important that procurement decisions are taken in light of the broader objectives that Council is seeking to achieve.

This Procurement Strategy forms part of Port Macquarie-Hastings Councils (PMHC) approach to delivering and supporting the Council's objectives as detailed in the Community Strategic Plan, the four (4) year Delivery Program and the annual Operational Plans under the Integrated Planning & Reporting (IPR) framework. The Procurement Strategy sets out how we will approach procurement into the future, whilst reaping significant benefits from a more coordinated approach.

Through the adoption of the Procurement Strategy, we aim to achieve a more consistent organisation-wide approach to procurement. The organisation will need to rely on developed procurement skills to understand specific supply markets, to inform the decision-making process and to be able to implement relevant procurement decisions. Improved procurement planning will become part of our overall business planning process along with financial and operational plan development.

It is essential for the future sustainability of PMHC to have the procurement capability to meet its needs and to be able to deliver sustainable best value for money to the community. A one-size-fits-all approach to procurement will not suffice; procurement needs to be tailored to meet the specific needs of the particular category of goods or services being procured, the needs and services required by the organisation and most importantly the needs required to deliver a successful outcome. Failure to fully invest in the right capabilities in procurement will cost the Council in lost opportunity many times the cost of any initial investment.

To implement this Procurement Strategy will require a new flexible operating model based on improved engagement and more effective planning of organisation-wide procurement activity.

2.   SCOPE

The procurement practices and expenditure across all of Port Macquarie-Hastings Council (PMHC) are within the scope of this procurement strategy.

3.   GOVERNANCE & ORGANISATIONAL CONTEXT

Procurement services within PMHC sit within the Commercial Services & Industry Engagement directorate and reports directly through the Group Manager Financial Services. The Director Commercial Services & Industry Engagement and the Group Manager Financial Services will be responsible for the implementation and monitoring of the procurement strategy.

In relation to elected Councillors, procurement is a key focus area of the Finance & Governance Portfolio. The Director Commercial Services & Industry Engagement and / or the Group Manager Financial Services will report to the Finance & Governance Portfolio on a monthly basis with regard to progress against the agreed implementation plan and actions of the procurement strategy. The relevant portfolio Councillors will report back to the full elected body on developments and progress in relation to this strategy and procurement in general, whilst it is anticipated that regular reports will be tabled at formal meetings of Council. The impact of procurement across the organisation cannot be understated in that reforms in procurement can also mean a more effective and efficient organisation. However the actual function of procurement is both a financial / commercial transaction and a governance process due to the regulated and policy-driven nature of procurement, hence the inclusion of procurement as part of the Finance & Governance Portfolio.

From an internal governance perspective, one of the key recommendations to come from this Procurement Strategy is the development of a Procurement Steering Group (PSG) that will have joint accountability for ensuring this procurement strategy is implemented across the organisation. Further information relating to the PSG can be found under Section 7 of this strategy.

Integration between procurement and the service delivery cycle is important. In general terms, there are only two reasons for procuring goods, works or services and they are for the delivery of an internal or external service or for the delivery of a project. This means that all procurements must be outcomes focussed i.e. what is the purpose of the procurement and what is the outcome we are contributing to?

In an organisational context, it should be noted that procurement forms a key part of Council's overarching project management framework and process. In most cases, procurement requirements will form part of a broader project management context i.e. the majority of project plans will require a procurement approach to be defined within the project management plan. To this end, a key reference document to be used when developing procurement plans is the PMHC Project Management & Gateway Policy adopted by Council in October 2012. It should be noted that some procurements may be so large that they will require their own project management approach in line with the above-mentioned project management policy.

4. PROCUREMENT STRATEGY OBJECTIVES

The Procurement Strategy objectives are as follows:

4.1 Savings
The key objective is to maximise savings across Council's procurement spend. There is the potential to save a minimum of 5% across the overall procurement spend by implementing a more formal procurement strategy. Each year Council spends between $35 million & $50 million procuring goods and services, therefore a 5% saving would equate to a value of between **$1.75 million** & **$2.5 million** per annum based on the current estimated spend.

It should be noted that the above-mentioned savings are estimates only and further detailed analysis will be required in order to determine a more accurate savings estimate. It should also be noted that with the adoption of any strategy, there are various phases throughout the strategy lifecycle. This means that it will not always be possible to continually deliver year on year large dollar savings as the procurement model matures; rather the

procurement model will move towards building better value with our supplier base through improved processes and supplier consolidation etc.

4.2   Value for Money

Procurement should focus on more than lowest cost purchase; it must balance the needs of the community, the environment and internal service with financial responsibility. Whilst local government can outsource the production and delivery of goods and services required to achieve their objectives, they cannot outsource the outcomes that councils are required to deliver.

4.3   Ease of Doing Business

Procurement should be an enabler of council operations rather than an inhibitor. Policies and processes should be developed to reduce the effort required to carry out best practice procurement. Straightforward and consistent processes enable:

-       Increased compliance by staff with council policies;
-       Lower costs from suppliers as their cost of servicing local government decreases;
-       Reduction in transaction costs both for local government and suppliers to local government.

4.4   Use of e-Procurement

E-Procurement is integral to the overall development of procurement processes and involves the use of an electronic system/s to procure and pay for goods & services and works. By utilising e-procurement we aim to:

-       Reduce transaction costs;
-       Make processes more efficient;
-       Improve management information and visibility of spend;
-       Increased access to market;
-       Increase control and consistency of processes, and
-       Improve spend compliance across the organisation.

4.5   Economic & Industry Development

Balance the immediate needs of the community (low cost and high service) against the needs of the long term economic sustainability of the community and industries required to support competition in local markets.

4.6   Environment & Sustainability

Local government should be responsive to the community's environmental expectations and take a leading role, where appropriate, in educating the community or changing behaviour.

4.7   Building Local Government Capability

Ensure the long term viability of PMHC and the services it provides to the community through:

-       Improved expenditure management;
-       Continuous improvement;
-       Attraction and retention of key staff i.e. being an 'employer of choice'.

4.8   Training & Development

Aim to ensure that PMHC has adequate trained resources to undertake procurement projects effectively and efficiently. Various internal training courses covering the entire

procurement process, tendering, tender evaluation and contract management as well as other procurement areas will be made available as required.

Further to the above, the overarching objective of the Procurement Strategy is to provide strategic advice and recommendations on how to drive efficiencies in Council's procurement practices, whilst balancing effectiveness with social, environmental and economic objectives. In general terms, the objective is to move from a process-focussed procurement practice to a focus on value for money outcomes. The major outcome of this strategy will be further development of strategic procurement policies and practices throughout Council; improved procurement service delivery; organisation-wide cost savings through improved procurement practices and the ability for procurement strategies to be integrated with the overarching objectives of the organisation.

5.   PROCUREMENT CAPABILITY

In November 2011, PMHC undertook a Procurement Roadmap Pilot program tailored specifically to NSW local government. This trial was jointly funded by PMHC and Local Government Procurement (LGP) and was undertaken by an independent facilitator, PMMS Consulting Group, a global specialist in procurement.

Through a series of workshops, questionnaires and undertaking a capability assessment, a broad, documented snapshot of current organisational procurement capability was established. Following this assessment, a procurement roadmap was developed that set out agreed actions to improve organisational procurement capability and performance over three time periods being 0-6 months, 6-12 months and 12-24 months.
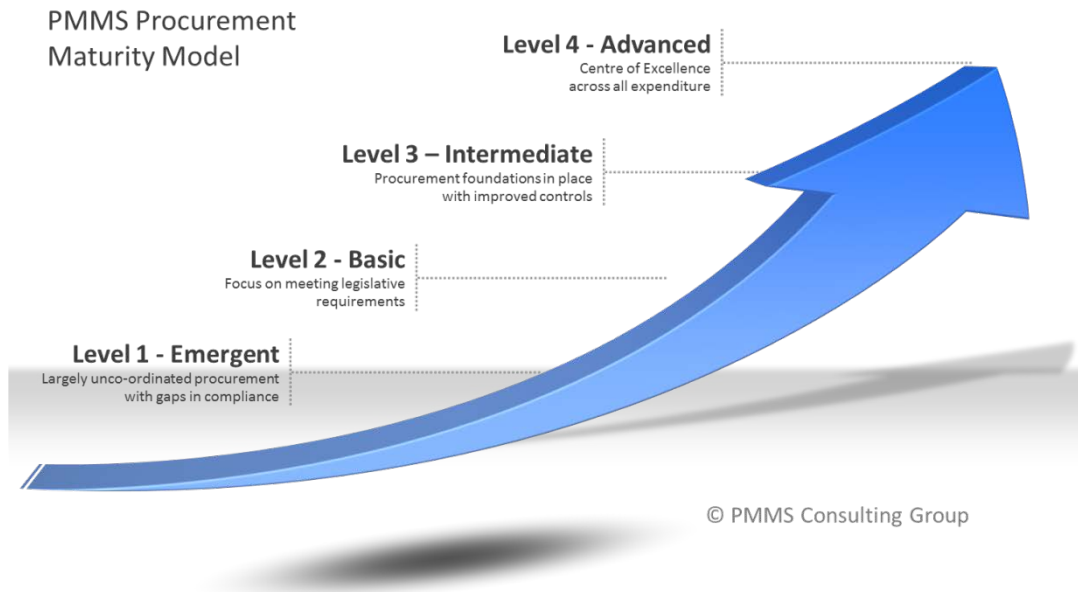
The organisations level of procurement capability was determined across eight (8) building blocks as follows:

-        Leadership & Influence;
-        Procurement Strategy & Organisation;
-        Process & Governance;
-        People & Skills;
-        Supplier Management;
-        Use of Technology;
-        Sourcing & Collaboration;
-        Triple Bottom Line.

Through answering a series of questions across the above-mentioned building blocks, with responses rated from one (1) to four (4), a level of procurement capability was determined.

Below is the PMMS Procurement Maturity Model, which determines where an organisations procurement capability is sitting in relation to what is considered best practice, with best practice being attainment of Level 4.

Following the capability assessment, it was determined that PMHC currently sits at between Level 1 & Level 2 on the PMMS Procurement Maturity Model, with 25.64% of responses being rated as Level 1 and 51.28% of responses being rated Level 2, 17.95% of responses being rated Level 3 and 5.13% of responses being rate Level 4.

PMMS Procurement
Maturity Model

Level 4 - Advanced
Centre of Excellence
across all expenditure

Level 3 – Intermediate
Procurement foundations in place
with improved controls

Level 2 - Basic
Focus on meeting legislative
requirements

Level 1 - Emergent
Largely unco-ordinated procurement
with gaps in compliance

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The analysis undertaken throughout the capability assessment has resulted in a series of actions being included in a Procurement Roadmap. Council will undertake the actions as listed in the roadmap over the next 12 to 24 months in an effort to progress along the Procurement Maturity Model path. The activities included in the Procurement Roadmap will be incorporated into future procurement activities as detailed further in this Procurement Strategy.

6.   PROCUREMENT OPERATING MODEL

In 2003, PMHC had a system of decentralised procurement, where staff across the organisation and various locations had the authority to requisition and purchase order goods and services within a set delegation.

Following the adoption by Council in late 2003 of a comprehensive suite of purchasing and tendering policies and processes, procurement within PMHC became a more centralised function, where the delegation to raise purchase orders was limited to specific purchasing / stores staff and all tendering processes became centralised.

To date PMHC is still operating a pseudo centralised procurement model; however this has lost considerable effectiveness as an operating model in recent years due to the limited human resources within the procurement section being able to keep pace with the procurement needs of the organisation. Whilst tendering remains largely centralised due to its legislative obligations, day-to-day purchasing is a mix of centralised and decentralised purchasing.

A key outcome from this procurement strategy is to determine which procurement model best suits the needs of PMHC. Following is a brief explanation of three main procurement operating models, followed by the recommended approach for PMHC:

Decentralised:
A decentralised model of procurement is where each area of Council would be responsible for its own purchases. Whilst this model can be seen to empower people with a degree of autonomy and control over the process, it has a number of disadvantages. It does not allow you to leverage your corporate spend or align service objectives with the objectives of the

organisation. There is little coordination or information sharing between the many services that are undertaken, best practice is not shared and supply costs and supplier performance are not equal across the organisation.

Centralised:
A centralised model of procurement is where all procurement goes through a single, central unit. Unlike the decentralised model, a centralised model allows an organisation to fully leverage their corporate spends across the organisation and to drive standardised purchasing and tendering processes through the organisation. Economies of scale allow full control over organisational spend, it enhances operational efficiencies and improves knowledge sharing and the delivery of best practice procurement.

There are some disadvantages to a centralised procurement model. For instance, there is a risk of losing extensive knowledge of the people in other areas of Council, which can result in sub-optimal purchasing across the organisation.

Maverick buying often increases when areas of the organisation do not agree with the procurement decisions made centrally. Reaction times can also be an issue in a centralised procurement model, largely due to limited resources being able to deal with the large number of procurement requests.

Centre-led:
A 'centre-led' model is where a centralised procurement hub is established and focuses on corporate supply chain strategies, best practice and knowledge sharing, whilst leaving individual areas of the organisation to undertake purchasing as required. Corporate spend can still be fully leveraged through centralised sourcing and non-corporate requirements not necessarily suited to centralised sourcing and procurement can be handled by the individual areas of Council. Best practice can be shared easily throughout the organisation, maverick buying is significantly reduced, and supplier performance is maintained at a consistent level across the organisation.

It should be stated that there appear to be very few 'centre-led' procurement models operating in local government in Australia, with most Council's operating either a decentralised or centralised model, or a mix of both. The centre-led model is the predominant procurement model in Federal Government and also has significant take up in the private sector.

More information in relation to the proposed procurement operating model can be found in Section 8 below.

7.   SWOT ANALYSIS

The following Strengths, Weaknesses, Opportunities & Threat (SWOT) analysis of Councils current procurement practices has been developed to provide some situational analysis that forms part of the strategy planning process.

STRENGTHS	***WEAKNESSES***
- Established processes & procedures; - Existing centralised procurement model; - Political support; - Senior Management support; - Robust budget development process;	- Large number of suppliers to manage; - Large number of staff to re-train; - Poor use of technology; - Regional location; - Lack of procurement planning; - Limited performance against contract reporting available; - Limited visibility on total procurement spends; - Limited understanding of & experience in operating with a commercial focus.
OPPORTUNITIES	***THREATS***
- Savings in dollar terms; - Productivity gains; - Improved use of technology; - Supplier rationalisation; - Improved contract management capabilities; - Supplier development at a local and regional level; - Potential to collaborate with other organisations; - Revised procurement provisions in the Local Government Act review. - Leading edge to drive greater commerciality throughout the organisation	- Staff resistance to change; - Lack of internal political will to support implementation of the strategy; - Limited time to achieve long-term results; - Lack of resources to implement the procurement strategy; - Lack of competition between suppliers;

The SWOT analysis will be used to inform the implementation of the Procurement Strategy. It is critical to ensure that the threats and weaknesses are addressed during the implementation phase and beyond in order for the benefits of implementing this strategy are realised.

8. RECOMMENDATIONS - FUTURE DIRECTION FOR PROCUREMENT AT PMHC

Given the evolution of procurement that has already taken place at PMHC since 2003, the organisation is now ready to move to the next phase of procurement maturity.

The key recommendation relates to the procurement operating model that is required to drive better procurement practices within PMHC as follows:

8.1 Centralised Category Management Procurement Model

It is proposed that PMHC move towards a **centralised category management** approach to procurement, where key procurement functions such as policy development; supply chain strategies; tendering; data management; contract / commercial negotiations and best practice and knowledge sharing remain a focus of the centralised procurement unit, with day-to-day purchasing undertaken by category specialists within the centralised procurement unit to ensure that best value for money procurement is undertaken across the organisation.

As stated earlier in this strategy, a centralised model allows an organisation to fully leverage the corporate spend across the organisation and drive standardised purchasing and tendering processes through the organisation. The economies of scale that a centralised approach brings allows you full control over organisational spend, it enhances operational efficiencies and improves knowledge sharing and the delivery of best practice procurement.

A category management approach to procurement will bring together expertise from across the Council to identify the most appropriate and effective approach to deliver the Council's outcomes through sourcing and supply arrangements. A 'category' is an area of spend largely determined by known market boundaries separating different products, services or industries. Category management recognises that suppliers within a certain market are likely to have similarities which enable a tailored approach to procurement.

A category management approach will provide the following benefits:

a) Detailed spend analysis;
b) Deliver initial savings typically in the range of 5% - 7% dependent on the category;
c) Ensures all benefits from any awarded contract are realised;
d) Reduction or elimination of avoidable spends;
e) Consolidates spend across the supplier base per category;
f) Highlights the criticality of certain categories to the delivery of outcomes for the organisation;
g) Improved ability to manage and exploit changing market conditions;
h) Supplier consolidation;
i) Leveraging of internal resources;
j) Creates value and minimises procurement risk through increased procurement planning;
k) Improved service levels from suppliers to the organisation;
l) Stakeholder buy-in to the process and results;
m) Enables supplier capability development;

Below is a proposed category management approach, delivered through a series of process steps:
- **Information Gathering** - i.e. category spend, spend analysis, market analysis, competitive analysis, customer requirements;
- **Opportunity Assessment** - analysing what are the likely opportunities, benefits and improvements available within each category;
- **Category Action Plan** - developing an action plan for each category with specific performance & savings targets for each category;
- **Undertake Relevant Procurement Processes** - i.e. tenders, expressions of interest or requests for quotation etc;
- **Implementation** - i.e. awarding the contract and implementing the proposed solutions under the contract;
- **Supplier Relationship Management** - implementing contract management processes and monitoring supplier performance and operational performance against the contract;
- **Review & Improve** - incorporating continuous improvement, ongoing benefits realisation monitoring, contract review and ongoing category review.

One of the main objectives of category management approach is to reach a point where a large percentage of Councils spend within a category is being channelled through appropriate and approved arrangements.

Another key element of an improved operating model will be formal procurement planning. The introduction of a framework for procurement planning will allow PMHC to map the future procurement activity for each procurement service required and develop one to four year plans against which resources can be allocated and performance measured.

8.2 Establishment of a Procurement Steering Group (PSG). The establishment of a PSG will assist in the coordination of actions to come out of this Procurement Strategy, procurement activity generally, determination of categories and in the development of the procurement plans for each service or project. A brief internal charter will be developed that will detail the membership of the PSG as well as its clear objectives and purpose.

8.3 Ensure that the Procurement Strategy and related actions are aligned with the Community Strategic Plan, the four (4) year Delivery Program and the annual Operational Plan;

8.4 Understand the nature of the organisation's total third party expenditure to enable a more tailored approach to procurement into the future;

8.5 Deliver the best value from all procurement spends. This can include but is not limited to:

   8.5.1 Taking a lowest whole-of-life cost approach as opposed to the lowest cost;

   8.5.2 Reducing the number of suppliers to improve efficiency of supplier selection;

   8.5.3 Analyse bundling or unbundling of activities as appropriate to create better competition or to retain in-house capability;

   8.5.4 Collaborating with other local government entities.

8.6 Manage risk by balancing control, cost effectiveness and process efficiency;

8.7 Meet and exceed the expectations of key external stakeholders;

8.8 Provide guidance and training for Council officers involved in procurement, including contract management practices;

8.9 Review the resources and capabilities required for procurement across the organisation on an ongoing basis;

8.10 Benchmark the capacity and skills with those of other organisations;

8.11 Develop appropriate systems technology for greater control and efficiency, ensuring that these systems form part of the organisational wide Enterprise Resource Planning system;

8.12   Maximise use of technology and pursue electronic procurement wherever possible, including more efficient procure-to-pay processes.

8.13   Develop an organisational-wide rolling program of major procurement activities i.e. upcoming projects, procurement planning, contract renewals etc.

9.   PROCUREMENT STRATEGY IMPLEMENTATION & ACTIONS

The current state of procurement practices within PMHC leaves the organisation with an enormous opportunity to reap significant benefits from implementing the recommendations of this strategy. Many of these benefits will require significant organisational change and a phased approach is recommended to ensure that the necessary capabilities are established and in some cases even piloted. The four phases of implementation can be described as follows:

Awareness:
Awareness is about recognising the importance of procurement to the organisation and recognition that there are substantial benefits in pursuing improved procurement practices. This includes promoting the Procurement Strategy and conducting briefings with Councillors and staff on the recommendations and future direction as detailed in the strategy.

Setting the foundations:
Setting the foundations is about ensuring that the procurement skills and capabilities required to meet the objectives and recommendations as detailed in this strategy are available within PMHC, including a satisfactory level of staff resources to implement the recommendations. Key to setting the foundations is ensuring policies, procedures and processes are current and adopted as required by Council; that the PMHC financial systems and processes are adequate and that procurement systems can achieve the level of rigour required for successful implementation of this strategy. Without these core foundations, it will be difficult to realise any benefits from a new approach to procurement.

Stakeholder Engagement:
Stakeholder engagement is about engaging with the organisation to adopt alternate procurement practices to deliver on the objectives and recommendations as included in this strategy. It is about engaging with cross-organisational teams to determine and validate relevant categories for inclusion in the category management approach to procurement. This is about piloting a particular procurement category to quantify if this approach will see benefits realised for the organisation. If the pilot is successful, then guidelines will be developed for implementation across other procurement categories.

Transformation:
Transformation is about ensuring that with improved procurement capabilities, procurement becomes an enabler of improved service delivery through the adoption of innovative procurement practices and through sourcing ongoing savings. Some transformation activities may include shared services delivery; the outsourcing of some services; public-private partnerships or simply changes to the way Council provides services to the community.

In addition to the above overarching implementation phases, the key to successfully implementing the Procurement Strategy will be:

9.1   Quantifying the potential benefits, by category, from improved procurement practices;

9.2   Agreement regarding benefits realisation i.e. how benefits from improved procurement practices are to be realised and distributed throughout the organisation;

9.3   Increased organisational understanding of the criticality of improved procurement practices;

9.4   Strong governance and leadership to drive the Procurement Strategy, using appropriate influence and control;

9.5   Development of a strong operating model consistent with the nature of procurement across the organisation.

By establishing clarity and acceptance around the potential benefits of improved procurement and clear governance and operating models, PMHC can successfully reap significant rewards and benefits from the implementation of this Procurement Strategy.

For a detailed implementation schedule, please refer to Appendix A titled 'Procurement Strategy Implementation Plan'.

10.   RESOURCING

Implementation of the revised model of procurement for PMHC as recommended in this strategy will only succeed if the following is in place:

- Local political will and support from Councillors;
- Strong executive and management leadership which provides proactive and ongoing support for the revised model;
- Adequate financial and staff resources are in place to ensure the objectives of the strategy can be met.

The existing resources dedicated to procurement within the organisation will not be adequate for the implementation of the centralised category management approach as detailed in this strategy. Following is the structure that currently exists for procurement activities:
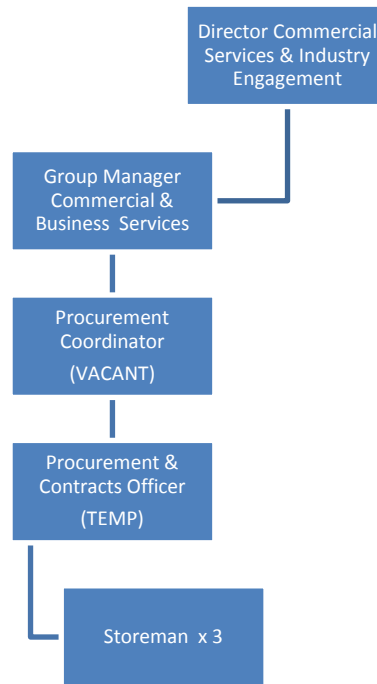
Current Procurement structure as at August 2013

As seen above in the existing structure, there are very few permanent resources currently dedicated to procurement across the organisation. For clarification, the three (3) Storeman play a dual role within Council. The primary role of the Storeman is to service the operational staff with inventory requirements via Council's two stores located at the Port Macquarie and Wauchope depots. In addition to this, the Storeman play a key role in processing the organisations purchase orders through the existing finance system, as well as receipting the goods and invoices as required.

Under the proposed procurement model detailed in this strategy, it is envisaged that the following human resources will be required:
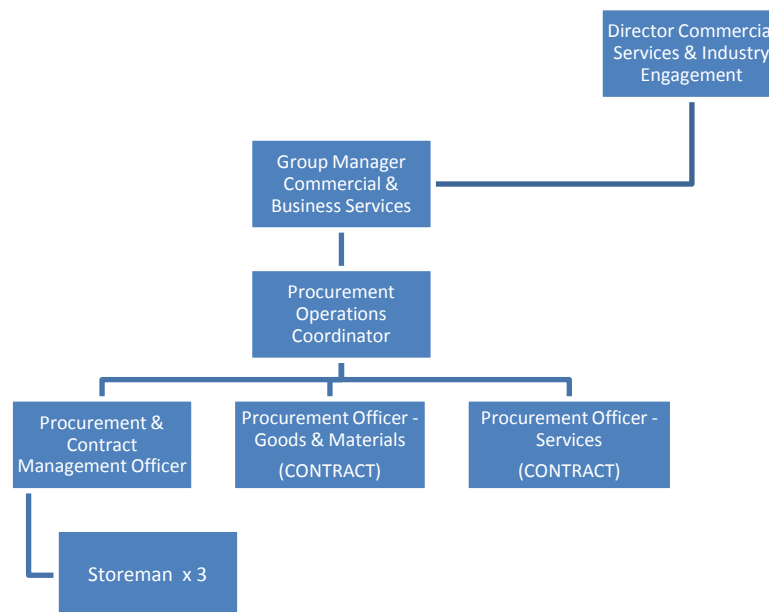
Proposed Procurement structure as at August 2013

Further to the structural hierarchy provided above, following is a more detailed explanation of the proposed structure:

- **Procurement Operations Coordinator**:
  This role is a revised version of the existing Procurement Coordinators role. The revised role will oversee all procurement operations of the organisation and will have day-to-day responsibility for the implementation of the procurement strategy. This role has responsibility for all procurement related policies, processes and practices and will provide oversight to all procurement activities, including all tender processes across the organisation.

- **Procurement & Contract Management Officer:**
  The primary objective of the position is to assist with the coordination of Councils purchasing, tendering, and stores activities and functions. This role will provide oversight to all contracts entered into by Council to ensure supplier compliance and to maximise opportunities within the conditions of the contract. This role will need to move from a temporary role to a permanent role.

- **Procurement Officers:**
  These newly created roles will undertake category management responsibilities across the organisation. This will primarily involve category analysis (i.e. procurement spend & related issues), identification of savings opportunities, supplier assessments and profiling, procurement planning with relevant stakeholders, tender specification development, supplier development and management, contract review and other tasks to be determined. These two (2) roles are recommended to commence as contract roles for an initial two (2) year period with regular reviews during that time. Engaging people into these roles initially on a contract basis provides the organisation with some flexibility with structure and in implementing the procurement strategy.

- **Storeman:**
  The role of the Storeman would remain very much as per the current mix of stores duties as well as day-to-day purchasing processing.

The cost of the existing procurement structure (including on-costs) is as follows:

Role	Grade	Remuneration
Procurement Coordinator	15/4	$104,163
Procurement & Contracts Officer	9/4	$73,243
Storeman x 3	5	$191,967
Total:		**$369,373**

The cost of the proposed procurement structure (including on-costs) will be as follows:

Role	Grade	Remuneration
Procurement Coordinator	15/4	$104,163
Procurement & Contracts Officer	12/4	$88,838
Procurement Officers x 2	12/4	$177,676
Storeman x 3	5	$191,967
Total:		**$562,644**

As detailed above, the additional cost to the organisation of the proposed structure will be approximately **$193,271** per annum.

Whilst Council will be required to invest in additional resources as proposed above, it is considered that unless this investment is made, there will be limited opportunities to deliver improved procurement practices across the organisation. It is anticipated that the cost of the additional procurement staff would be offset by the savings and efficiencies achieved through the implementation of the procurement strategy.

11.   MANAGING RISK

All procurements embody a degree of risk that can never be completely eliminated. However, risks can be identified and many can be mitigated. The risks faced in Procurement can range from the failure of a supplier to deliver a requisition through to the breakdown or delay of a major project. The management of risks requires strategies to mitigate risk and contingency planning to respond to risks that may emerge. At all times, Council must be aware of its statutory obligation to manage its financial risks by prudently having regard to economic circumstances.

All risk management considerations and actions should be consistent with the PMHC Risk Management policy and related framework. This policy provides a framework for establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

High value procurements, and those of lesser value but that might be complex in nature, should be subject to preparation of a risk management plan, which can form part of the overall Procurement plan. Ideally, the risk management plan should consider risks at all stages of the procurement cycle, with the Procurement policy setting the trigger point at which a risk management plan is required.

A risk management plan for a procurement project would address the following aspects:

- **Establish the context**
   This establishes the context of the goals, objectives, strategies, scope and parameters of the procurement activity.

- **Identify risks**
   This entails the identification of what, why and how things can arise in the procurement, providing a basis for further analysis if required.

- **Analyse risks**
   When analysing risks, the existing controls will be determined and the risks in the procurement will be analysed in terms of consequence and likelihood in the context of those controls. The analysis will consider the range of potential consequences and how likely those consequences are to occur. Consequence and likelihood may be combined to produce an estimated level of risk.

- **Evaluate risks**
   The estimated levels of risk to the procurement will be compared against pre-established criteria. This will enable risks to be ranked so as to identify management priorities. If the levels of risk established are low, then risks may fall into an acceptable category and treatment may not be required.

- **Treat risks**
  Medium and low priority risks may be accepted and monitored. For other risks to the procurement, a specific action plan will be required to be developed and implemented in accordance with available funding.

- **Monitor and review**
  Performance of the risk management system will be monitored and reviewed to take account of any changes which might affect it.

- **Communicate and consult**
  Communication and consultation with internal and external stakeholders will occur as appropriate at each stage of the risk management process and concerning the procurement process as a whole.

Council should incorporate the relevant and current risk management standards in the specifications it develops for various goods, services and works.

Council must consider the balance between apportioning risk to a contractor(s) and the cost. If all risks on all procurements are assigned to contractors then it is likely that a premium will be paid by Council. Council should determine what risk it is prepared to accept in a contract and ensure this is reflected in the price it pays.

12. PERFORMANCE MANAGEMENT

An outcomes-focussed process for evaluating procurement outcomes will need to be developed in order to demonstrate that the procurement strategy objectives are being achieved. This will also allow for continual improvement of the procurement processes. Evaluation also provides the basis for effective control and stewardship of resources that demonstrates the value of the procurement function.

Following are a range of performance measures that will be used to evaluate the success of the implementation of the procurement strategy:

12.1 Savings achieved - one-off activities (i.e. non recurrent savings);

12.2 Savings achieved - recurrent savings against set savings targets;

12.3 Volume of orders raised that are under contract;

12.4 Volume of orders raised that are not under contract;

12.5 Percentage reduction in the expenditure undertaken outside of the formal purchasing process;

12.6 Detailed contractor performance i.e. determining the extent to which the requirements of each contract are being met such as contract rates and general adherence to terms and condition of the contract including service levels;

12.7 Ongoing evaluation of opportunities to improve processes, policies and procedures.

13.   ACKNOWLEDGEMENTS

The ideas and models of procurement included and discussed in this strategy have been developed based on the experience of several key staff along with reference to the following documents and organisations:

- NSW Government Procurement Discussion Paper January 2012;
- Victorian Local Government Procurement Strategy - September 2008;
- Victorian State Government Guide to Developing a Procurement Strategy – September 2012;
- Victorian State Government Best Practice Guidelines for Victorian Local Government 2013;
- New Zealand Transport Agency Procurement Manual - November 2009;
- City of Liverpool, United Kingdom Corporate Procurement Strategy 2010-2014;
- Birmingham City Council, United Kingdom - Commissioning & Procurement Strategy 2011-2014;
- PMMS Consulting Group - Procurement Maturity Model;
- Local Government Procurement & PMMS Consulting - Procurement Roadmap Pilot Program, November 2011;
- Moorabool Shire Council, Victoria - Procurement Strategy April 2014.

Port Macquarie-Hastings Council

ASSET MANAGEMENT STRATEGY 2013 - 2023

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Draft 2013 - 2017 Resourcing Strategy

SECTION 3
2013 - 2023 Draft Asset Management Strategy

Responsible Officer	Director Infrastructure Services
Contact Officer	Group Manager Assets & Systems
Authorisation	Port Macquarie-Hastings Council
Effective Date	To be determined
Modifications	Draft v 05
Superseded Documents	2011 – 2021 Asset Management Strategy
Review	Executive
File Number	All documents relating to the strategy development, communication, implementation and review must be held on a PMHC registered file. Contact the Records Section.
Associated Documents	• Asset Management Plan (Transport, Water, Sewerage, Stormwater and Buildings assets) • Asset Management Policy • Community Strategic Plan 'Towards 2030' • 2011 – 2015 Delivery Program • 2012/13 Operational Plan • Long Term Financial Plans • Corporate Risk Register

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List of Figures and Tables

Figures:

Tables:

Executive summary

This is the first review of the Asset Management Strategy for Port Macquarie-Hastings Council in accordance with the requirements of the NSW 2010 Integrated Planning and Reporting (IP&R) framework.

Port Macquarie-Hastings Council provides and manages a broad range of assets such as roads, bridges, stormwater drainage, buildings, recreational facilities, water and sewerage networks, plant and equipment, land and other assets such as heritage collections and library books. These assets are valued at over $2.6 billion and are essential to service the needs and to enhance the quality of life of the community within the Port Macquarie-Hastings Local Government area.

This Asset Management Strategy identifies the way Council currently looks after its assets, both day to day (maintenance and operational) and in the long term. It also looks at where Council wants to be in 2030 and how we intend to get there. It comprises a number of plans that detail how an entity will use its assets in an efficient manner over each asset or asset group's lifecycle to support program delivery. An Asset Management Strategy will usually cover the development and implementation of plans and programs for asset creation, operation, maintenance, rehabilitation, replacement, disposal and performance monitoring, to ensure that the desired levels of program delivery and other operational objectives are achieved at optimum cost.

The goals of the Asset Management Strategy are to ensure services are provided:
- In the most cost effective manner;
- Through the creation, acquisition, maintenance, operation, rehabilitation and disposal of assets; and
- For present and future generations.

The underlying principle of the Asset Management Strategy is that each asset will deliver a future economic benefit to the entity by supporting program delivery, whether directly or indirectly.

The first step in developing an Asset Management Strategy is to understand the current status of Councils assets and their management. This includes consideration of the following:
- What is the current status of Councils Asset Management practices?
- What assets does Council have and what is their replacement value?
- What is the current status of Councils Asset Management processes and procedures?

Council's Asset Management practices are at varying levels of maturity. The status of the various asset groups, on average, rate 'fair' to 'poor', meaning that they only meet 50% to 70% of the required standards for Asset Management.

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Draft Asset Management Strategy

To advance the Asset Management Strategy the implementation of the following initiatives are required:

- Council and Executive fully support and endorse the implementation of the Asset Management Strategy;

- Develop a resourcing strategy that meets the needs of Asset Management as defined by IP&R. The resourcing strategy will consider alternative funding models inclusive of staffing levels, training, external service providers and asset management tools (software);

- Continue to develop a uniform and central asset register where all asset classes are managed equitably and administered by the Asset Management Team;

- Develop LTFP's for all asset classes and have these plans incorporated into Council's overall LTFP's;

- Where identified, pursue the procurement of additional software to assist in the management of infrastructure assets;

- Introduce a decision support tool that promotes equity between all Council services that are delivered;

- Develop service levels via community consultation as directed by the engagement strategy;

- Foster the relationship between GIS and the Asset Management Team to continue the evolution and delivery of spatial asset information;

- Development of core processes and policies across all asset classes (Strategic Asset Management);

- Develop procedures for effective and efficient Asset Management practice across the organisation (Operational Asset Management); and

- Form an Asset Management Users Group (AMUG) to oversee the process.

It is intended that this Asset Management Strategy be a living document that helps to guide the activities and decision making of Port Macquarie-Hastings Council into the future. The initiatives contained within will be reviewed on a regular basis to ensure applicability in a changing environment and to also ensure continued alignment with the Community Strategic Plan Towards 2030 vision of the community.

Introduction

This Asset Management Strategy has been prepared by Port Macquarie-Hastings Council in accordance with the State Governments Integrated Planning and Reporting (IPR) framework requirements.

Council is the custodian of approximately $2.6 billion of community assets. These assets include roads, bridges, storm water drainage, buildings, recreational facilities, water and sewerage networks, plant and equipment, land and other assets such as heritage collections and library books. Council has invested substantial resources in the structure and maintenance of these assets over many years in order to service the needs and enhance the quality of life of the community within the Port Macquarie-Hastings Council Local Government area.

Under the Integrated Planning and Reporting framework, Council's are required to draw together their various plans, to understand how they interact and to maximise their efforts by planning holistically for the future.

Our IP&R framework was developed through extensive consultation with the community and compromises a tiered structure of strategies, plans and reports which set out our long term vision, and provides for ongoing review of progress towards that vision. The integrated planning and reporting system is shown in the diagram below.
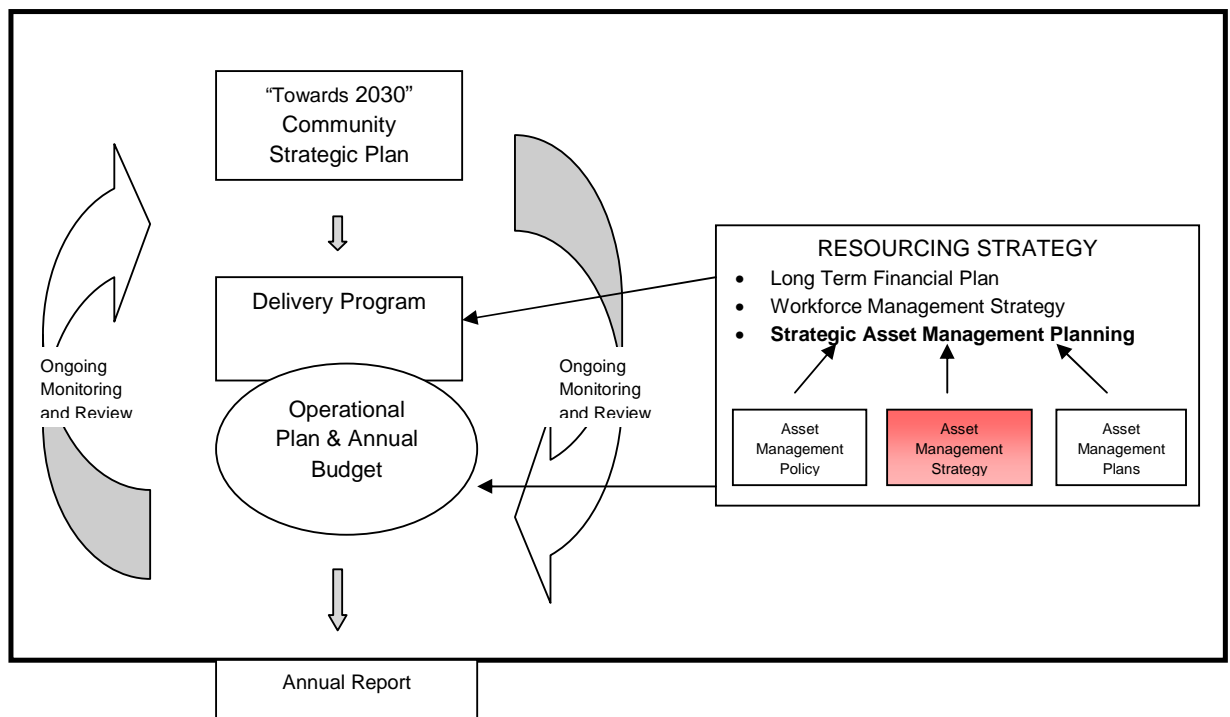
Figure 1: Port Macquarie-Hastings Council's Integrated Planning documents[1]
The two most important aspects of this framework are its cascading effect, whereby each plan is based on the plans that sit above or alongside it; and the perpetual monitoring and review which is undertaken at every level. At the pinnacle of this framework is The Community Strategic Plan, "Towards 2030". This long term strategic plan is a whole of community plan.

Underneath "Towards 2030" sits a four (4) year Delivery Program which outlines the strategies, programs and projects Council will undertake in a given timeframe to achieve "Towards 2030".

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[1] Adapted from Fairfield City Council's Asset Management Strategy 2011

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Draft Asset Management Strategy

The annual budget and Operational Plan contain the details of what Council will do in a given year as part of its current Delivery Program. It provides details on individual actions that will be undertaken, including provision of ongoing services and programs.

Sitting alongside these elements and both informing and being informed by all other components of the framework is Council's Resourcing Strategy. It outlines Council's capacity to manage assets and deliver services over the next ten (10) years.

Council's Resourcing Strategy is comprised of three (3) components: our Long Term Financial Plan; our Workforce Management Plan and our Asset Management Planning (which includes; the Asset Management Policy, Asset Management Strategy and Asset Management Plans. This document is the Asset Management Strategy).

The Asset Management Policy establishes a framework that determines the nature and direction of Asset Management within the Port Macquarie-Hastings Council Local Government Area (see Figure 2 below). The Asset Management Plan influences the operational outputs and outcomes in Council's Delivery Program and Operational Plan.

The Asset Management Strategy is a companion to the Asset Management Policy which outlines the key principles that underpin Asset Management for Port Macquarie-Hastings Council. The development of an Asset Management Strategy enables Council to illustrate how its asset portfolio supports the service delivery needs of its community into the future.

This integrated planning framework ensures that all Council activities and resources are directed to achieving "Towards 2030" and ensures a high level of accountability at each level so that all actions are carried out and are consistent with Council's strategic direction.

VISION OF THE COMMUNITY
AS DEFINED IN THE COMMUNITY STRATEGIC PLAN – "TOWARDS 2030"

- Living in a harmonious safe and connected community
- Enjoying participatory local democracy
- Accessing quality infrastructure including roads, waste, water and sewerage management
- Benefiting from quality urban design that encourages use of open spaces and provides easy access between our towns and villages
- Enjoying economic prosperity and having access to quality education and training
- Actively participating in inclusive community activities

POLICY

To set broad framework for undertaking Asset Management in a structured and coordinated way

STRATEGY

To develop a structured set of actions aimed at enabling improved Asset Management by Council

PLANS

To outline particular actions and resources required to provide defined levels of service for particular asset classes

OPERATIONS

To detail 'day to day' actions required to deliver the defined level of service

DELIVERY PROGRAM/ OPERATIONAL PLAN

- Reflects AM Plan Priorities/ Forecasts
- Allocates necessary resources
- Contains measureable performance indicators
- Promotes efficient service

STRATEGIC ASSET MANAGEMENT PLAN

ASSET MANAGEMENT POLICY → **ASSET MANAGEMENT STRATEGY** → **ASSET MANAGEMENT PLAN(S)**

- Context and Importance   Current status   Levels of Service
- AM Principles and Assumptions   Processes   Demand forecasts
    Systems   Asset portfolios
    Data   AM activities
- Roles & Responsibilities   Planning   Operations
- Integration of AM Into organisation   Implementation   Maintenance
    Renewals
    Future Vision   Capital works
    Strategies & actions to address gaps   Disposals
    Resources & timeframes   Financial forecasts
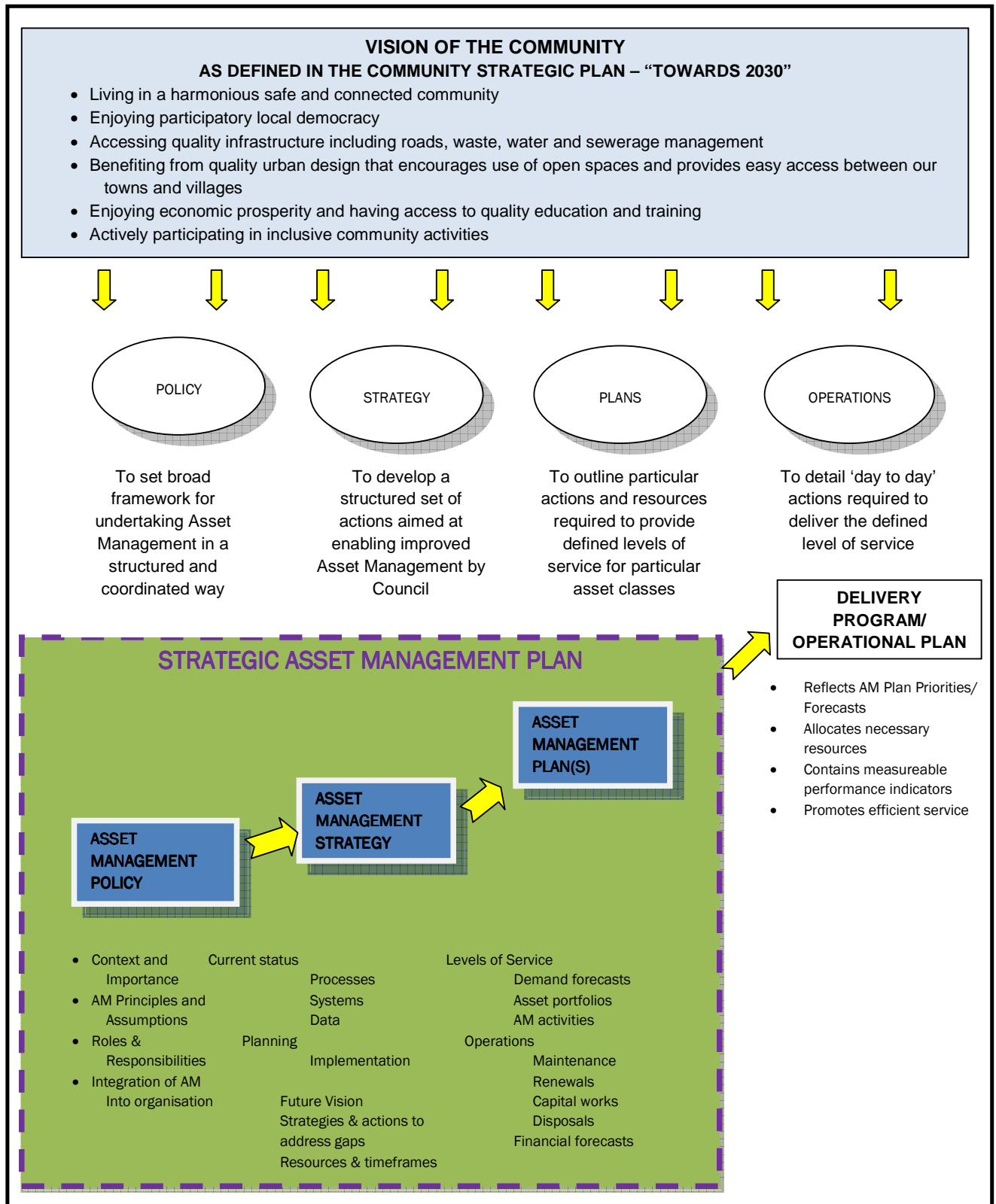
Figure 2: Port Macquarie-Hastings Council's Asset

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What is asset management?

In simple terms, Asset Management is about the way Council looks after its assets, both on a day to day basis (maintenance and operations) and in the medium to long term (strategic planning).

The goal of Asset Management is to ensure services are provided:
- In the most cost effective manner;
- Through the creation, acquisition, maintenance, operation, rehabilitation and disposal of assets; and
- For present and future generations.

Key areas of asset management planning

Asset Management Planning aims to optimise services to the community at a cost and risk that is acceptable. To assist Council in achieving this we have commenced developing various sustainability planning tools including the Community Strategic Plan, Asset and Risk Management Plans along with Long Term Financial Plans. The implementation of these plans is guided by the Asset Management Framework.

The nine (9) key areas of Asset Management that guide the direction for future systems, processes and planning include:
- **Life-cycle asset management principles –** Apply a "whole of life" methodology for managing infrastructure assets including:
  - Planning;
  - Acquisition/creation;
  - Operation;
  - Maintenance;
  - Renewal; and
  - Disposal.

- **Best value –** The Council will balance financial, environmental and social aspects to achieve best value for the community;

- **Decision support systems and knowledge** – The Council's systems will be a corporate resource and will include the measurement, monitoring, evaluation, and reporting on the performance of assets to enable better and more informed decisions;

- **Service levels** – Asset service levels will be clearly defined and reflect the needs of the community, meet corporate policy objectives, and balance capital investment, operational safety and costs;

- **Long term financial plan (LTFP)** – Asset practices, plans and systems will enable the development of long term financial plans for asset classes;

- **Asset planning strategies** – Port Macquarie-Hastings Council is committed to integrating long-term sustainability objectives into asset planning and project delivery. The Council recognises the need to strategically plan to meet the service delivery needs of stakeholders;

- **Asset management practices** – The Council will adopt a consistent and standard methodology to the management of all asset groups including the development of infrastructure asset and risk management plans for all asset groups;

- **Responsibility** – The responsibility for all individual aspects of the management and use of the Council's assets will be clearly defined; and

- **Sustainable environmental performance –** All aspects of the management of the Council's assets will include criteria to achieve sustainable environmental performance.

The purpose of the asset management strategy

The purpose of the Asset Management Strategy is to address three (3) important questions with respect to Port Macquarie-Hastings Council's assets:
- What is the current situation?
- Where do we want to be? and
- How will we get there?

The relationship between these questions and the Asset Management Policy, Strategy and Plans is outlined in Figure 3. By addressing these questions Port Macquarie-Hastings Council is ensuring it has in place a continuous improvement process for the management of its current and future assets. The Asset Management Strategy will continue to evolve as the strategic objectives of Council develop and change.

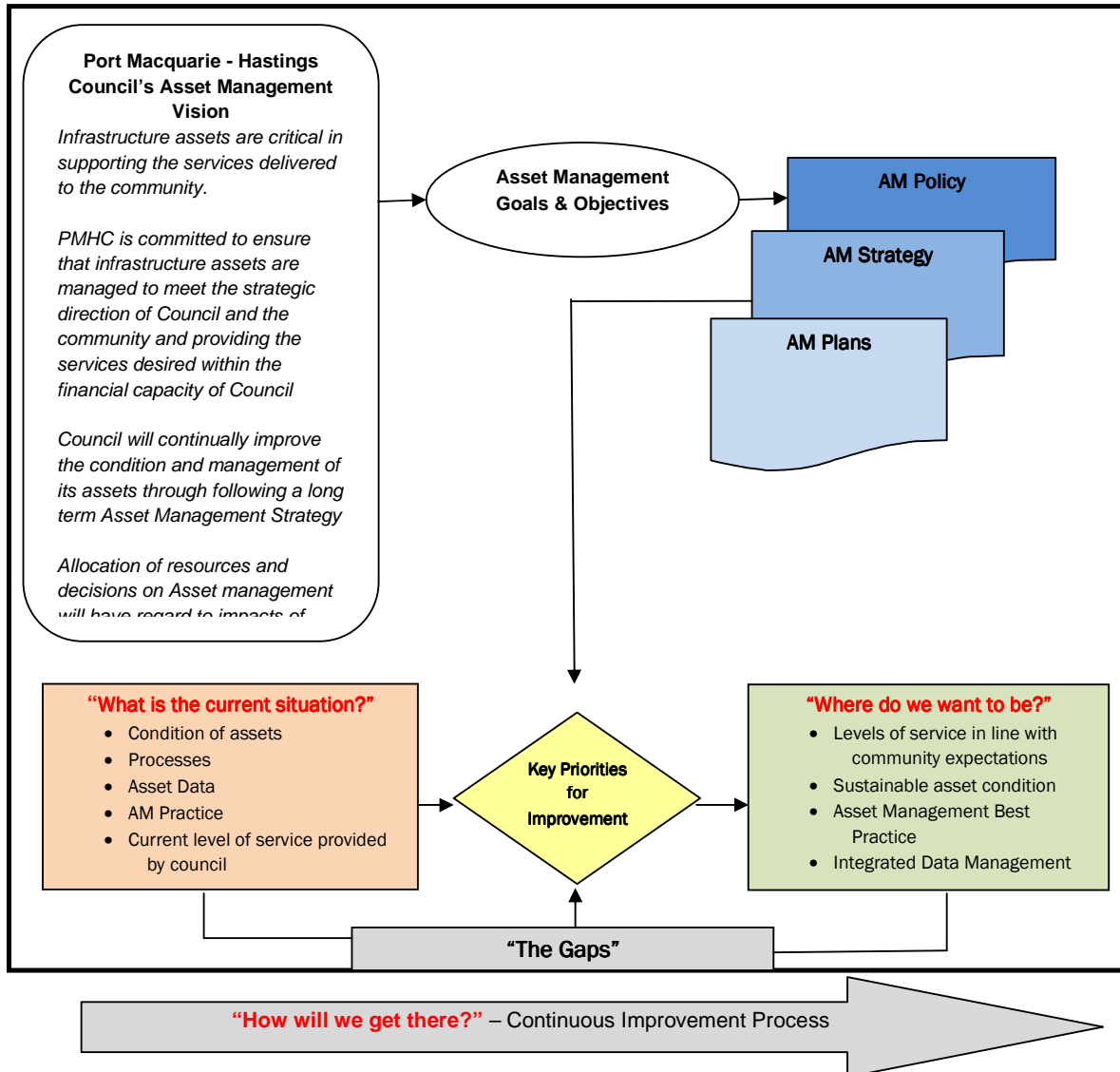PORT MACQUARIE
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Draft Asset Management Strategy

Figure 3: The relationship between the Asset Management Policy, Asset Management Strategy, Asset Management Plans and the three strategic questions

An Asset Management Strategy sets out the strategic goals for Council's asset portfolio by outlining what programs will be delivered, the methods of program delivery, including non-asset solutions, and what assets and resources will be required. An Asset Management Strategy is the practical implementation of an entity's strategic goals and helps in identifying the optimal asset base that is necessary to support program delivery requirements.

An Asset Management Strategy comprises a number of plans that detail how an entity will use its assets in an efficient and effective manner over each asset or asset group's life-cycle to support program delivery. The Strategy will usually cover the development and implementation of plans and programs for asset creation, operation, maintenance, rehabilitation, replacement, disposal and performance monitoring, to ensure that the desired levels of program delivery and other operational objectives are achieved at optimum cost.

The underlying principle in developing an Asset Management Strategy is that each asset will deliver a future economic benefit to the entity by supporting program delivery, whether directly or indirectly.

An Asset Management Strategy will assist Council in integrating our approach to planning over an asset's lifecycle through the identification of asset interdependencies such as:

- Planning decisions which affect long-term operational and maintenance costs;
- Poorly designed and managed maintenance programs which lead to planning for asset replacements earlier than intended; and
- Rationales for disposal of assets, such as low utilisation, poor functionality or end of useful life, which will feed into the broader planning process.

A comprehensive Asset Management Strategy will also establish the performance requirements of assets where Council is committed to using these assets to achieve program delivery requirements.

Port macquarie-hastings council asset management framework

Council adopted a revised Asset Management Policy in May 2011. The purpose of the Asset Management Policy is to guide the strategic management of all of Council's assets.

The Asset Management Strategy will complement the policy by detailing a set of strategic actions aimed at improving Asset Management performance over time.

Councils Asset Management Plans are currently being prepared and/or reviewed for all major asset categories. The Asset Management Plans tell us how much we should be spending on maintaining or renewing our assets.

These three (3) components are essential tools in ensuring the long term management of Port Macquarie-Hastings Council assets into the future.

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Asset management history

Asset Management is not new to Council. The need to develop an Asset Management Strategy was in response to Port Macquarie-Hastings Councils current Asset Management practices and to ensure the principles of the National Asset Management Framework and the NSW Integrated Planning and Reporting Frameworks were met.

Historically, Council had developed sound Asset Management practices for Water, Sewerage and Transport (Roads) assets. However, the lack of a consistent approach across all asset classes becomes evident when undertaking assessment against industry standard practice and the National Asset Management Framework.

In response to the Integrated Planning and Reporting framework, and prior to nominating as a Group 2 Council, Council had committed to implementing Asset Management plans by 30 June 2009. This commitment recognised the key role that effective Asset Management planning plays across the breadth and depth of Council's operations.

In recognition of the tight timeframe and the need for further community consultation in terms of service level requirements, it was deemed appropriate that a two tiered approach be undertaken to ensure the delivery of Asset Management Plans across 100% of Council's asset classes.

A two tiered approach was also considered necessary based on the following:
- Four (4) asset classes (transport, stormwater drainage, water supply and sewerage) account for > 80% of Councils asset value and have been considered in tier one;
- Available resources have been primarily focused on completing Generation 1 type Asset Management Plans for Tier 1 asset classes prior to 30 June 2009;
- Assets have been identified and captured in disparate systems. The complexity and availability of information across asset classes varied significantly;
- There were vastly different levels of asset attribute information across asset classes; and
- A first step to the delivery of uniform and comprehensive plans is required in the areas of, transport, stormwater, water & sewerage assets.

The approach adopted to develop Generation 1 Asset Management Plans was broadly based on:
- Best available current information and statistically valid samples for the purpose;
- Simple risk assessment to identify critical assets;
- Existing levels of service;
- Contrasting existing management strategies with opportunities for improvement;
- Prioritisation of capital works using simple ranking criteria (subjective points scoring or simply cost benefit analysis to evaluate options); and
- A calculation of long-term (10 - 20 year) cash flow predictions for asset maintenance, rehabilitation and replacement, based on local knowledge of assets and options for meeting current levels of service.

The NAMS.PLUS framework, developed by the Institute of Public Works Engineers Australia (IPWEA) was adopted as the initial basis for the development of uniform Asset Management Plans to meet the deadline. Though not without limitations, NAMS.PLUS has a degree of acceptance throughout the professional staff at Port Macquarie-Hastings Council, acknowledging that there is unlikely to be any approach with universal acceptance. NAMS.PLUS is, by nature, a framework for continuous (or at least iterative) improvement and was considered to be a robust starting point.

Generation 2 Asset Management Plans, whilst more mature that the first, require further revision in terms of condition ratings, indicative lives, assessment of risk and levels of service.

What is the current situation

The first step in developing an Asset Management Strategy is to understand the current status of Councils assets and their management. This includes consideration of the following:
- What is the current status of Councils Asset Management practices?
- What assets does Council have and what is their replacement value?
- What is the current status of Councils Asset Management processes and procedures?

Current status of councils asset management practices

Table 1 provides detail on the rating matrix Council uses for determining Asset Management status.

Table 1. Rating matrix for Asset Management Status

Rating Matrix for Asset Management Status		
Rating Number	**Rating**	**Level of Service**
1	Exceeds	Standard meets or exceeds standard
2	Good	Meets at least 90% of required standard
3	Fair	Meets at least 70% of required standard
4	Poor	Less than 50% of the required standard
5	Unacceptable	Standard not being met, or no action taken

Table 2 provides an overview of the maturity of Council's Asset Management Practices for each of Council's Asset Groups. The table has been purposely broken into three sub-tables to demonstrate which Section of Council currently holds and manages asset data.

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Draft Asset Management Strategy

Table 2: Asset Management Status – October 2012

Current Asset Management Responsibility	Assets & Systems					
AM Practice/Asset Group	**Roads**	**Bridges**	**Water**	**Sewerage**	**Stormwater**	**Flood & foreshore**
Asset database (inclusion and completeness of an asset class in the corporate database)	1 – 2	1 - 2	4	3	3 – 4	1 – 2
Asset physical attributes (inclusion and completeness of asset dimensions, manufacturer, construction material, etc. in corporate database)	1 – 2	1 - 2	3 – 4	3	3 – 4	1 – 2
Asset condition (asset condition recorded in corporate database as per NAMS Plus AMP's)	1 – 2	2	3	3	3 – 4	1 – 2
Financial attributes (asset financial record inclusive of commissioning date, condition, purchase value, current value, depreciation cost, residual value and useful life)	1 – 2	1 - 2	3 – 4	3	2 - 3	1 – 2
GIS/Attribute information (asset location and physical attributes captured in GIS	3	4	2 – 3	2 – 3	3 – 4	3 – 4
AMP/Risk Plan/LTFP (NAMS Plus AMP provides format for the quantification of assets, assessment of age & risk, identification & prioritisation of renewals, and LTFP)	3	5	3	3	3	5
Maintenance Management System (Is there an efficient system in place)	5	5	5	5	5	5

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Current Asset Management Responsibility	Building Services/Finance		Community Services/Finance		Parks/Finance		D&E /Finance	Infra /Finance
AM Practice/Asset Group	Buildings	Furniture & Fittings	Public Halls	Libraries	Parks & Reserves	Aquatic Facilities	Waste Services	Laboratory
Asset database (inclusion and completeness of an asset class in the corporate database)	4	5	4	5	5	5	5	5
Asset physical attributes (inclusion and completeness of asset dimensions, manufacturer, construction material, etc. in corporate database)	4	5	4	5	4	4	5	5
Asset condition (asset condition recorded in corporate database as per NAMS Plus AMP's)	2 – 3	5	2 – 3	5	3	3	5	5
Financial attributes (asset financial record inclusive of commissioning date, condition, purchase value, current value, depreciation cost, residual value and useful life)	2 – 3	5	2 – 3	5	2 – 3	2 – 3	5	5

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Current Asset Management Responsibility	Building Services/Finance		Community Services/Finance		Parks/Finance		D&E /Finance	Infra /Finance
AM Practice/Asset Group	Buildings	Furniture & Fittings	Public Halls	Libraries	Parks & Reserves	Aquatic Facilities	Waste Services	Laboratory
GIS/Attribute information (asset location and physical attribute summary captured in GIS	5	NA	5	5	4	4	5	5
AMP/Risk Plan/LTFP (NAMS Plus AMP provides format for the quantification of assets, assessment of age & risk, identification & prioritisation of renewals, and LTFP)	4	5	4	5	5	5	5	5
Maintenance Management System (Is there an efficient system in place)	5	5	5	5	5	5	5	5

Current Asset Management Responsibility	Corporate & Business Services / Finance					
AM Practice/Asset Group	**Glasshouse**	**Artwork & Artefacts**	**IT**	**Plant/Fleet**	**Crematorium**	**Airport**
Asset database (inclusion and completeness of an asset class in the corporate database)	5	1	3	1	1	2
Asset physical attributes (inclusion and completeness of asset dimensions, manufacturer, construction material, etc. in corporate database)	5	3	3	1	1	1
Asset condition (asset condition recorded in corporate database as per NAMS Plus AMP's)	5	5	3	NA	2	1
Financial attributes (asset financial record inclusive of commissioning date, condition, purchase value, current value, depreciation cost, residual value and useful life)	2	4	3	1	1	1
GIS/Attribute information (asset location and physical attribute summary captured in GIS	NA	NA	NA	NA	4	5
AMP/Risk Plan/LTFP (NAMS Plus AMP provides format for the quantification of assets, assessment of age & risk, identification & prioritisation of renewals, and LTFP)	3	5	5	3	5	2
Maintenance Management System (Is there an efficient system in place)	5	5	5	5	5	5

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Draft Asset Management Strategy

Council's assets and replacement values

Port Macquarie - Hastings Council is the custodian of and manages an extensive range of infrastructure assets valued in excess of $2.6 billion. These assets include the following infrastructure asset classes as set out in Table 3 below.

Table 3: Asset replacement values by asset type (as at 30 June 2012)

Asset Type	Replacement value $'000
Works In Progress (WIP) (all asset classes)	57,166
Plant & equipment	34,045
Office equipment	21,737
Furniture & fittings	6,112
Leased plant & equipment	286
Land	
Operational Land	71,114
Community Land	23,037
Crown land (Council trustee)	18,719
Land under roads	48,130
Non-depreciable land improvements	
Depreciable land improvements	9,191
Buildings	166,403
Other structures	64,681
Infrastructure	
Roads, bridges, footpaths	1,096,176
Stormwater drainage	152,500
Water supply network	493,264
Sewerage network	306,106
Other assets	
Heritage Collections	1,137
Library Books	4,608
Other (artworks etc)	1,282
Totals	**2,575,694**[2]

Asset management practices and procedures

Council's Asset Management practices can be broken down into four major categories; Stewardship, Asset Management Planning, Financial Planning and Information systems. In accordance with the International Infrastructure Management Manual 2011, Table 4 provides a snapshot of best practice Asset Management Practice and will be used as a baseline when answering the following questions:

- What is the current situation?
- Where do we want to be? and
- How will we get there?

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[2] Data derived from Council's audited 2011/12 Annual Financial Statements

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Table 4: Asset Management Practice

Stewardship
Asset Management Policy
Asset Management Strategy
Asset Management Accountability & Responsibility

Asset Management Planning
Asset classification/hierarchy
Asset data maintenance
Asset condition data
Risk Management integration
Levels of Service & delivery costs
Demand forecasting & predictive modelling
Asset Management Plans
Asset capitalisation processes

Financial Planning
Revaluation process
Lifecycle planning/costing
Project evaluation/prioritisation
Long term financial plan

Information Systems
Asset Register
Costing Systems
GIS
Advanced asset management modules (MMS & PMS)

Stewardship

Asset Management Policy

- Council has a current Asset Management Policy which is due for review in December 2012 and annually thereafter. The most recent review in May 2011 brought the policy into line with IP&R.

Asset Management Strategy

- Council has an Asset Management Strategy which was written in 2010 and adopted with the IP&R suite of documents. This earlier strategy has become obsolete and will be replaced with this document.

Asset Management Accountability and Responsibility

- Council is currently developing a cross functional approach to Asset Management. This has commenced with the formation of a centralised Asset Management Team lead by the Group Manager – Assets & Systems.

The primary roles of the Asset Management Team are as follows;
- Develop asset conditions, ratings and valuations;
- Develop Asset Management Policy and Strategy;
- Create and update Asset Management Plans;
- Develop draft annual works programs;
- Manage Asset Management software; and
- Provide data for annual end of financial year reporting.

Council's Internal Audit Committee is aware of the essential role Asset Management plays within the organisation. The committee will review the organisations practices for

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compliance with Asset Management Plans and policies. This review is scheduled for March 2013.

Asset management planning

Asset Classification/Hierarchy

- Asset classification and hierarchy deals with how well the organisation records its assets at the 'component' level for valuation and depreciation purposes for all asset classes. Council still has a substantial amount of work to do with respect to standardising all its asset classes

Asset Data Maintenance

- The Asset Management Team does not currently maintain data for all asset classes. It has predominantly focused on transport, water and sewerage assets. Whilst there is some work being carried out on other asset classes (e.g. parks assets) there needs to be a handover of all asset data to the Asset Management Team. This data will be stored in a centralised asset register; and

- Currently, asset attribute data is held in one of three systems; the Authority asset register, Authority financial modules and GIS (Arc-FM). The dispersion of data continues to provide challenges to the Asset Management Team, as it does not ensure uniformity between the asset hierarchy and the financial records.

Asset Condition Data

- Asset condition data is fragmented across the asset classes. Whilst Council has sound current condition data for asset classes such as roads and bridges, parks and buildings, it has deficient data in the asset classes of water & sewerage due to revaluations being undertaken on age rather than condition. Whilst this is an accepted practice and meets accounting standards for revaluations there is less accuracy in the aged based methodology.

Risk Management Integration

- Infrastructure assets and the services they provide are incorporated into Asset Management Plans at a core level for transport, water, sewerage and stormwater assets. Organisationally, the risks associated with these asset groups are widely dispersed throughout the corporate risk register but there is little integration with the current Asset Management documentation.

Levels of Service and Delivery Costs

- Historically, asset owners have recorded their asset costs with varying levels of detail which has generally been undertaken at a level to suit their reporting requirements.

Demand Forecasting

- Demand forecasting in the transport, water, sewerage, stormwater and parks asset classes is currently included in Asset Management Plans. In the review of these plans, demand management must be considered at a level consistent across all asset classes.

Asset Management Plans

- Asset Management Plans for the various asset classes are at varying degrees of maturity. Please see section 5.1, Table 1: "Asset Management Status" across the organisation.

Asset Capitalisation Processes

Council currently does not have an Asset Capitalisation Policy. All asset financial transactions are undertaken in accordance with the various Australian Accounting Standards and directives from the Division of Local Government.

Financial planning

Revaluation Process

- Council currently undertakes revaluation of asset classes in accordance with the timetable set down by the Division of Local Government. The revaluation of individual asset classes is undertaken on a five (5) year cycle;

- There appears to be some disparity in the facilitating of asset revaluations with the Finance Team undertaking some (Land & Buildings 2012-2013) and the Asset Management Team facilitating others (water & sewerage 2011-2012);

- Previously there has been an absence of documented processes and procedures for the revaluation of assets. With each revaluation, appropriate documentation sufficient to meet the needs of audit has been produced and will be used in future revaluations; and

- No budget allocations have been set for those asset revaluations undertaken by the Asset Management Team. Asset revaluations have not been recognised as a major project.

Lifecycle Planning/Costing

- The current processes to capture costs, whether it is capital, maintenance or operational, within Council's financial system is undertaken differently for each asset class. The level of cost capture is generally set by the asset owner to suit their financial/project reporting requirements. In some cases the Asset Management Team is able to use the cost data for inclusion in Asset Management Plans. However, cost data has often been captured at too high a level for meaningful inclusion.

Project Evaluation/Prioritisation

- The Infrastructure Services Division has developed a decision support tool to assist in prioritising transport asset projects. This tool has the ability to incorporate other asset classes through a fair comparison of priorities. There is a need for the organisation to have a Council wide project prioritisation tool to allow fair and equitable comparisons of projects across different infrastructure classes. Recognising that Council has separate funds for water, sewerage, waste and general, any project prioritisation and comparison needs to be undertaken within the relevant fund.

Long Term Financial Plan

- Councils Finance Team has developed Long Term Financial Plans (LTFP) in response to the requirements of Integrated Planning and Reporting. There is a need to ensure that LTFP's associated with individual Asset Management Plans are fully integrated into the overall organisations LTFP's; and

Draft Asset Management Strategy

- Current LTFP's associated with Asset Management Plans only support funding requirements associated with capital works.

Asset Register

- Council currently holds its infrastructure assets attribute data in several locations. Some asset classes use the CIVICA Authority asset register (transport, water and sewerage); others use the CIVICA Authority finance modules (parks). Assets such as the Glasshouse, Airport and Crematorium are held in the CIVICA finance module administered by the Corporate & Business Services Division. Council's GIS system also houses some attribute data. The dispersion of attribute data across the organisation has resulted in an inconsistent approach to Asset Management across the asset classes. A consistent approach should be achieved to deliver the best attribute data for all classes of assets.

Costing Systems

- See section 5.3.2 Levels of Service and Delivery Costs above.

Geographic Information System (GIS)

- Council operates a comprehensive GIS system managed by a dedicated team. The system uses ArcMap as its main platform and eView which is soon to be superseded by Dekko. The current GIS system is not integrated with the CIVICA Authority asset modules. Although there has been some work undertaken in mapping roads layers and assets, and with a continued focus, full integration between GIS and Asset Management should be achieved in the next 12 to 24 months. From an organisational perspective this will provide a valuable tool to all users, including asset owners, to assist with making informed decisions about assets through a spatial context.

Advanced Asset Management Modules (MMS & PMS)

- Historically, the TAMS Pavement Management System was used for pavement management but is no longer supported and has been rendered obsolete. Excel spreadsheets and associated formulas have been used to develop the current pavement reseal and rehabilitation programs. The security of these programs is low, prone to error and is not a long term solution. The inability to consider complex scenarios is also noticeably absent in any simple forward works program tool;

- CIVICA have developed a Strategic Asset Management module which is currently being reviewed for its suitability for use within Council. If this product is deemed unsuitable, consideration of a third party Pavement Management System will be further explored; and

- Computerised Maintenance Management Systems have long been used in the industry to manage infrastructure assets. Council currently uses in-house Access databases that are out of date and also suffer similar problems to the excel tools mentioned above. They provide little value in providing useful data that can feed back into the system for future use and they do not directly interact with CIVICA. Council will soon be using a third party software package to manage its water and sewerage electrical and mechanical assets. This program will value add to the organisation and create efficiencies.

Where do we want to be?

Stewardship

Asset Management Policy

- Council shall have an adopted Asset Management Policy which is to be reviewed annually in line with IP&R and best practice Asset Management.

Asset Management Strategy

- Council shall have an adopted Asset Management Strategy which is reviewed every four (4) years in line with IP&R and best practice Asset Management.

Asset Management Accountability and Responsibility

It is essential to recognise that Asset Management is a corporate responsibility and as such:

- Responsibility and accountability for Asset Management must be embedded at the Executive Management level and the Executive Team consider Asset Management issues at the corporate level;

- All infrastructure planning decisions made by Council are to be aligned with Asset Management plans, long term financial plans, legislative requirements and Asset Management best practice from a whole-of-life cycle costing perspective;

- A cross-functional approach to Asset Management across the organisation with the formation of an Asset Management User Group (AMUG) to ensure consistency of best practice and to establish Asset Management feedback loops across the organisation; and

- Asset Management is a whole of organisation discipline, with personnel across Council participating. It is imperative to emphasise the importance of the Asset Management aspect of these roles in Position Descriptions and the Performance Management Process. This will ensure that Asset Management related accountabilities and expectations are consistently applied, measured and managed across the organisation.

Asset management planning

Asset classification/hierarchy

- Council shall have a consistent and thorough approach to the collection and storage of Asset Management data from both an Asset Management and Assets financial perspective. Data collected, collated and input needs to conform to a uniform standard. All asset classes are to be maintained in the corporate asset register by the relevant Asset Management Officer with the aim of providing a level of consistency and a centralised point of reference; and

- The CIVICA Authority asset register will hold physical attribute data of assets and the Authority financial modules hold the relevant financial attributes to enable end of year financial reporting.

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Asset Data Maintenance
- The Asset Management Team shall be responsible for the maintenance of data in a uniform structure for all asset classes in a central asset register;

- The importance of current asset data needs to be emphasised with asset owners to ensure that asset registers and physical attributes are current;

- The Asset Management Team should prioritise the development of a work procedure for asset register maintenance. This procedure will include the recognition of assets, asset capitalisation of new and donated assets, asset disposals, impairments and a process for reviewing useful lives of assets. In addition a review of the most effective depreciation methodologies for different asset classes will be explored and adopted;

- Asset registers shall be maintained on a consistent basis to ensure adequate human and physical resources are made available in accordance with changing demands and evolving priorities; and

- Best practice suggests that all asset attribute data should be held within a uniform structure to ensure a consistent approach to data maintenance.

Asset Condition Data
- Condition assessments shall be undertaken on a regular basis to ensure data sets are uniform across all asset classes. To achieve this Council will have defined standards and procedures for Council operational staff to ensure the required attribute data is captured and entered into asset registers

Risk Management Integration
- There will be continued development of risk identification within individual Asset Management Plans which identify infrastructure asset risks that are aligned with Councils Corporate Risk Register

Levels of Service and Delivery Costs
- Informed whole-of-life cycle costing decisions shall be made utilising asset and costing data that have been recorded at an appropriate component level to provide life cycle costs for all asset classes and components. Council should have service levels linked to the cost of service delivery and developed in association with the community; and

- A move towards a consistent approach to recording costs at a level of detail that provides information to the Asset Management Team for input into future Asset Management Plans is worthy of consideration. Consistency in recording of costs will help establish and measure Levels of Service.

Demand Forecasting
- Future demands that impact on the service delivery will be incorporated into Asset Management Plans and any changes in the delivery of services shall be conveyed to relevant stakeholders.

Asset Management Plans
- The organisation shall progress towards 'advanced' level Asset Management Plans for all asset classes. It should be noted that this is an iterative process and to achieve

advanced level Asset Management Plans will take some time; and

- Asset Management Plans for all asset classes, regardless of maturity, shall be adopted by Council. Dependent upon review cycles, subsequent versions are to be re-adopted.

Asset Capitalisation Processes

- The process of Asset Capitalisation shall be covered by a separate policy. Fully documented procedures on how to manage all financial dealings on assets, should be associated with this policy. Procedures will be in accordance with current legislative requirements and Asset Management best practice.

Financial planning

Revaluation Process

- The revaluation of specific asset classes is undertaken on a five yearly rotation. Sound methodologies should be developed and documented to support the revaluation process. Methodologies to include what aspects will be undertaken in-house and what aspects are to be undertaken by external consultants. Where external consultants are used, a budget allocation needs to be included in Council's annual budget; and

- The administration and engagement of revaluation consultants will be consistent across all asset classes and performed by the Asset Management Team.

Lifecycle Planning/Costing

- To make informed asset investment decisions, Council must ensure expenditures are broken down into capital renewal, capital upgrade, capital expansion, asset operational and maintenance budget items. This allows consistency across all asset classes and ensures Council receives and considers life cycle cost when making decisions relating to new/upgraded services and assets

Project Evaluation/Prioritisation

- A robust set of decision support tools will be available that allow informed comparative decisions to be made across all asset classes. This ensures, regardless of asset class, relative priorities are given equal consideration.

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Long Term Financial Plan
- All Asset Management Plans shall include a minimum 10 year long term financial plan. These long term financial plans will feed into Council's corporate long term financial plans.

Long term financial plans include all aspects of asset planning and asset renewals for all service activities along with growth and upgrade scenarios. Long term financial plans will also include allowances for future operating expenses associated with new assets and services.

Information systems

Asset Register
- An Asset Register that provides best practice Asset Management shall be utilised across the organisation. The system will integrate both asset attributes and asset financials into one system. The register will be user friendly and adequate training will be available for new users. Documentation of asset creation procedures are available from the provider or in-house procedures developed. Any asset register must be cost effective and have the potential to be fully integrated with Council's corporate software; and

- Although, there is some consistency in how the asset financial data is held across the organisation (CIVICA Authority finance modules) there is a need to have a more uniform approach to standardising a consistent hierarchy.

Costing Systems
- Council's corporate financial system will have the ability to adequately capture costs at a level that sufficiently allows future whole-of-life costing decisions;

- To have a consistency of systems (work orders) that standardise financial reporting across all asset classes. Work order cost tracking includes a means to differentiate between routine and reactive maintenance events. This will enable the monitoring of maintenance program performance for all assets, in line with widely accepted Asset Management standards; and

- Standardised reports for all asset owners will allow owners to make informed decisions on future assets and service delivery.

Graphical Information System (GIS)
- Council's GIS should be fully integrated with Councils asset register for all asset classes. This will allow asset attribute information to be viewed in a spatial context and available to all Council staff

Advanced Asset Management Modules (CMMS & PMS)
- Computerised Maintenance Management Systems will streamline decisions and create efficiencies for the organisation. Various software tools should be considered, depending on the level of maturity of individual asset classes; and

- Transport assets which include road pavements and surfaces are a unique asset class. They make up 55% of Councils total asset value. Proactive management of these assets under varying scenarios and budget availability is best undertaken using a Pavement Management System (PMS).

How will we get there?

Implementation of processes and procedures

All Asset Management processes and procedures shall be documented. Processes and procedures can range from policy level, such as an Asset Capitalisation Policy, to simple procedural flow charts for everyday creation of assets. Processes and procedures will provide a consistent approach to Asset Management across the organisation.

Establishment of an asset management users group (AMUG)

An Asset Management Users Group will be formed to provide a consistent level of communication to all asset management stakeholders. The group will be made up of representatives from the Asset Management Team, finance team and the asset owners.

Resourcing to support asset management

A review of the level of resourcing required to implement Asset Management consistently across all asset classes will be undertaken as well as the resources for a future Asset Management team formulated. Resourcing in this instance refers to human resources, Asset Management tools and the associated budgets to deliver Asset Management in accordance with the principles of Integrated Planning and Reporting.

Future funding models

Funding models will be developed based upon the adopted recommendations of this strategy. Funding models based upon the adopted recommendations of this strategy will be developed. Funding models to be considered include an Asset Management percentage overhead on all Council assets as opposed to the current funding model where individual funds contribute to the salaries of team members.

Common asset register

Assets will be incorporated into a common asset register. A uniform approach to the management and capture of assets and their attributes will be adopted, with the aim of all asset classes being equal.

GIS/assets

Council's GIS will be fully integrated with Council's asset register for all asset classes.

Accountability

Councillors

Councillors will be provided with adequate training on Integrated Planning and Reporting to ensure that all infrastructure planning decisions made are aligned with Asset Management Plans, long term financial plans, legislative requirements and Asset Management best practice from a whole-of-life cycle costing perspective.

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Executive team

Responsibility and accountability for Asset Management needs to be embedded at the Executive Management level where Asset Management issues are considered at the corporate level. Commitment from the Executive Team will ensure Asset Management issues for all asset types are managed equitably.

Asset management and asset owners

Accountability for all asset classes shall be determined. If a consistent approach to Asset Management across all asset classes is to be made, a commitment that the Asset Management Team becomes the custodian for all asset classes needs to be resolved. The Asset Management Team is to be accountable for the management of the asset registers and their associated attribute data. The finance team is to remain custodian for all asset financial data and its subsequent management. Asset owners should manage the assets with information provided by the Asset Management Team to allow them to make informed decisions on the management of their assets. Adequate feedback loops need to be established to ensure two-way dissemination of information to meet the needs of all parties.

Asset condition monitoring

It is recognised that current and accurate attribute condition data plays a vital role in the management of infrastructure assets. An ongoing program of condition assessments for all asset classes shall be developed and implemented. The development of rolling programs for condition assessments will be considered when policies and procedures are being revised/developed.

Risk management

Continue to incorporate risk registers into individual Asset Management Plans. The risk registers should recognise all risks associated with that particular asset class and link directly to Councils corporate risk register.

Levels of service

Council will continue to consult with the community of the Port Macquarie–Hastings region to determine the level of service that meets their expectations for each asset class. There is a need to establish levels of service in order to:

- Inform ratepayers of the current level of service and the associated cost;
- Determine what effect a change in level of service has to the ongoing cost;
- Measure performance against defined and adopted levels of service;
- Develop future asset management strategies to deliver the required level of service;
- Identify the costs and benefits of the level of service; and
- Enable stakeholders to assess suitability, affordability and equity of services offered.

Lifecycle planning

All Asset Management Plans shall include lifecycle management plans which detail how Council will manage and operate the assets at the agreed levels of service while also optimising life cycle costs. Lifecycle management plans will incorporate the following:

- A routine maintenance plan;
- A renewals plan;
- A creation/acquisition/upgrade plan; and
- A disposal plan.

Project evaluation/prioritisation (decision support tools)

Council manages a wide variety of infrastructure assets, community facilities and community services. To enable informed, prioritised decisions on the management of these assets, Council shall develop and incorporate tools that allow equitable comparisons between competing priorities to be made.

Long term financial plans (LTFP)

Long Term Financial Plans for all asset classes shall include asset creation and/or upgrades, asset renewals, routine and preventative maintenance and operational budget requirements. All individual asset LTFP's will inform the organisational Long Term Financial Plan.

Advanced asset engagement (CMMS & PMS)

Additional software tools may be required over and above the corporate asset register to manage assets and to provide asset owners with current information. It is recognised that a Computerised Maintenance Management System (CMMS) and a Pavement Management System (PMS) will benefit the organisation by improving the management of mechanical/electrical and road pavement/surface assets respectively. Both MMS and PMS software shall be reviewed and considered in advancing Asset Management.

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Advancing the strategy - 'next steps and initiatives'

- Council and Executive fully support and endorse the implementation of the Asset Management Strategy;

- Develop a resourcing strategy that meets the needs of Asset Management as defined by IP&R. The resourcing strategy should consider alternative funding models inclusive of staffing levels, training, external service providers and asset management tools (software);

- Continue to develop a uniform central asset register where all asset classes are managed equitably and administered by the central Asset Management Team;

- Develop LTFP's for all asset classes and have these plans incorporated into Council overall LTFP's;

- Where identified, pursue the procurement of additional software to assist in the management of infrastructure assets;

- Introduce a decision support tool that supports equity between all Council services that are delivered;

- Develop service levels via community consultation as directed by the engagement strategy;

- Foster the relationship between the GIS and the Asset Management Teams to continue the evolution and delivery of spatial asset information;

- Develop core processes and policies across all asset classes (Strategic Asset Management);

- Develop procedures for standardising Asset Management practice across the organisation (Operational Asset Management); and

- Form an Asset Management Users Group (AMUG) to meet regularly.

Glossary

Asset class
Grouping of assets of a similar nature and use in an entity's operations (AASB 166.37).

Asset condition assessment
The process of continuous or periodic inspection, assessment, measurement and interpretation of the resultant data to indicate the condition of a specific asset so as to determine the need for some preventative or remedial action.

Asset management
The combination of management, financial, economic, engineering and other practices applied to physical assets with the objective of providing the required level of service in the most cost effective manner.

Assets
Future economic benefits controlled by the entity as a result of past transactions or other past events (AAS27.12).
Property, plant and equipment including infrastructure and other assets (such as furniture and fittings) with benefits expected to last more than 12 month.

Average annual asset consumption (AAAC)
The amount of a local government's asset base consumed during a year. This may be calculated by dividing the Depreciable Amount (DA) by the Useful Life and totalled for each and every asset OR by dividing the Fair Value (Depreciated Replacement Cost) by the Remaining Life and totalled for each and every asset in an asset category or class.

Brownfield asset values
Asset (re)valuation values based on the cost to replace the asset including demolition and restoration costs.

Capital expansion expenditure
Expenditure that extends an existing asset, at the same standard as is currently enjoyed by residents, to a new group of users. It is discretional expenditure, which increases future operating, and maintenance costs, because it increases council's asset base, but may be associated with additional revenue from the new user group, eg. extending a drainage or road network, the provision of an oval or park in a new suburb for new residents.

Capital expenditure
Relatively large (material) expenditure, which has benefits, expected to last for more than 12 months. Capital expenditure includes renewal, expansion and upgrade. Where capital projects involve a combination of renewal, expansion and/or upgrade expenditures, the total project cost needs to be allocated accordingly.

Capital new expenditure
Expenditure which creates a new asset providing a new service to the community that did not exist beforehand. As it increases service potential it may impact revenue and will increase future operating and maintenance expenditure.

Capital renewal expenditure
Expenditure on an existing asset, which returns the service potential or the life of the asset up to that which it had originally. It is periodically required expenditure, relatively large (material) in value compared with the value of the components or sub-components of the asset being renewed. As it reinstates existing service potential, it has no impact on revenue, but may reduce future operating and maintenance expenditure if completed at the optimum time, eg. resurfacing or resheeting a material part of a road network, replacing a material section of a drainage network with pipes of the same capacity, resurfacing an oval. Where capital projects involve a combination of renewal, expansion and/or upgrade expenditures, the total project cost needs to be allocated accordingly.

Capital upgrade expenditure
Expenditure, which enhances an existing asset to provide a higher level of service or expenditure that will increase the life of the asset beyond that which it had originally. Upgrade expenditure is discretional and often does not result in additional revenue unless direct user charges apply. It will increase operating and maintenance expenditure in the future because of the increase in the council's asset base, eg. widening the sealed area of an existing road, replacing drainage pipes with pipes of a greater capacity, enlarging a grandstand at a sporting facility. Where capital projects involve a combination of renewal, expansion and/or upgrade expenditures, the total project cost needs to be allocated accordingly.

Carrying amount
The amount at which an asset is recognised after deducting any accumulated depreciation / amortisation and accumulated impairment losses thereon.

Component
An individual part of an asset which contributes to the composition of the whole and can be separated from or attached to an asset or a system.

Cost of an asset
The amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction, plus any costs necessary to place the asset into service. This includes one-off design and project management costs.

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Current replacement cost (CRC)
The cost the entity would incur to acquire the asset on the reporting date. The cost is measured by reference to the lowest cost at which the gross future economic benefits could be obtained in the normal course of business or the minimum it would cost, to replace the existing asset with a technologically modern equivalent new asset (not a second hand one) with the same economic benefits (gross service potential) allowing for any differences in the quantity and quality of output and in operating costs.

Current replacement cost "As New" (CRC)
The current cost of replacing the original service potential of an existing asset, with a similar modern equivalent asset, i.e. the total cost of replacing an existing asset with an as NEW or similar asset expressed in current dollar values.

Cyclic Maintenance
Replacement of higher value components/sub-components of assets that is undertaken on a regular cycle including repainting, building roof replacement, cycle, replacement of air conditioning equipment, etc. This work generally falls below the capital/maintenance threshold and needs to be identified in a specific maintenance budget allocation.

Depreciable amount
The cost of an asset, or other amount substituted for its cost, less its residual value (AASB 116.6)

Depreciated replacement cost (DRC)
The current replacement cost (CRC) of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset

Depreciation / amortisation
The systematic allocation of the depreciable amount (service potential) of an asset over its useful life.

Expenditure
The spending of money on goods and services. Expenditure includes recurrent and capital.

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction.

Greenfield asset values
Asset (re)valuation values based on the cost to initially acquire the asset.

An asset with historic, artistic, scientific, technological, geographical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it.

Impairment Loss
The amount by which the carrying amount of an asset exceeds its recoverable amount.

Infrastructure assets
Physical assets of the entity or of another entity that contribute to meeting the public's need for access to major economic and social facilities and services, eg. roads, drainage, footpaths and cycleways. These are typically large, interconnected networks or portfolios of composite assets   The components of these assets may be separately maintained, renewed or replaced individually so that the required level and standard of service from the network of assets is continuously sustained. Generally the components and hence the assets have long lives. They are fixed in place and are often have no market value.

Investment property
Property held to earn rentals or for capital appreciation or both, rather than for:
(a) use in the production or supply of goods or services or for administrative purposes; or
(b) sale in the ordinary course of business (AASB 140.5)

Level of service
The defined service quality for a particular service against which service performance may be measured. Service levels usually relate to quality, quantity, reliability, responsiveness, environmental, acceptability and cost).

Life Cycle Cost
The life cycle cost (LCC) is average cost to provide the service over the longest asset life cycle. It comprises annual maintenance and asset consumption expense, represented by depreciation expense. The Life Cycle Cost does not indicate the funds required to provide the service in a particular year.

Life Cycle Expenditure
The Life Cycle Expenditure (LCE) is the actual or planned annual maintenance and capital renewal expenditure incurred in providing the service in a particular year. Life Cycle Expenditure may be compared to Life Cycle Cost to give an initial indicator of life cycle sustainability.

Maintenance and renewal gap
Difference between estimated budgets and projected expenditures for maintenance and renewal of assets, totalled over a defined time (eg 5, 10 and 15 years).

Maintenance and renewal sustainability index

Heritage asset

Ratio of estimated budget to projected expenditure for maintenance and renewal of assets over a defined time (eg 5, 10 and 15 years).

Maintenance expenditure
Recurrent expenditure, which is periodically or regularly required as part of the anticipated schedule of works required to ensure that the asset achieves its useful life and provides the required level of service. It is expenditure, which was anticipated in determining the asset's useful life.

Materiality
An item is material is its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.

Modern equivalent asset.
A structure similar to an existing structure and having the equivalent productive capacity, which could be built using modern materials, techniques and design. Replacement cost is the basis used to estimate the cost of constructing a modern equivalent asset.

Non-revenue generating investments
Investments for the provision of goods and services to sustain or improve services to the community that are not expected to generate any savings or revenue to the Council, eg. parks and playgrounds, footpaths, roads and bridges, libraries, etc.

Operating expenditure
Recurrent expenditure, which is continuously required excluding maintenance and depreciation, eg power, fuel, staff, plant equipment, on-costs and overheads.

Pavement management system
A systematic process for measuring and predicting the condition of road pavements and wearing surfaces over time and recommending corrective actions.

Planned Maintenance
Repair work that is identified and managed through a maintenance management system (MMS). MMS activities include inspection, assessing the condition against failure/breakdown criteria/experience, prioritising scheduling, actioning the work and reporting what was done to develop a maintenance history and improve maintenance and service delivery performance.

Rate of annual asset consumption
A measure of average annual consumption of assets (AAAC) expressed as a percentage of the depreciable amount (AAAC/DA). Depreciation may be used for AAAC.

Rate of annual asset renewal

A measure of the rate at which assets are being renewed per annum expressed as a percentage of depreciable amount (capital renewal expenditure/DA).

Rate of annual asset upgrade
A measure of the rate at which assets are being upgraded and expanded per annum expressed as a percentage of depreciable amount (capital upgrade/expansion expenditure/DA).

Reactive maintenance
Unplanned repair work that carried out in response to service requests and management/supervisory directions.

Recoverable amount
The higher of an asset's fair value, less costs to sell and its value in use.

Recurrent expenditure
Relatively small (immaterial) expenditure or that which has benefits expected to last less than 12 months. Recurrent expenditure includes operating and maintenance expenditure.

Recurrent funding
Funding to pay for recurrent expenditure.

Remaining life
The time remaining until an asset ceases to provide the required service level or economic usefulness. Age plus remaining life is economic life.

Residual value
The net amount which an entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

Revenue generating investments
Investments for the provision of goods and services to sustain or improve services to the community that are expected to generate some savings or revenue to offset operating costs, eg public halls and theatres, childcare centres, sporting and recreation facilities, tourist information centres, etc.

Risk management
The application of a formal process to the range of possible values relating to key factors associated with a risk in order to determine the resultant ranges of outcomes and their probability of occurrence.

Section or segment
A self-contained part or piece of an infrastructure asset.

Service potential

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The capacity to provide goods and services in accordance with the entity's objectives, whether those objectives are the generation of net cash inflows or the provision of goods and services of a particular volume and quantity to the beneficiaries thereof.

Service potential remaining
A measure of the remaining life of assets expressed as a percentage of economic life. It is also a measure of the percentage of the asset's potential to provide services that are still available for use in providing services (DRC/DA).

Sub-component
Smaller individual parts that make up a component part.

Useful life
Either:
(a) the period over which an asset is expected to be available for use by an entity, or
(b) the number of production or similar units expected to be obtained from the asset by the entity.

It is estimated or expected time between placing the asset into service and removing it from service, or the estimated period of time over which the future economic benefits embodied in a depreciable asset, are expected to be consumed by the council. It is the same as the economic life.

Value in Use
The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. It is deemed to be depreciated replacement cost (DRC) for those assets whose future economic benefits are not primarily dependent on the asset's ability to generate new cash flows, where if deprived of the asset its future economic benefits would be replaced.