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Cessnock City Council's Asset Management Strategy 2011/2020

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I. Executive Summary

Cessnock City Council is located in the Hunter Valley, New South Wales, about 150 kilometres north of Sydney and 40 kilometres west of Newcastle.

To enable the community to access and enjoy all the services and facilities that Cessnock has to offer, the Council owns and maintains a large portfolio of infrastructure assets.

With an asset replacement value of over approximately \$750 million, the efficient management of these assets is vital in maintaining safe, reliable and efficient services that help achieve the strategic priorities and goals of Council.

Failure to adequately plan for the replacement of existing assets and the development of new assets will result in assets not meeting the needs of the community, now and into the future.

The need for this Asset Management Strategy has been identified as a result of the development and adoption of Council's Asset Management Policy and as part of Council's goal to adopt contemporary best practice Asset Management for the management of the community's assets.

This Asset Management Strategy provides clear courses of action for managing Asset Management at Cessnock City Council. It fundamentally supports Cessnock City Council's Community Strategic Plan (Cessnock 2020) and Asset Management Policy.

This Asset Management Strategy is also the basis for outlining and monitoring Key Performance Indicators (KPI) with respect to Asset Management. The KPI's through this strategy are intended to provide Council with the ability to monitor, measure and report on asset management maturity, as well as to act as a tool to implement action plans to improve maturity.

This Strategy outlines the following:

- Council's current position with respect to Asset Management practice.
- Council's future needs with respect to Asset Management practice.
- A current maturity level with respect to the Council's position to manage infrastructure assets.
- A series of Action Plans on how the Council intends to achieve future needs.
- Performance Monitoring Process.



2. Introduction

2.1 Purpose of the Strategy

The objective of this Asset Management Strategy is to develop a structured set of strategic actions aimed at enabling Council to improve its asset management practices to support Council's Asset Management Policy and service delivery needs.

Through its documented Community Strategic Plan (Cessnock 2020), Council has identified a need to:

- Develop long-term financial management plans for its asset provision as part of a process to adopt continuous improvement programs.
- Establish and implement best practice asset management strategies for Council's infrastructure assets.

This Asset Management Strategy and the Asset Management Plans for each asset class (developed as a result of this Strategy) will provide Council with detailed comprehensive information and knowledge to assist it with its short and long term service delivery planning, and optimized informed decision making processes.

2.2 Key Benefits of the Strategy Implementation

Cessnock City Council has clearly endorsed a commitment to asset management. The Community Strategic Plan (Cessnock 2020) sets the course for Council's delivery of services and projects over the next ten years.

The goals and objectives of the Community Strategic Plan (Cessnock 2020) align with Council's vision "**Attractive, Thriving, and Welcoming**". Cessnock will be a cohesive and welcoming community living in an attractive and sustainable rural environment with a diversity of business and employment opportunities supported by accessible infrastructure and services which effectively meet community needs.

It is important that our infrastructure is provided and maintained at a reasonable level¹, commensurate with resident expectations and affordability to support Council's vision.

As infrastructure is subject to wear and tear, it is necessary that we have a long-term strategy in place to enable us to determine options for planning, acquiring, refurbishing, upgrading, maintaining, operating and disposing of assets.

By implementing this Asset Management Strategy, we are aiming to improve Council's asset management practices to provide a more sustainable service delivery process. The key benefits are:

- Being able to clearly define what service levels we can deliver to our customers, the rate-payers and users.
- Ability to provide better outputs with fewer resources by better aligning our resources and needs.
- Being able to assign appropriate levels of funding for each asset class in line with the respective service level targets.
- Having a key set of actions that will allow us to manage the provision of these assets into the future at lowest long-term cost.
- Ability to understand what condition our assets are in and monitor the effect our actions are having on them.

¹Desired levels of service as documented in the Asset Specific asset management plans.

3. Background

3.1 Community Profile

The Cessnock Local Government Area (Cessnock LGA) covers approximately 1,950 square kilometres within the Hunter Valley of New South Wales, approximately 150 kilometres north of Sydney and 40 kilometres west of Newcastle.

The estimated population at 30 June 2010 was 51,720.

Whilst mining was the principal industrial base and source of employment in the Cessnock area for the first half of last century, changes to the mining industry, including automation and the introduction of sophisticated computerised equipment, led to the closure of the vast majority of mines in the area.

The decline of mining has been paralleled by growth in the wine industry. The Hunter Valley wine-growing area in the Cessnock LGA is Australia's oldest wine region and one of the most famous, with around 4,500 acres under vine. The vineyards of Pokolbin, Mount View, Lovedale and Allandale, with their rich volcanic soils managed by entrepreneurial vigneron, are also the focus of a thriving tourism industry. Other primary industries in Cessnock City include beef and poultry production.

Growth in heavy industry has also been a feature of the City's recent economic development, with the production of aluminium and the processing of explosive equipment now a significant source of employment in the area.

Cessnock's economic base is rapidly diversifying with a shift in reliance on traditional primary and secondary industries to a wide range of service industries mainly in the tourism sector. The saturation of some secondary industries has resulted in additional casualisation of the labour force.

As well as vineyards and wineries there are fine restaurants, motels, cabins, guest houses and galleries. Wine-related tourism has also created opportunities for other attractions, such as the historic Marthville Arts and Crafts Centre, Wollombi Village, the Richmond Main Mining Museum and the Richmond Vale Railway.

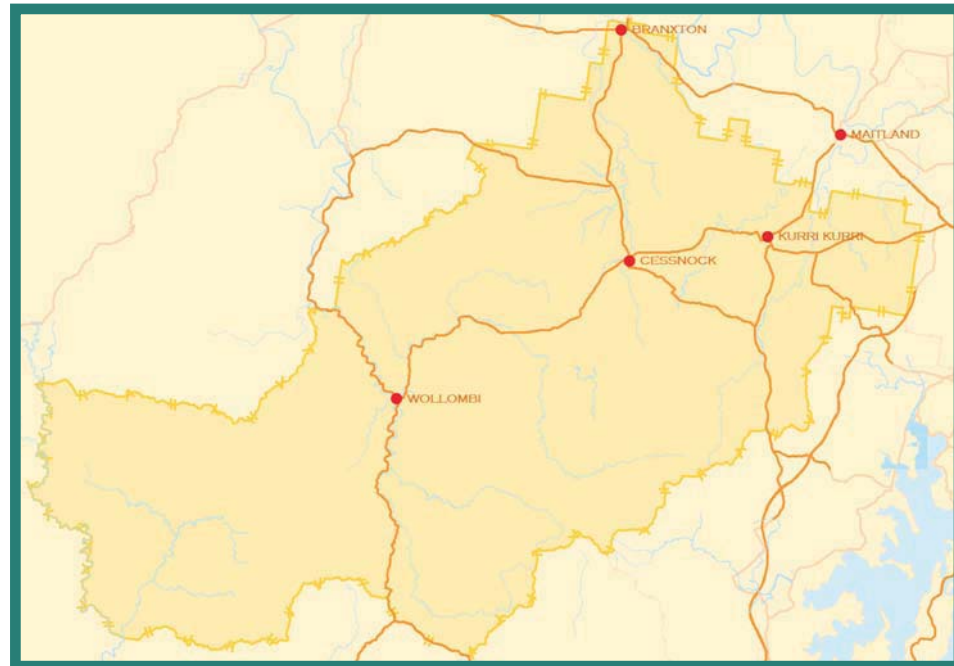


Diagram 1 - Cessnock City Council - Location Map & Boundaries

3.2 What is Asset Management?

With the principles embraced over the last couple of years, Asset Management is now a process of logic used to guide the planning, acquisition, operation and maintenance, renewal and disposal of assets. Its objective is to maximise asset service delivery potential and manage related risks and costs over their entire lifecycle. In simplest terms, asset management is about the way in which the Council looks after its assets, both on a day-to-day basis (i.e. maintenance and operations) and in the medium to long term (i.e. strategic and forward planning).

The following diagram illustrates the typical lifecycle of an asset and associated asset management functions from planning for the need to create an asset through to its ultimate disposal including audit and review of performance of that asset.



Diagram 2 - Asset Lifecycle Diagram

In general, the traditional approach to asset management has been “last year’s budget plus 5%” meaning asset management decisions are being purely budget driven. This is illustrated by Diagram 3 below which shows that the resultant service level delivered by the asset is an outcome of the budget allocation. Cessnock City Council, over the last two years, with the extensive work undertaken in the Asset Management Section, has recognised that too often this approach leads to a lack of coordination between desired service delivery and financial planning.

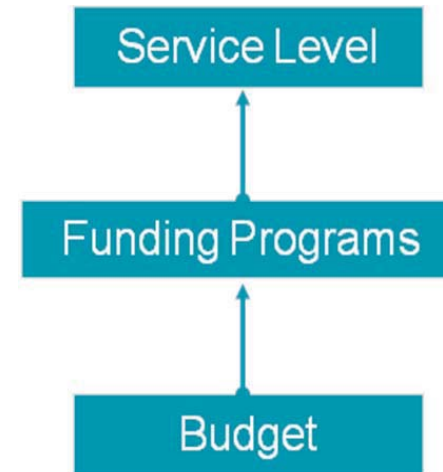


Diagram 3 - Budget Driven Framework

Cessnock City Council, in adopting this strategy has a clear focus on Strategic Asset Management ensuring that the assets are capable of providing services, of an agreed quality, in a sustainable manner, for present and future communities. This is not merely a matter of spending more money but instead spending money wisely in a targeted manner. The decision to adopt a Strategic Asset Management System which can deliver long term prediction of service levels is fundamentally a step in the right direction for the Council and this Strategy encapsulates the results of this service-centric analysis.

Diagram 4 illustrates the framework for Strategic Asset Management and Cessnock's corporate Strategic Asset Management systems.

The three noteworthy differences here are:

1. Budget and Service Level form a feedback loop as each is dependent on the other.
2. Strategic Asset Management allows the optimal Service Level to be adopted for the available Budget with an understanding of the predicted outcomes.
3. The adopted Service Level drives the required Funding Programs and thus remains connected to the Budget.

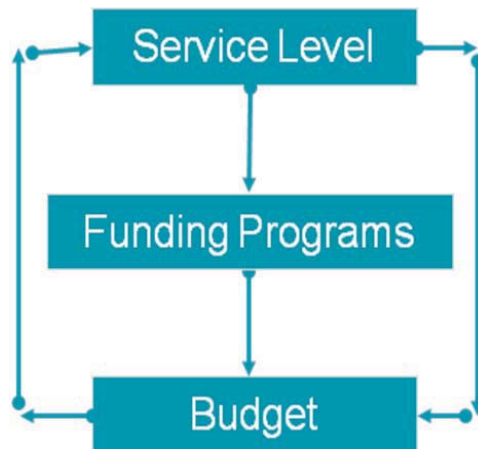


Diagram 4 - Service Driven Framework

In line with the recent Local Government National Asset Management Framework and State-wide Guidelines, the Council is committed to the seven key elements:

1. Development of an asset management policy
2. Strategy and Planning
3. Governance and Management Arrangements
4. Defining Levels of Service
5. Data and Systems
6. Skills and Processes
7. Evaluation

The key Strategic Actions documented in Section 7 of this document demonstrate Council's direction in achieving the above outcomes. The KPI's described in Section 8 demonstrate how Cessnock intends to measure the success of these actions

In line with the National Framework, this Strategy is a commitment to adopting a service centric approach based on Strategic Asset Management. The key to Strategic Asset Management is successive layers of knowledge and decisions making. This is best illustrated by the Strategic Asset Management Pyramid shown in Diagram 5. The Strategic Asset Management Pyramid shows the Council's service-centric asset management planning mechanism. The framework of planning will be:

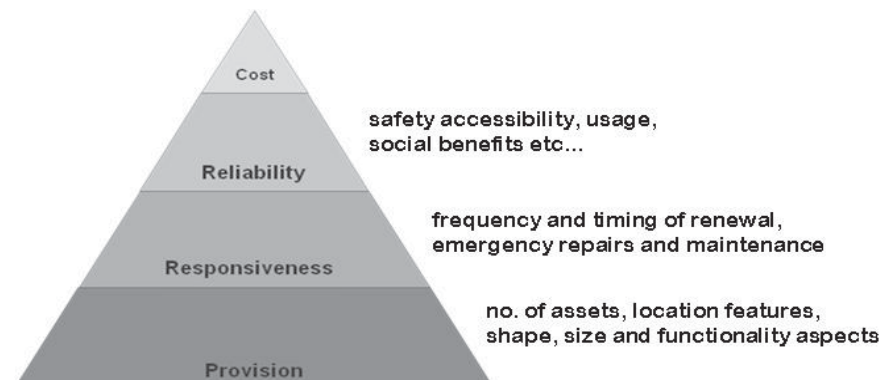


Diagram 5 - Strategic Asset Management Pyramid

Layer 1 Asset Provision: The foundation of Strategic Asset Management is an understanding of the asset portfolio in terms of its physical attributes and its condition, capacity and functionality as shown by the Provision layer.

Cessnock City Council's corporate Asset Management Systems in conjunction with the corporate GIS system will hold data, information and attributes that form the 'footprint' of Council's asset stock used in service delivery. This information is now available within the Corporate Strategic Asset Management systems; MyData and SMEC PMS5.

Layer 2 Service Responsiveness: Cessnock City Council's Decision Matrix is the determinant of the Responsiveness layer. This is in effect a corporate decision matrix, and consists of the planned actions to retain the assets at the desired level of usability over their planned life. The key focus is on the type of intervention (minor repairs, major renewal, replacement, etc) and the trigger for action (condition, capacity, functionality, etc). This information is now available within the Corporate Strategic Asset Management systems.

Layer 3 Service Reliability: The Decision Matrix in the Responsiveness layer will determine asset performance outcomes which are characterised by the Reliability layer. This is best viewed as the asset performance as seen and experienced by those using and depending on the assets. Reliability will be measured in terms of performance standards i.e. safety, condition, functionality etc. This information is now available within the Corporate Strategic Asset Management systems and is constantly monitored.

Layer 4 Cost of Delivery: The top of the pyramid is Cost and this is determined by decisions in the layers below. Application of the Service Driven Framework results in an active pyramid where the Provision, Responsiveness and Reliability are tuned to give optimal outcomes for an affordable cost, which drives the future financial plan.

3.3 Legislative Control of Asset Management

In addition to using asset management as a tool to manage the community's assets and provide better services to the community, there are also legislative requirements that Council must comply with in relation to the management of its assets and these are as follows:

3.3.1 NSW Department Local Government Integrated Planning Framework

At its meeting on 4 August 2006, the Local Government and Planning Ministers' Council (LGPMC) agreed to a nationally consistent approach to asset planning and management, financial planning, and reporting and assessing financial sustainability.

On the 20 October 2006 the Local Government and Planning Ministers' Council endorsed the draft National Frameworks for Financial Sustainability in Local Government as a basis for consultation.

Then on the 21 March 2007 the Local Government and Planning Ministers' Council endorsed the Frameworks for implementation in the context of their relationships with their local government sectors.

The National Frameworks consists of three (3) main frameworks:

- Framework 1 - Criteria For Assessing Financial Sustainability
- Framework 2 - Asset Planning and Management
- Framework 3 - Financial Planning and Reporting

Each State and Territory agreed and was expected to implement the National Frameworks in consultation with local government, with a target date of 31 December 2010.

A new planning and reporting framework for NSW local government has been introduced. These reforms replace the former Management Plan and Social Plan with an integrated framework. It also includes a new requirement to prepare a long-term Community Strategic Plan and Resourcing Strategy. The components of the new framework and how they fit together are illustrated in Diagram 6 below.



Diagram 6 - Cessnock City Council Planning Process

3.3.2 Local Government (General) Regulations 2005

The Local Government Regulations require a statement containing a detailed estimate of the council's income and expenditure to be included in the operational plan.

3.3.3 Australian Accounting Standards

The Division of Local Government requires that councils comply with the accounting standard AASB 116 for reporting on infrastructure assets. This has been implemented on a staged process with Buildings and Operational Land being included in the 2007/2008 Financial Reports.

All Road and Stormwater Drainage assets were valued and included in the 2009/2010 financial report, based on the data currently collected. The data required to provide this level of financial reporting is also essential for the planning of future infrastructure renewal requirements.

The following Australian Accounting Standards apply to Local Government assets:

- AASB 116 Property, Plant & Equipment – prescribes requirements for recognition and depreciation of property, plant and equipment assets
- AASB 136 Impairment of Assets – aims to ensure that assets are carried at amounts that are not in excess of their recoverable amounts
- AASB 138 Intangible Assets - prescribes the accounting treatment for intangible assets not dealt with in another standard
- AASB 1051 Land Under Roads - allows the recognition of land under roads subject to criteria
- AAS 108 Accounting Policies, Changes in Accounting Estimates and Errors – specifies the policies that Council is to have for recognition of assets and depreciation

There are arrays of other legislative requirements that need to be considered in managing infrastructure assets such as the Disability Discrimination Act 1994, the Building Code of Australia etc. These legislative requirements are taken into consideration at a more detailed level in each of the specific Asset Management Plans.

3.4 Community Expectations

In the later part of 2009, Cessnock City Council sought to monitor community satisfaction, by examining the quality of life in Cessnock and with service delivery by Council, as well as identifying community issues of importance for the future which provided information to assist in the development of a long term strategic plan for the Cessnock Local Government Area.

To facilitate this, Micromex Research was contracted to develop a survey template that enabled Council to effectively analyse attitudes and trends within the community.

The sample consisted of a total of 500 residents. The selection of respondents was by means of a computer based random selection process using the electronic White Pages. A sample size of 500 residents provides a maximum sampling error of plus or minus 4.4% at 95% confidence.

The Likert Scale of 1 to 5 was used in all rating questions, where 1 was the lowest importance or satisfaction and 5 the highest importance or satisfaction. This scale allowed for a mid range position for those who had a divided or neutral opinion.

The objectives of this research were to assist Council management in:

- Understanding the needs and expectations of residents within the municipality;
- Evaluating the effectiveness of Council services and programs.
- Allocating resources across Council services and programs.

²Cessnock City Council Community Research Report August 2009

The following diagram below, illustrates the Satisfaction with Council's overall performance for the last 12 months. It should be noted that 47% of the respondents were satisfied with Council's performance overall, whilst 28% were neutral and 24% expressed dissatisfaction. There was no statistically significant difference in satisfaction by age, gender or in comparison with the 2005 outcome.

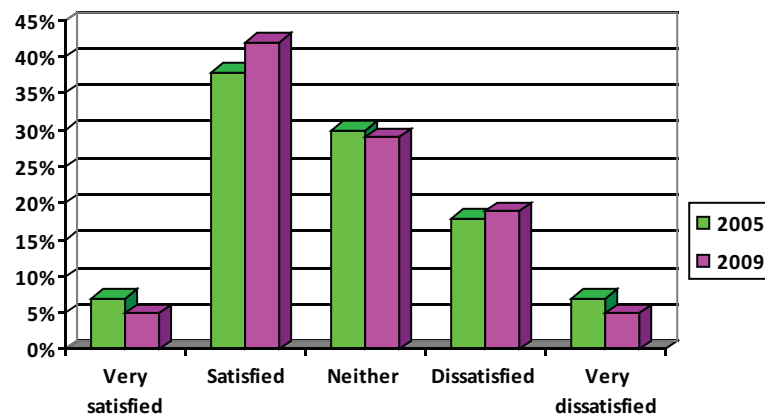


Diagram 7 - Council Overall Performance in LGA Survey

In a follow up question those respondents who were dissatisfied were asked the reason for their dissatisfaction. The top three reasons for the dissatisfaction were:

- Council does not deal with issues raised by the Community.
- No road maintenance on local roads and
- Lack of communication with the community.

Respondents were asked to rate the importance of, and their satisfaction with, each of the 33 different services or facilities on a scale of 1 to 5 where 1 = low importance or satisfaction and 5 = high importance or satisfaction.

Below is a summary of the results.

Performance Gap Ranking	Service/facility	Importance mean	Satisfaction mean	Performance gap
1	Developing and maintaining the road network	4.7	2.1	2.6
2	Public Toilets	4.2	2.4	1.8
3	Facilities and services for youth	4.3	2.6	1.7
4	Community involvement in Council decision making	4.5	2.9	1.6
5	Footpaths	4.2	2.6	1.6
6	Kerb and guttering	4.1	2.5	1.6
7	Long term planning and vision	4.6	3.1	1.5
8	Council's response to community needs	4.5	3.0	1.5
9	Encouraging business and industry	4.6	3.2	1.4
10	Inspection of the health and hygiene of local restaurants and takeaway shops	4.6	3.2	1.4
11	Information supplied to residents about Council activities	4.5	3.1	1.4
12	Regulating traffic flow	4.4	3.0	1.4
13	Stormwater drainage	4.3	2.9	1.4
14	Council's performance overall	4.5	3.2	1.3
15	Flood prevention	4.3	3.0	1.3
16	The way Council employees deal with the public	4.5	3.3	1.2
17	Managing residential development	4.3	3.1	1.2
18	Environmental protection	4.5	3.5	1.0
19	Presentation of the CBD main streets	4.3	3.3	1.0
20	Cycleways	3.7	2.7	1.0
21	Recycling and waste reduction	4.6	3.8	0.8
22	Waste collection and disposal	4.6	3.8	0.8
23	Community Services and facilities planning	4.0	3.2	0.8

Performance Gap Ranking	Service/facility	Importance mean	Satisfaction mean	Performance gap
24	Noxious weed control	3.9	3.1	0.8
25	Heritage conservation	4.1	3.5	0.6
26	Maintaining open space and bushland	4.1	3.5	0.6
27	Buildings for community activities and meetings	3.9	3.3	0.6
28	Parks and recreation areas	4.0	3.5	0.5
29	Sporting fields and buildings	4.1	3.7	0.4
30	Swimming pools	3.9	3.6	0.3
31	Cemetery management	3.9	3.8	0.1
32	Library services	3.6	4.2	-0.6

These findings do not indicate that Council's service levels have dropped. The results are considered to be an indication of increasing resident needs, i.e. changes in the level of service expected by the residents or as a result of natural disaster events or isolated failures due to increased traffic volumes on ageing road infrastructure.

On another note, it should be highlighted that when respondents were asked what they believed over the next 20 years were the highest priority issues with the Cessnock City Council area, the predominant responses were road maintenance, planning and development, youth services and facilities, infrastructure, encouraging development and the environment.

4. Strategic Asset Management System

In 2010 Cessnock City Council implemented two Asset Management Systems; the Assetic system 'MyData' and the SMEC PMS5 Pavement Management system.

The principle objectives of the Asset Management systems are to:

- Provide accurate inventory and condition information of Council's assets;
- Facilitate efficient day-to-day management of the Council's assets;
- Enable objective long-term asset planning based on a sound knowledge of the current state of the Council's assets i.e. long term impacts of funding decisions.
- Allow the adoption of Consumption Based Depreciation.

The Assetic system has been developed to specifically meet the needs of Cessnock City Council for the following asset classes:

- Bridges (Vehicular and Footbridges, and Major Culverts)
- Buildings
- Parks & Gardens
- Playgrounds
- Recreation Facilities (sports grounds, swimming pools, skate parks, etc)
- Creeks (Creeks ownership data)

Cessnock City Council has employed the use of SMEC's (Snowy Mountain Engineering Corporation) Pavement Management System (PMS5) to maintain the road network information and related condition data. This includes Local Roads, Regional Roads, Airport Pavement and Carparks, Bus Shelters, Footpaths, Kerb & Gutter, Signs, Safety Barriers and Traffic Calming Devices.

All other non-infrastructure assets i.e. IT Equipment, Office Furniture, Plant & Fleet, are recorded and reported in Council's Corporate Financial Management System 'Authority'.

Commencing in 2009, inventory and condition assessment data has been collected by a range of specialist contractors and consultants for roads, bridges, footpaths and kerb & gutter assets. The data collection task is ongoing and there are a number of asset categories which will require further data to be collected.

Condition assessment of Council's infrastructure assets is an ongoing process and as new data becomes available, it will be quality-checked and then imported into the appropriate asset management system by Council's Asset Engineering Officers.

5. Current Position and Status of our Asset Planning

5.1 Council's Asset Stock

Cessnock City Council manages the community's assets in line with its Vision "Attractive, Thriving and Welcoming".

This Asset Management Strategy is designed to take into consideration all of the Council assets. Assets can be described as the physical objects owned, controlled and/or maintained by Council to support the community's social and economic activities. Assets provide the foundation on which the community carries out its everyday activities whilst contributing to our overall quality of life.

Cessnock City Council manages a broad range of assets that have been grouped into nine key asset categories as set out in the following table.

The challenge for asset management is to understand the manner in which the Council's assets perform over time and whether they can be maintained in a "fit for purpose" condition, given that many cannot be seen and/or were built many years ago.

Asset Category	Includes assets such as
Road Network	Sealed Roads, Unsealed Roads, Kerb & Gutter, Airport pavement, Carparks, Traffic Management Devices and Roadside Furniture
Pathways	Footpaths and Cycleways in roadways and open spaces such as parks and reserves
Bridges	Vehicular Bridges and Major Culverts, and Footbridges
Parks and Open Spaces	Parks, Playgrounds, Irrigation, Park Furniture, Shelters, BBQ's, Fencing assets
Buildings	Community Buildings and Facilities
IT Infrastructure and Furniture	Computer hardware, Computer Software and Furniture
Plant and Equipment	Heavy/Light Plant, Motor Vehicles and other Fleet items
Land	Land
Stormwater Drainage	Pits, Pipes, Headwalls and Minor Culverts

Table 1 - Asset Categories

5.2 Asset Replacement Costs

The value, condition and expenditure on assets are reported each year in Council's Annual Report. The values are documented in Note 9 of the Financial Statements, and the condition and expenditures are documented in Special Schedule 7³.

\$'000	as at 30/6/2009					Asset Movements during the Reporting Period					as at 30/6/2010				
	At Cost	At Fair Value	Accumulated		Carrying Value	Asset Additions	WDV of Asset Disposals	Deprec. Expense	Adjustment & Transfers	Revaluation Increments to Equity (ARR)	At Cost	At Fair Value	Accumulated		Carrying Value
			Deprec.	Impairment									Deprec.	Impairment	
Plant & Equipment	-	17,338	10,171	-	7,167	2,427	(952)	(1,568)	-	-	-	17,875	10,801	-	7,074
Office Equipment	-	1,252	958	-	294	381	-	(108)	-	-	-	1,633	1,066	-	567
Furniture & Fittings	-	1,235	962	-	273	6	-	(56)	-	-	-	1,241	1,018	-	223
Plant & Equipment (under Finance Lease)	-	281	281	-	-	-	-	-	-	-	-	281	281	-	-
Land:															
- Operational Land	-	43,944	-	-	43,944	60	(100)	-	-	-	-	43,904	-	-	43,904
- Community Land	9,589	-	-	-	9,589	-	-	-	-	-	9,589	-	-	-	9,589
- Land under Roads (post 30.6/08)	-	69	-	-	69	159	-	-	-	-	-	228	-	-	228
Buildings - Non Specialised	-	70,531	6,941	-	63,590	1,431	-	(750)	-	-	-	71,962	7,691	-	64,271
Buildings - Specialised	-	3,207	1,270	-	1,937	-	-	(50)	-	-	-	3,207	1,320	-	1,887
Other Structures	23,261	-	12,012	-	11,249	661	-	(843)	-	-	23,922	-	12,855	-	11,067
Infrastructure:															
- Roads, Bridges, Foot-paths	251,363	-	65,448	-	185,915	8,504	-	(4,037)	120,744	146,294	-	559,576	102,156	-	457,420
- Bulk Earthworks (non-depreciable)	120,744	-	-	-	120,744	-	-	-	(120,744)	-	-	-	-	-	-
- Stormwater Drainage	51,402	-	10,498	-	40,904	593	-	(687)	-	-	-	51,995	11,185	-	40,810
Other Assets:															
- Library Books	3,811	-	3,086	-	725	226	-	(125)	-	-	4,037	-	3,211	-	826
- Other	3	-	-	-	3	-	-	-	-	-	3	-	-	-	3
Reinstatement, Rehabilitation & Restoration Assets:															
- Tip Asset	8,400	-	8,400	-	-	-	-	-	-	-	8,400	-	8,400	-	-
Total	468,573	137,857	120,027	-	486,403	14,448	(1,052)	(8,224)	-	146,294	45,951	751,902	159,984	-	637,869

³Cessnock City Council Annual Report For Year Ending 30 June 2010

Note 9 in Council's Financial Statements sets out the current values and categories of infrastructure assets that the Council is responsible for. The following diagram illustrates that of the \$750 million assets the most predominant asset type in replacement cost terms are roads, followed by buildings, and stormwater drainage assets.

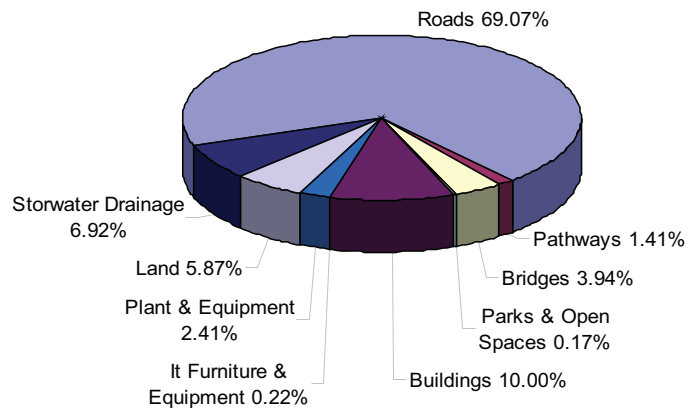


Diagram 7 - Distribution of Asset Replacement Values Based on Asset Categories

5.3 Levels of Service

Cessnock City Council has set a series of strategic Levels of Service to guide the management of its assets. For each major asset category, the Levels of Service define a number of Service Level Outcomes in terms of Performance Outcomes and Measures, KPIs and Targets for achievement.

Council's Current Levels of Service are detailed in the respective Draft Asset Management Plans. Future iterations of the asset management plans will include and account for Council's desirable levels of service.

5.4 Asset Condition

By understanding the condition of Council's assets and the various types of distresses that affect them, Council can utilise this data to assist in maintaining the level of service the community desires in the context of affordability, provide intergenerational benefits and also minimise the risk of asset failure. The consequences of asset failures will result in loss of service delivery and could also lead to legal liability if Council is found to have acted unreasonably in the management of its assets.

Council has high to medium confidence level in the asset data currently collected and provided (depending on the asset class). The data is reasonably accurate and reliable. Future data collection and condition assessments will ensure the accuracy and reliability of the condition data for modelling purposes.

There are many reasons why Council assets fail/deteriorate and therefore do not meet current performance standards and community expectations. Among the most common are the following:

- Damage by service authorities when installing / constructing their infrastructure within Council's road reservation;
- Movement of the underlying soils;
- Suitability of the asset to meet changing demographics and needs, e.g. requiring a building that was once used as a senior citizen centre to be upgraded to a childcare centre to meet the demands for the increase in a younger population. This is often referred to as 'fit for purpose'.
- Increases in the allowable vehicle load limits on Council's roads; and
- Increases in density of private developments in established suburbs, placing additional capacity requirements on assets not designed to cope i.e. stormwater pipes and drainage, traffic facilities, etc

5.5 Asset Management Maturity

Asset Management Maturity refers to the level or ability of Cessnock City Council to achieve contemporary best practice asset management. Cessnock City Council has not yet achieved a satisfactory maturity level. Achieving best practice asset management for Cessnock City Council means the following:

- *We know what we own/control or have responsibility or legal liability for;*
- *We have recorded these assets in a register down to an identifiable level and our valuations are reported at a component level;*
- *We monitor the condition, functionality, capacity, performance, utilisation and costs of assets down to the managed component level and aggregate this data up to give outputs of cost and performance at the portfolio levels;*
- *We understand and have recorded the current levels of service in terms of reliability, repeatability and quality of service as well as our responsiveness to any asset failures;*
- *We understand the likely future levels of service required based on population growth, demographic changes and community expectations;*
- *We understand the long term (10 years plus) funding needs of our city to meet customer expectations in both capital and maintenance expenditure;*
- *We monitor and report on the condition, performance and functionality of our assets against prescribed service levels and regulatory requirements;*
- *We have uniform processes across our whole organisation for the evaluation of any investment in:*
 - *Capital works*
 - *Maintenance*
 - *Operations*
- *We have a consistent method of developing annual needs based budgets; and*
- *We regularly report and compare actual performance against planned performance – costs, service levels and responsiveness.*

5.6 Snapshot of Asset Management Issues Facing Cessnock City Council

The majority of Council's assets were first constructed at the same time the original suburbs were built. These assets are approaching the latter half of their expected life and, as such, the physical condition will further deteriorate in the coming years. In addition, Council has also received in recent years an increasing amount of contributed assets from developments.

At the same time, population growth as identified by recent studies and increased economic activity is challenging the capacity of existing assets to meet the increasing demands and changes in our environment.

Community expectations are also changing, which affect the ability of existing assets to meet the functional needs of the community.

The following provides a general assessment of the issues Council is currently experiencing and will need to address in the near future:

- *Adopting good-practice asset management strategies to ensure the intergenerational sustainability of community assets;*
- *Ensuring that the required funding is available to upgrade the existing assets of the Council to meet changing expectations of the community;*
- *Moving towards consumption-based funding analysis and optimised budgeting methods;*
- *Being able to reliably predict the condition of assets after 10 years time at the current rate of expenditure;*
- *Ensuring sound risk management and mitigation associated with Council's assets;*
- *Community Education/involvement and understanding of levels of service and the relationship between funding and service delivery;*
- *Life cycle costing to justify new assets; and*
- *Future maintenance needs for new infrastructure and managing sustainability.*

6. Long-Term Financial Projections

Assets are necessary products that provide a service to an end user; in Council's case the community.

Even though the service may be required indefinitely like a residential street or park, no asset will last forever without proper management. Even with good maintenance, assets may deteriorate well before reaching their design life (useful life) dependant upon many unplanned factors, such as ground conditions and the environment.

Cessnock City Council's situation is challenging as the municipality had bursts of urban development in the 1940 - 1950's - which has resulted in significant demands for reconstruction in the 2020's and is also seeing increases in new assets being contributed to Council from developers.

Council is committed to responsible financial management, in a constantly changing environment. In order for Council to make responsible financial decisions it is imperative to understand and plan for the future to ensure there is adequate funding available to properly manage Council's assets in accordance with Council's Strategies and best practice.

Cessnock City Council utilises a modern local government asset modelling and prediction tool: MyPredictor - a component of the Assetic Asset Management System for most infrastructure assets, except road pavement which uses the SMEC PMS5.

Cessnock has applied asset performance and life-cycle models, which simulate the behaviour of the asset in real-life.

The life-cycle models are capable of infrastructure modelling to take account of:

- *Different Service Level objectives for the Council's assets;*
- *Different asset management practices; and*
- *Different financial strategies for funding asset maintenance, renewal and upgrade.*

Diagram 8 shows Council's projected capital expenditure over the next ten years as per its draft Long Term Financial Plan. The diagram displays Council's proposed capital expenditure budget versus the required capital expenditure budget needed to maintain the current condition of the network.

As the desired levels of service have yet to be defined, the current condition of the network has been used to compare the required expenditure against the current expenditure.

By incrementally increasing the annual capital works expenditure, together with the actions identified in this Asset Management Strategy, such as setting agreed and affordable levels of service that will be provided to the community and implementing systems and frameworks (defined levels of service), Council will be in a better position to maximise the use of its existing assets to better allow Council to manage its assets and meet its vision and goals for the Cessnock community.

Council currently has a backlog of assets that require renewal and/or rehabilitation.

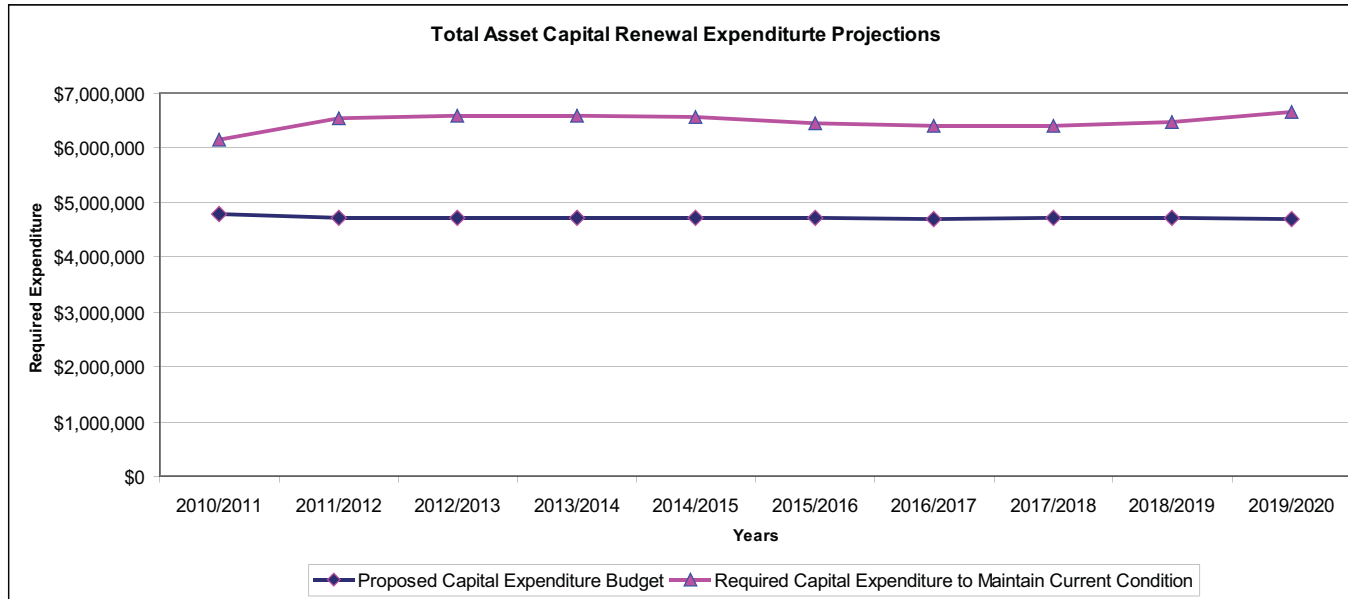


Diagram 8 - 10 Year Projection of Required Capital Budget versus Proposed Budget Levels

7. Strategic Actions

Cessnock City Council has made significant improvements in asset management practices over the past two years. Council has also invested in modern advanced asset management tools in the form of the Assetic Asset Management Software System and the SMEC Pavement Management System (PMS5).

It is vital that Council capitalises on its efforts to date and keeps on travelling down a path of continuous improvement. By adopting the following strategic actions, the Council will move closer to the Local Government Asset Management Framework.

Importantly, the following strategies are a series of linked steps that will enable the Council to produce advanced Asset Management Plans that will guide the long-term financial planning for its assets.

7.1 Strategy 1 - Service Levels Review and Monitoring

Cessnock City Council is developing Strategic Service Levels for its key infrastructure asset categories. Moving forward, Council should:

- *Develop its Strategic Service Levels to ensure they provide adequate guidance for the strategic decisions required for effective asset management and all have measurable performance targets.*

Responsibility: Strategic Assets Section

Target: June 2012 (Ensure strategic levels of services are developed one year from the adoption of this strategy)

- *Develop Operational Service Levels that provide Performance Outcomes, Measures and Targets for day-to-day asset management activities and decision making. The targets set should be consistent with delivering the desired Strategic Service Levels.*

Responsibility: Strategic Assets Section

Target: September 2012 (To be determined following on from the development of the desired strategic levels of service)

- *Annually monitor the Council's performance with respect to the Strategic and Operational Service Levels and recommend changes to practices or Service Levels if necessary.*

Responsibility: Strategic Assets Section

Target: Annually each September.

7.2 Strategy 2 - Advanced Condition Management

Cessnock can improve the quality of its asset decision making and prediction through adopting more advanced asset condition assessment practices:

- *Determine the appropriate range of condition, capacity and functionality measures for each asset category that will provide a cost-effective measure of the condition of each asset.*

Responsibility: Strategic Assets Section in conjunction with the relevant key staff from each asset category.

Target: December 2012

- *Develop cost-effective assessment tools for each condition, capacity and functionality measure and document in Asset Assessment Manuals for each asset category.*

Responsibility: Strategic Assets Section in conjunction with the relevant key staff from each asset category.

Target: December 2012 (to be done in conjunction with above strategy)

- *Update asset condition assessment scores using Advanced Condition Management tools.*

Responsibility: Strategic Assets Section.

Target: Annually each June (in line with end of year financial valuations)

- Undertake Community Satisfaction Surveys to gauge the Community's satisfaction with the current levels of service being delivered

Responsibility: Strategic Assets Section.

Target: June 2012 and then bi-annually each June.

7.3 Strategy 3 - Enhanced Long-Term Modelling

The Advanced Condition Management practices will allow Council to undertake enhanced long-term modelling of its asset portfolios and thus generate more robust financial projections:

- Develop enhanced model cost parameters to match the advanced condition management practices.

Responsibility: Strategic Assets Section in conjunction with the relevant key staff from each asset category.

Target: Review annually each March (in time to prepare modelling outputs for budget preparations)

- Generate enhanced long-term financial projections from myPredictor and SMEC PMS5 using the scores obtained through Strategy 2.

Responsibility: Strategic Assets Section in conjunction with the relevant key staff from each asset category.

Target: As required

7.4 Strategy 4 - Linking Long-Term Financial Planning with Advanced Asset Management

Developing long-term financial projections for infrastructure assets is of little value unless the process is linked in to the long-term financial process of the Council. This step is critical for success:

- Integrate the asset long-term financial projections into the Council's Long-Term Financial Plan, making adjustments to Service Levels and / or funding source models as necessary to achieve asset portfolios that are both affordable and sustainable in the long-term.

Responsibility: Strategic Assets Section and Finance.

Target: Review annually each April (in time to prepare modelling outputs for budget preparations)

7.5 Strategy 5 - Asset Management Plans for Major Asset Categories

The key asset management plans for Council will be:

- The Road Network Asset Management Plan (incorporating road pavement, Carparks, airport pavement, footpaths, kerb & gutter, roadside furniture, etc)
- Bridge Asset Management Plan
- Building Asset Management Plan
- Stormwater Drainage Asset Management Plan
- Open Space Asset Management Plan

Council will need to:

- Prepare and document Asset Management Plans.

Responsibility: Strategic Assets Section in conjunction with the relevant key staff from each asset category.

Target: June 2011 (as per the integrated Planning and Reporting requirements)

- Annually review Council's asset management plans and update as needed to incorporate changes in policy, practices and community expectations.

Responsibility: Strategic Assets Section in conjunction with the relevant key staff from each asset category.

Target: Annually each September/October following on from the End-of-year reports and financial statements)

8. Key Performance Indicators

The following table sets out the relevant Key Performance Indicators (KPIs) that Cessnock City Council will use to assess the quality and effectiveness of its Asset Management practices.

KPI	Measurement Method	Target
Asset Service Levels	Measuring actual v/s targets	Council will develop service levels for all asset categories from 2010 to 2012
Renewal Funding Index	Ratio of Net Present Worth (NPW) of planned capital expenditure (LTFP) divided by the desired capital expenditure (as per the AM plans)	
Customer Satisfaction	Measured in terms of customer response through the Council surveys	
Asset Condition Index	Ratio of average condition loss over two network level condition audits	Average network asset condition to remain status quo or better
Asset Consumption Index	The current written down book value divided by the current gross value	Council will aim to achieve a ratio of 75 out of 100 by 2015
Sustainability Index	Capital Expenditure on Replacement and Renewal divided by Depreciation Expense	Council will aim to fund its Capital renewal expenditure to meet depreciation by 2015
Asset Health Index	Ratio of the Network Level Remaining Life to the Expected Useful Life at a Portfolio Level	

Table 2 - Key Performance Indicators for Quality Assessment of Asset Management Practices

9. Strategy Review

Any Strategy must be a dynamic document, reflecting and responding to changes over time.

This Asset Strategy will be reviewed every 3 years and will be amended to recognise any changes to Council's Community Strategic Plan (Cessnock 2020), Council's progress and set out proposals for the next five years.

10. References

- Cessnock City Council Financial Statements 2009/10
- Cessnock City Council Asset Management Policy
- Cessnock City Council Annual Report 2009-2010
- Cessnock City Council Community Strategic Plan (Cessnock 2020)
- Cessnock City Council Community Satisfaction Survey 2009
- Cessnock City Council Long Term Financial Plan 2011

