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ACT Legislative Assembly
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Dear Chair

Thank you for your further correspondence.

What is the current formula applied to recurrent funding to provide for the maintenance of the existing and inherited asset base managed by City Services?

The funding formula for the recurrent maintenance of City Services assets is:

Asset category	Recurrent maintenance funding
Existing assets	Base funding carried forward each year, indexed annually by CPI
Inherited and gifted assets	1.33% of asset value, added to the base
New capital assets (built by the ACT)	2.00% of project value, added to the base

The 1.33 per cent rate was not established as an engineering or asset-management standard. Rather, the rate is derived from a calculation of actual maintenance expenditure against the total cost of assets handed over by developers in 2015-16; it is a record of what was spent, not necessarily the assessed asset need.

The limitations of the formulas are:

- The 1.33 per cent rate reflects historical expenditure rather than demonstrated asset need;
- The 1.33 per cent rate funds a basic, largely reactive standard of maintenance;
- Any deferral of proactive or scheduled maintenance adds about 1.3x the deferred cost.
- Any existing underfunding is preserved in the recurrent base;
- CPI may not necessarily reflect labour, construction and maintenance-cost growth; and
- CPI indexation does not take into account the ageing of an asset, where maintenance and renewal demand rise sharply and non-linearly as the stock crosses its useful-life thresholds.

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The Directorate manages the constraints of this formula by scheduling to ensure that the high-consequence assets bearing on community safety are prioritised.

However, it is important to note that the maintenance funding applied to the asset base is not the only source of funding to maintain the longevity of assets. The Asset Renewal Program provides ACT Government agencies with an annual funding pool for works that extend the useful life or improve the service delivery capacity of existing infrastructure assets. This investment is distinct from routine repairs and maintenance work which is funded separately. In 2025-26, there was $62.7 million in funding available to the City and Environment Directorate through the Asset Renewal Program (ARP).

Government funding decisions may also increase the capacity to maintain the asset base. Recent examples include additional base funding for horticultural services and tree maintenance activities such as planting and young-tree care.

Within a year, asset maintenance can also be funded through underspends in agency capital programs, which routinely arise as appropriations do not always align with project payment schedules.

2. In your view, what increase in recurrent funding would be required to:
(a) Address the shortfall in funding for ongoing maintenance of inherited assets.

As noted above, any assessment of funding requirements needs to account for all available funding sources. The Government considers funding for the Asset Renewal Program, which can be allocated by Ministers to the highest-priority asset needs, through the annual Budget process.

In the 2023-24 Budget Review process, the Government substantially increased asset renewal funding to better align funding with asset depreciation and to increase annual indexation on the ARP from 2.5 per cent to 4 percent. The then Transport Canberra and City Services Directorate received the largest increase in ARP funding of over $47 million from 2024-25 to 2027-28.

In the 2026-27 Budget, the Government adjusted the ARP to account for historical deliverability of the program.

Benchmarked against other jurisdictions and adjusted for the diversity of the asset base and the dispersed geography of the Canberra network indicates that 2 to 3 per cent of asset value is required to maintain these assets.[1] This is consistent with baseline funding currently provided and does not account for the additional funding sources identified above.

In assessing appropriate maintenance, it is important to consider the composition of the entire asset base. Applying 2 per cent mechanically to the Directorate's entire $13.806 billion property, plant and equipment balance is not a reliable estimate of the required maintenance budget, because:

- the balance includes assets outside the asset classes relevant to this question;
- the Capital Framework applies its assumption to the capital cost of individual projects, not automatically to an agency's entire accounting asset balance;
- maintenance needs differ substantially between asset classes and across their lifecycle; and
- the calculation would not account for existing recurrent expenditure or capital renewal.

The formula to determine any recurrent maintenance shortfall should be based on asset-management plan requirements less existing recurrent maintenance funding. Further consideration could usefully be given to:

[1] The default financial-modelling assumption for maintenance of a capital project is recurrent funding of 2 per cent of a project's estimated capital cost. It is not a mandate, guarantee, statutory requirement or automatic appropriation.

- replacing or supplementing CPI indexation with an index that reflects relevant wage and input costs;
- attaching recurrent funding to new assets when they enter service; and
- protecting maintenance funding from being absorbed by unrelated operating pressures.

2. (b) Address both this shortfall and the inherited structural deficit

The structural deficit inherited from the Commonwealth Government is a complex and long-standing challenge reflecting the terms on which the ACT Government inherited the assets and subsequent Commonwealth funding decisions.

Commonwealth financial support to the Territory for its asset base has fallen significantly since self-government.[2] Subsequent changes have also removed specific recognition of costs associated with Canberra's function and design as the national capital. These include:

- the discontinuation of the specific assessment relating to Canberra's above-standard road network in the Commonwealth Grants Commission's 2020 Review;
- the discontinuation of the National Capital assessment in the 2025 Review; and
- the declining real value of the Commonwealth payment for municipal services delivered to Commonwealth land while the cost of maintaining the relevant public realm has continued to rise[3]

This reduction in financial support from the Commonwealth has exacerbated many of the unique challenges Canberra faces. The Commonwealth planned and constructed a city of national capital scale and standard, which included:

- anticipation of a population of 1 million, with the population expected to reach 500,000 before the 20th Century;[4]
- a funding model predicated on a significant contribution from outside the ACT;[5]
- a dispersed urban form designed to protect the spatial and symbolic structure of the national capital, which would inherently produce higher per-capita servicing costs arising from longer networks, separated urban districts, extensive landscaped areas and infrastructure[6]

At self-Government, a Legislative Assembly-initiated inquiry found that the Commonwealth had developed assets with insufficient attention to their long-term maintenance consequences and without

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[2] By 1996-97, Commonwealth general-purpose funding had fallen to approximately $280 million annually, compared with the roughly $600 million that would have been provided had the 1989-90 level been maintained in real terms.

[3] The municipal services payment has increased by approximately 1.8 per cent annually over the past decade, compared with the average inflation of approximately 2.8 per cent.

[4] National Capital Development Commission, *Tomorrow's Canberra: Planning for Growth and Change* (ANU Press, 1970), p. 213, 233.

[5] As early as 1928, there was first a documented expectation that costs of establishing and maintaining the national capital should be distributed amongst the people of Australia on an equitable basis with Canberrans paying no more than a reasonable rate; the NCDC capital program in the 1970s was drawn from Commonwealth Consolidated Revenue with no ACT-side fiscal accountability and the Commonwealth had been meeting the difference between municipal costs and rates collected; in 1980-81, the difference calculated between what the ACT was spending on municipal services compared to what revenue it was collecting per capita was about $58, while the difference calculated for statistical division calculations in both Melbourne and Sydney were negligible in comparison.

[6] National Capital Development Commission, *Tomorrow's Canberra: Planning for Growth and Change* (ANU Press, 1970).

close financial accountability to the future ACT community. It also identified surplus institutional capacity, incomplete asset information and the absence of a dedicated maintenance endowment.[7]

The ACT Government therefore inherited a city and asset base:

- designed for a population that arrived significantly later than anticipated;
- built to national-capital standards that Commonwealth planners acknowledged would be more expensive per person;
- transferred without a maintenance endowment proportionate to those obligations, together with a substantial backlog of maintenance which had been deferred[8]; and
- with a significantly constrained revenue base compared with the base that had been available to build and construct the assets of national-capital standards.[9]

As noted above, the Government regularly reassesses the capital program, including funding available for maintenance. In doing so, it considers the overall fiscal situation of the Territory as well as our asset portfolio. This can include assessment of:

- what size and service standard of the asset base is financially and operationally sustainable;
- which assets and standards the community wishes to retain and fund;
- which assets primarily serve national-capital purposes and should form part of an intergovernmental funding discussion;
- where service standards can be modified without unacceptable effects on safety, accessibility or amenity; and
- whether some assets should be consolidated, redesigned or replaced differently when they reach the end of their useful lives.

I thank the committee for the opportunity to expand on my evidence. I trust this information is useful.

Sincerely

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Minister for City and Government Services

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[7] Committee of Inquiry into the Assets and Public Debt of the ACT (Else-Mitchell, Galligan and Mackintosh), *Report*, 1990.

[8] *Ibid.*; asset-condition and maintenance-backlog findings at Chapter 3, drawing on the Buildings Asset Management Section survey. The Committee found that assets been transferred in frequently poor condition, with a maintenance backlog then assessed at $25.95 million

[9] In the 1970s, the Commonwealth formally recognised the cost disability associated with being a national capital. It addressed the cost disability through a subvention rather than through transferring Commonwealth-held revenue-generating assets sufficient to close the gap or building the revenue base necessary to close the gap from within the ACT, for example.