

From: [Tony Farrell](#)
To: [State Development](#); [Bjorn Lategan](#)
Cc: [Kerrie Walsh](#)
Subject: CM: RE: Inquiry into the ability of local governments to fund infrastructure and services - Post-hearing responses - 3 June 2024
Date: Monday, 8 July 2024 12:14:18 PM

Good afternoon.

Supplementary Question

1. What barriers did you overcome to begin cash funding depreciation and are there ways in which it can be implemented more broadly in the Local Government sector?

Thank you for the opportunity to elaborate on our experience with the cash funding of depreciation.

The main barrier we faced when introducing cash funding of depreciation was to find adequate funds to meaningfully fund our target. Our initial target was 100% and as we worked through budgets, the target was reduced to 90%. This made sense as we could see other funding availability, such as grants and contributions, meant we did not have to cash fund 100% of the depreciation expense. We also began to see that we rarely replaced an asset like for like. Changes in the scope of assets, and increasing standards to reflect community expectations blurred the line between what was replacement and what was new. In the first years we simply pooled funds that would otherwise have been allocated to asset replacement projects so as to create a reserve, the Asset Replacement Reserve. Projects that were asset replacement projects, or had significant asset replacement components, could then compete for funding at budget time for an allocation from the reserve. By funding that reserve at our desired level, it creates a mind set in the organisation that is somewhat easier to get an asset replacement project funded than a new asset. As a large organisation with our people focussed on improving the lives of our citizens, it can be attractive to always look towards the new thing. It is both a direct practical control as well as a significant environment setting tool for all staff engaged in asset management to understand protecting our asset base is a focus for the organisation and means to make a positive contribution to our City.

Over time that target dropped to 80%, as our depreciation expense grew, the target was harder to achieve. At year end the balancing item for cash reserves was the Asset Replacement Reserve, any surplus cash we have is considered for addition to the Asset Replacement reserve in the first instance. Over time we typically top the reserve up at years end with any unexpected positive results. This also helps smooth the impact of new assets coming to account over the preceding financial year.

Our controls around managing source of funds, and the correct allocation of the Asset Replacement Reserve, has put us in a more sustainable position than we would have been without these practices. Coupled with strong training and induction of our elected Council, the level of funding in the Asset Replacement Reserve is a keenly watched end of year financial position, and budget setting parameter. It is also a window into how growing our asset base

impacts our operating result and ensures the whole of life costs of any new asset investment is taken seriously by, and influences our decision makers.

If our practice was to be implemented more broadly in Local Government, my first comment is that it should be at the discretion of individual Councils. The arrangement works well at Lake Macquarie as we have an elected Council that works cooperatively in the Chamber and has shared a culture of wanting what is best for the City in the long term. This includes a focus on long term decision making and a preparedness to forego something in the short term if a more important long term goal can be achieved. This critically affects decisions on new capital investment decisions. If Councils were compelled to implement a cash funding of depreciation practice, it could have negative unintended consequences where the above circumstances were not in place.

I hope this information is of use to the Committee. If there is anything else I can assist you with, please do not hesitate to contact me.

Regards, Tony Farrell.

Tony Farrell

Deputy CEO Planning for the Future



lakemac.com.au



Dhumaan ngayin Awabakurlangu kirraanan barayidin

We acknowledge and respect the Awabakal people who have cared for and nurtured this country.
