Minimum maintenance funding benchmark for annual departmental budget

This policy advice note provides asset and maintenance managers with general guidance on how to estimate the minimum maintenance funding benchmark for the annual departmental budget, in accordance with the requirements of the Maintenance Management Framework (MMF). The MMF is the whole-of-Government policy for managing building maintenance.

Comprehensive advice about how to prepare a maintenance budget is provided in the MMF guideline: Building Maintenance Budget. It is important that the annual departmental maintenance budget is rigorously reviewed each year, including an assessment of the achievements of the previous year against the intended outputs and impacts. The optimum time to undertake this review is at the beginning of the annual budgeting cycle in order to identify any implications on the budget submissions and/or risk management processes.

Minimum maintenance funding

In accordance with the MMF (policy requirement 7) "departments must allocate sufficient funding in their maintenance budget to enable buildings in their portfolio to be maintained to the condition standard ratings identified and documented in the departmental maintenance policy".

Understanding the difference between maintenance expenditure and capital expenditure is important due to the relevant accounting approaches (and tax liabilities) associated with these expenses. Guidance on determining whether work is most appropriately classified as maintenance expenditure or capital expenditure is provided in the MMF policy advice note: Capital or Expense?: A Guide for Asset and Maintenance Managers.

When assessing maintenance demand in order to calculate the annual maintenance budget the MMF requires departments to consider:

- preventative service maintenance
- condition-based maintenance identified in maintenance assessment reports
- deferred (backlog) maintenance
• maintenance to meet mandatory statutory and health and safety requirements
• reactive maintenance based on historical information.

The MMF recommends that a **minimum** funding benchmark of 1% of the building Asset Replacement Value (ARV) of the department’s building portfolio is allocated for maintenance expenditure. The amount budgeted for maintenance at portfolio level should meet or exceed this funding benchmark. Circumstances where the funding benchmark may be exceeded include where a portfolio has:

• unfunded or deferred maintenance projects
• ageing or deteriorating buildings
• heritage or iconic buildings
• highly critical or complex facilities.

Accurate and consistent building performance information is required to support maintenance budget formulation and the identification of strategies to address risks associated with underfunding maintenance.

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**The building Asset Replacement Value (ARV)**

The ARV is defined by the MMF as "the best estimate of the current cost of constructing (for its original use) a new facility providing equivalent service potential as the original asset. It does not include the value of the furnishings or other items not permanently part of the facility, nor does it include design and project management costs."

In order to determine the ARV for budget and funding documentation purposes departments can use the estimated current building costs provided by:

• a valuer registered in Queensland. Departments should issue clear instructions to valuers to ensure that the estimated cost of constructing a new facility is consistent with the definition of the ARV in the MMF. If the valuation is based on the replacement value for building insurance purposes it will not comply with the ARV definition of the MMF because it will include design and project management fees.

• a quantity surveyor or competent person (with adequate estimating skills and knowledge about regional differences in building costs and other factors). The building cost is generally stated in terms of dollars per square metre of the Gross Floor Area (GFA). The building's GFA is estimated in accordance with the method of measuring outlined in the *Australian Cost Management Manual*, published by the Australian Institute of Quantity Surveyors. Further advice on building cost estimates is available from the Department of Housing and Public Works.
For further information

The Manager  
Building Policy and Practice  
Building Industry and Policy  
Department of Housing and Public Works

GPO Box 2457  
Brisbane QLD 4001

Email: bip@hpw.qld.gov.au  
Web: www.hpw.qld.gov.au

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