



Woollahra Municipal Council

Accounting advice in relation to the methodology used to calculate 'Backlog' in Special Schedule 7

*PricewaterhouseCoopers
June 2015*

Annexure 6



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Woollahra Council
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15 June 2015

Dear Sir

Accounting advice in relation to the methodology used to calculate 'Backlog' in Special Schedule 7

You have requested that we comment on the methodology used by Council to calculate the 'backlog' or 'cost to bring to satisfactory standard' of infrastructure assets reported in Special Schedule 7.

Background Information

Council had calculated a backlog of \$6.2 million against a Written Down Value of \$496 million at May 2015. This results in an Infrastructure Backlog Ratio of 1.25%. We were advised by Council officers that the following principles were applied in calculating this figure:

1. All infrastructure sitting in conditions 4 (Renewal required) and 5 (Urgent renewal / upgrading required) have been included in the 'backlog'.
2. The value placed on the 'backlog' is the current replacement cost of those assets sitting in Conditions 4 and 5. That is, the full cost of renewing those assets.
3. Whilst the Code of Accounting Practice talks about bringing an asset to a satisfactory standard – which is less than the full renewal cost – Council does not consider it practicable to renew an asset to anything other than a new standard.
4. All infrastructure is condition assessed on a regular basis with the exception of drainage. Approximately 35% of drainage assets have been condition assessed at some time in the last 10 years and the results have been used to extrapolate condition levels over the entire population.
5. Outstanding maintenance costs are not considered to be 'backlog'. Only outstanding renewal costs are included in the 'backlog'.

Opinion and Reasons for our Opinion

We are of the view that the methodology used by Council to calculate the backlog in Special Schedule 7 is reasonable having regard to the guidance set out in the Code of Accounting Practice. The Code says:

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“The estimated cost to bring assets to a satisfactory standard is the amount of money that is required to be spent on an asset to ensure that it is in a satisfactory standard. This should not include any planned enhancements. Unless Council has undertaken consultation with their community and has agreed to a level of service from Council’s assets, the BTS should be measured against the second condition rating of ‘Good’ as stated in the Integrated Planning and Reporting Manual for local government in NSW”.

By defining the backlog as the full replacement cost of assets sitting in conditions 4 and 5, Council has taken a conservative approach to the calculation. It need only calculate the cost to bring assets to Condition 2 (Good), but it has taken the cost to bring assets to Condition 1 (Excellent) as its standard. This means the ‘backlog’ figure Council is reporting exceeds the cost to bring these assets to a satisfactory standard. We are aware that some councils discount the full replacement cost to reflect the fact that this is bringing these assets **to a higher standard than ‘satisfactory’**.

The fact that Council has not inspected the whole drainage network to determine its condition is understandable considering the difficulty in accessing underground pipes with camera equipment. We believe that applying the results of such a large sample to the population is reasonable, however there is always the possibility that the sample may not adequately reflect the population. Council expects to complete a full inspection of the drainage network, progressively, over the next 10 years.

The fact that Council has not included outstanding maintenance in the ‘backlog’ is reasonable considering most definitions of backlog specify it is renewal work only. In any case, we were advised that Council has very little outstanding maintenance.

Terms of Reference

Our terms of reference for this accounting advice in relation to the methodology used to calculate ‘Backlog’ in Special Schedule 7 are described in our engagement letter dated 1 June 2015.

Disclaimer

Any change in the facts, official pronouncements or circumstances on which our opinion is based could affect our conclusions. We therefore recommend that if there are any such changes, you consult with us again to ensure our opinion continues to be appropriate and valid.

We are not commenting on the commercial or other desirability of the methodology. Nor have we reviewed the relevant documentation from a tax or legal viewpoint.

Management are responsible for the methodology used to calculate ‘backlog’ in Special Schedule 7. This opinion has been prepared for Woollahra Council for the purpose of assisting management in formulating that methodology for inclusion in its Fit for the Future deliberations.

The opinion we have given does not prevent your auditor from assessing the methodology differently in the context of the financial statement audit as a whole. We have not performed any verification procedures and do not give any assurance on the underlying balances.



Contact

Please contact the writer on [REDACTED] if you would like to discuss any aspect of this letter.

Yours faithfully

[REDACTED]

Dennis Banicevic
Director