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Committee Parks, Forests & Utilities Committee
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Revaluation of Water Supply Assets 2008

1. Purpose

The purpose of this report is to inform councillors of the outcome of this revaluation.

2. Significance of the decision

The matters for decision in this report **do not** trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

3. Background

Section 69 (2) of the Local Government Act 2002 includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP). This means the council must comply with New Zealand International Financial Reporting Standards (NZ IFRS).

New Zealand Equivalent to International Accounting Standard 16 - NZIAS 16 Property, Plant and Equipment, sections 31 to 42, set the standards for revaluations. Section 31 includes the requirement to have revaluations made with sufficient regularity to ensure that the carrying amount (i.e. the book value) does not differ materially from that which would be determined using fair value at the end of the reporting period. Typically this is carried out every five years. Revaluation of water supply assets was last carried out in 2004, and a review of Capital Goods Price Indices suggested that the change in asset value might be considered material over the last four years.

Fair value usually means the market value, but for a public good organisation such as GWRC which owns assets not normally traded, the accounting standard allows fair value to be determined using the optimised depreciated replacement cost (ODRC). Optimisation refers to the capacity of the asset. Reasonable allowance for future expansion is allowed, but not gross over capacity. An example is the Wainuiomata tunnel, a section of which was built

during the depression as a road tunnel, but now accommodates our water pipes and a few communications cables. This section of tunnel is valued as if it were the same as the remainder of the tunnel, built later to accommodate only the water main. Replacement with modern equivalent materials is also allowed by the standard.

To establish the fair value or ODRC a qualified valuation consultant was commissioned to value all infrastructure assets controlled by the Water Supply, Parks and Forests Division that are employed directly in the production, distribution and storage of water. Assets like vehicles and portable equipment were not included. The current replacement cost of each asset was determined and then depreciated according to the acquisition date and the probable life of the asset to give the current value (book value).

The valuation was undertaken by appropriately qualified staff from a large international company involved in valuation work around the world. The valuers spent a number of days, guided by GWRC staff and maintenance contractors, inspecting water supply assets and collecting detailed asset information. This information has been provided to GWRC and will be recorded in our Asset Management Information System (AMIS) for use in future revaluations.

The determination of the replacement cost of assets was based on information gained from a wide variety of sources, including equipment manufacturers, actual construction costs (including information from GWRC records) and parameter cost databases, e.g. cost per square metre of floor area for buildings.

4. Results of valuation

A summary of both the estimated replacement cost of water supply assets and the book value as at 31/12/2008 are provided in Attachment 1. The total estimated replacement cost is **\$558M** and the total estimated book value is approximately **\$322M**.

The net change in the book value of the assets was **\$45.5M**, an increase of 17%.

It is expected that the revaluation will result in an increase of approximately **22%** in the annual depreciation charge, taking it to about **\$7.3M** in 2008/09, compared to **\$6M** in 2007/08. Depreciation is influenced by the residual value of assets, previously 5% to 10% and now reduced to zero, and the life of the assets, which in some cases has been increased.

5. Comment on valuation

The valuation consultant was chosen because of their wide experience internationally in this type of work and their familiarity with the water supply assets through the preparation of valuations for insurance purposes. A rigorous and thorough approach was adopted by the team of four valuers. The exercise was relatively costly, but has provided a good deal of robust information that will be recorded in our AMIS system and used for future valuations and other

purposes. The valuation will also form the basis of insurance valuations over the next few years.

This rigorous approach has resulted in some anomalies between the previous valuations of some assets and the 2008 figures. Some assets, for example, the Stuart Macaskill Lakes, have been assigned significantly lower values, while other assets, particularly buildings, have significantly increased in value. A check of the lake values against the original construction cost has been made and this has confirmed that the 2008 valuation is reasonably consistent with the original construction cost brought up to date using construction cost indices.

The overall increase in asset value of 17% over a four year period is consistent with various economic indicators such as the rate of inflation and capital goods price indices.

6. Communication

A media statement on the results of the revaluation of the water supply assets is not considered necessary since this information will be included in the Water Supply Annual Report for the year ending June 2009.

7. Recommendations

That the Committee:

1. ***Receives the report.***
2. ***Notes the content of the report.***

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Attachment 1: Wholesale water assets - summary of replacement values and book values