greater WELLINGTON
REGIONAL COUNCIL

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Committee	**Policy, Finance and Strategy Committee**
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Valuation of Assets

1. Purpose

To update the Council on the valuation of its assets and confirm the course of action noted in the recommendations.

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

The Council carries out a detailed valuation of its fixed assets every five years. This exercise is undertaken to ensure that the assets are fairly valued and is a fairly standard procedure for long term assets.

The fixed assets that the Council revalues on a five yearly cycle are:

- Regional water supply, last valued in 2004
- Flood protection, last valued in 2002
- Parks and forests, last valued in 2003

The flood protection assets will be revalued during 2006/7 as a result of a full valuation.

However, recent large increase in the replacement costs of some of our assets has caused our auditors to query whether a five yearly valuation cycle is appropriate. The matter was raised by the auditors during the 2006 audit and commented on in their management letter.

The issue arises in that the accounting standards require that revaluation be performed with sufficient regularity to ensure there is no material difference between the carrying book value and fair (or market) value of the assets.

If there was a material difference then the auditor would qualify their audit report.

4. Financial Statements 2005/6

GWRC carried out an exercise during the 2005/6 audit to ensure that the fixed assets noted above were not materially misstated. This involved using Department of Statistics relevant indices and applying these to the assets in question. The difference in value after applying the indices was not great in respect of land. However, in respect of water assets the variance was larger, but not material. In respect of 2006/7 this variance will be greater still due to another year of increases in the various indices. It is not known at this stage whether this difference will be material.

However, based on the increases in the indices for the last couple of years and extrapolating those to June 2007, then the difference could possibly be material, resulting in a qualified audit report.

It is the water assets which are causing the major variance in valuation. This is because they are constructed assets and the various construction indices have increased significantly.

The options noted below are for the water assets only.

The matter needs to be considered now, as a full valuation takes several months to complete.

5. Options

5.1 Do nothing

It is possible that the relevant indices will not increase significantly during 2006/7 and as such there will not be a material difference in the value of the water assets.

The advantages for this approach are that it costs nothing and does not divert resources from other projects. The disadvantage is that GWRC risks having a qualified audit report.

5.2 Carry out a desktop valuation

Under the accounting standards any valuation must be reviewed by an external valuer. It may be possible to carry out a desktop valuation (which is less than a full valuation) which can be signed off by an external valuer. This would satisfy the auditors.

The advantages are that it is not time consuming, relatively inexpensive and will not disrupt other ongoing projects.

Initial discussions have indicated that an external valuer will be able to sign off on this type of valuation.

It is similar to the insurance valuations undertaken by GWRC each year and signed off by an external valuer.

5.3 Carry out a full valuation of the water assets

This is the safest option and will not result in a qualified audit report. However, this exercise is expensive and time consuming. It may hinder the progress on the new water source by diverting staff onto the valuation exercise. The decision to do this would need to be taken now to allow for the exercise to be completed

6. Qualified audit opinion

A qualified audit opinion will state that the financial statements are true and fair except for the valuation of certain fixed assets.

A qualified audit report should not have a material effect on GWRC. In simple terms GWRC would be understating its assets, not overstating them. This would be a more serious qualification from a GWRC and external parties perspective.

From a banking, perspective there is unlikely to be any issues. In respect of our credit rating from Standard and Poor's it is also unlikely to have any impact

However, a qualified audit report will be needed to be explained as it would be likely to receive some media coverage. In addition from the organisation's viewpoint it is far preferable not to be qualified.

7. Conclusions

The preferred option, from management's perspective, is to carry out a desktop valuation which is reviewed and signed off by an external valuer. To carry out a detailed valuation on the water may delay progress on the new water source. To do nothing, when potentially there is a viable alternative is considered the least attractive of the three alternatives.

8. Recommendations

That the Committee recommends that Council:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*
3. ***Agrees that** a desktop valuation of the water assets is undertaken as at 30 June 2007.*
4. ***Notes** that if this valuation is not accepted by the auditor it may result in a qualified audit opinion.*

Report prepared by:	Report approved by:
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