

**Chairperson and Committee Members**  
CORPORATE BUSINESS COMMITTEE

15 AUGUST 2013

Meeting Status: **Public**

Purpose of Report: For Decision

**PROPOSED CHANGE TO ACCOUNTING POLICY - LAND VALUE UNDER ROADS**

**PURPOSE OF REPORT**

- 1 This report recommends a change to Council's Accounting Policy in relation to the valuation of land under roads.

**SIGNIFICANCE OF DECISION**

- 2 This report does not trigger the Council's Significance Policy.

**BACKGROUND**

- 3 In 2002 the Council first valued the land under its roads as part of recognising the full value of its infrastructure assets. As part of the adoption of the New Zealand equivalent to International Financial Reporting Standards (IFRS) Council chose to continue to record this value as the deemed cost of these assets and not continue to revalue. This was recognised practice at the time but there has subsequently been no consistent approach taken by all local authorities.

**CONSIDERATIONS**

Issues

- 4 A number of Councils have continued to revalue land under roads on a three yearly basis in line with the normal revaluation cycle applied to other Council assets while others have continued to leave land values under roads at their original value.
- 5 Councils that have continued to revalue land under roads every three years are include some higher growth Councils including:
  - Tauranga City Council;
  - Western Bay of Plenty (annual revaluation of land under roads);
  - South Taranaki District Council;
  - Porirua City Council;
  - Lower Hutt City Council;
  - Dunedin City Council.

- 6 The Councils of similar size to this Council that have not continued to revalue their land under roads include:

|                              | Valuation date of land under roads |
|------------------------------|------------------------------------|
| Nelson City Council;         | 2005                               |
| Waimakariri District Council | 2006                               |
| Napier City Council          | 2005                               |
| Upper Hutt City Council      | 2004                               |

- 7 In the last ten years there has been significant increase in the Kāpiti Coast Land Value Index as provided by Quotable Value.

|              | Average increase in Kāpiti's land values |
|--------------|--|
| 2002 to 2005 | 90%                                      |
| 2005 to 2013 | <u>60%</u>                               |
| 2002 to 2013 | 150%                                     |

- 8 These are the average land value increases based on a rating valuation methodology. The land value increases for land under roads, which are based on a fixed asset valuation basis, may be different.

- 9 The advantage of leaving the land under roads at the 2002 values was that the Council has saved the cost of revaluing every three years although the cost is not significant. The disadvantage of not revaluing every three years is that asset values are not shown at current fair values, which impacts on the reported total equity.

- 10 All other Council land associated with key Council assets such as community facilities, buildings and parks and reserves, water, wastewater and stormwater is revalued every three years so land associated with roading assets should also be revalued every three years.

- 11 Having some of Council's assets valued as at 2002 with the remainder valued as at 30 June 2014 is not consistent with good accounting practice. The impact of not revaluing land under roads every three years is that the Councils of similar size that have continued to revalue land under roads every three years have a significantly higher total asset value than the Kāpiti Coast District Council.

- 12 Another key issue is that the current land under roads valuation only reflects the land that was under roads as at 2002. It does not include the land under roads that have been vested in Council by developers since 2002.

- 13 Assuming the land under road values increase by approximately the same percentage increase as the rateable land values, the approximate increases in land under road values could be as follows:

|      | Estimated total land value under roads |
|------|--|
|      | \$m                                    |
| 2002 | 200                                    |
| 2005 | 380 (90% increase)                     |
| 2013 | 500 (60% increase)                     |

- 14 If this is the approximate outcome of revaluing land under roads it could increase Council's total asset values by around \$300 million and Council's asset values would then compare with those Councils of a similar size who have continued to value land under roads on a three yearly basis.

- 15 The increase in asset values will only have a very limited impact on the Council's net debt limits as the net debt/operating income ratio is far more restrictive on the net debt limits over the longer term than the net debt/equity ratio. Council's net debt limit is determined by the ratio (net debt/equity, net debt operating income) that produces the lowest net debt limit and the net debt/operating income ratio provides a lower net debt limit over the longer term. The net debt/operating income ratio is a more meaningful ratio to manage Council's debt and is recognised by the financial markets and credit rating agencies as the more appropriate measure for managing debt rather than the net debt to equity ratio.

## Financial Considerations

- 16 The estimated cost of valuing land under roads is around \$6,000 and will be met from the budget for revaluing Council's infrastructural assets.

## Legal Considerations

- 17 Council's Auditors Ernst & Young advise a revaluation approach for land under roads is consistent with current financial reporting standards.

## Delegation

- 18 The Corporate Business Committee has delegated authority to consider this Report under Section B.3.7 of the Governance Structure

*Without limiting the generality of this delegation the Corporate Business Committee has the following functions, duties and powers:*

*Policy*

- 7.4 Authority, within the strategic direction established by Council, to develop financial policies other than those required to be incorporated in the LTP.*

## Consultation

- 19 There are no consultation issues to be considered.

## Policy Implications

- 20 Council's Accounting Policy would change to reflect this amendment.

## Tāngata Whenua Considerations

- 21 There are no tāngata whenua issues to be considered.

## Publicity Considerations

- 22 A press release will be prepared on the proposed change.

## RECOMMENDATIONS

- 23 That the Corporate Business Committee approves the change to the Council's Accounting Policy so that land under roads is revalued as at 30 June 2014 and then at least once every three years to ensure that there is a consistent valuation approach to all of Council's significant assets.
- 24 That the Corporate Business Committee notes that revaluing land under roads and increasing Council's total asset value will only have a very minor effect on Council's limits on its net debt. Council's net debt limit is determined by the ratio (net debt/equity, net debt/operating income) that produces the lowest net debt limit and the net debt/operating income ratio provides a lower net debt limit over the longer term.

**Report prepared by:**

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