

## 7. VALUATION OF UTILITIES

<b>Officer responsible</b> Financial Services Manager	<b>Author</b> Paul Melton
Corporate Plan Output: Rates Administration, Volume 1 Page 5.1.text.7	

The purpose of this report is to update the Committee on progress towards the inclusion of utilities on the rating valuation roll.

### BACKGROUND

In the widely reported case *Telecom NZ Ltd v Auckland City Council* (1999) NZLR 46 the High Court found that telecommunications utilities were separately rateable properties. This finding was upheld by the Court of Appeal in *Telecom NZ Ltd v Auckland City Council* (1999) NZLR 426.

In the period since these decisions there has been considerable discussion and debate about what other utilities should be included and what valuation methodology should be used to value utilities.

The recently released Rating Valuation Rules which are issued by the Valuer-General pursuant to the Rating Valuations Act 1998 now clarifies the situation. The Valuer-General makes it clear that there is a statutory obligation for local authorities to now have all utilities entered on the district valuation roll. Utilities for roll purposes include telecommunications networks, electricity, gas and energy distribution networks plus water, sewerage and drainage networks. Not included in this definition is the roading network.

The Rating Valuation Rules specify the valuation methodology as follows:

*"When valuing infrastructural utilities the 'Optimised Depreciated Replacement Cost' valuation methodology must be adopted. The valuation is subject to consideration where appropriate of:*

- (a) *adequate potential profitability or service potential of the entity; and*
- (b) *to comparable sales evidence or income streams.*

*When valuing the infructural assets of electricity line businesses and gas distribution networks the 'Optimised Deprival Value' valuation methodology should be adopted."*

(Rating Valuation Rules 7/00 (1.1 and 1.2).

### THE ISSUES

Central to providing valuations will be the collection of information from the various utility groups. It is anticipated that this will not be an easy exercise. Quotable Value NZ Ltd (QVNZ) (formerly Valuation NZ) and our valuation service provider (VSP) feel that they are in a unique position to do this. As the VSP for all but four local authorities they feel that their approach will ensure that consistent base information is captured and that the values are consistent throughout the country. QVNZ also feel that they can achieve economies by approaching the task at a national level. Most of the utility companies are nationwide companies and once they have determined the length of the utility networks and where they are located, apportioning the share of the value between the various local authorities is relatively straightforward.

The other significant issue is determining the rates that a utility should pay. This will need to be done as part of the funding policy review for 2001/02. Such a review must involve an assessment of the general benefits, direct benefits and any expenditure to control negative effects. It may also be necessary to classify utilities as a separate rating sector and not include them as part of the residential, commercial/industrial or rural sectors.

#### **PROCESS AND TIMETABLE**

In April 2000, QVNZ were formally requested to start valuing the Christchurch utilities for entry on the rating roll. The proposed completion date for this process is 1 October 2000. This will enable the Funding Policy Sub Committee to assess the funding implications prior to any consideration of the draft Financial Plan and Programme for 20001/02 and prior to the consultation period in May 2001.

For rating purposes, the values must be on the roll by 1 July 2001, the start of the 2001/02 financial year.

Opus International Ltd were used to value the Council's own utilities for balance sheet purposes and the valuation methodology used by Opus was optimised depreciated replacement cost. This methodology complies with the Valuer-General's Rating Valuation Rules. QVNZ have indicated that provided they have an opportunity to review the detailed calculations which form the basis of this work there should be no need for any duplicated effort as far as the Council's own utility systems are concerned.

#### **Chairman's**

**Recommendation:** That the information be received.