

Notice of Meeting:

I hereby give notice that an ordinary Meeting of the Finance Committee will be held on:

Date: Tuesday 24 June 2025
Time: 9:30 am
Meeting Room: Council Chamber
Venue: Municipal Building, Garden Place, Hamilton

Lance Vervoort
Chief Executive

Finance and Monitoring Committee

Te Komiti Aroturuki me ngaa Puutea

OPEN LATE AGENDA

Membership

Chairperson Cr Maxine van Oosten
Heamana

Deputy Chairperson Cr Moko Tauariki
Heamana Tuarua

Members	Mayor Paula Southgate	Cr Ewan Wilson
	Deputy Mayor Angela O'Leary	Cr Louise Hutt
	Cr Maria Huata	Cr Geoff Taylor
	Cr Emma Pike	Cr Andrew Bydder
	Cr Mark Donovan	Cr Sarah Thomson
	Cr Anna Casey-Cox	Cr Kesh Naidoo-Rauf
	Cr Tim Macindoe	

Quorum: A majority of members (including vacancies)

Meeting Frequency: Two monthly

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Mana Whakahaere
Governance Lead

18 June 2025

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Council Report

Item 11

Committee: Finance and Monitoring Committee

Date: 24 June 2025

Author: Gary Connolly

Authoriser: Gary Connolly

Position: Chief Financial Officer

Position: Chief Financial Officer

Report Name: Water Reticulation Revaluation Report

Report Status	Open
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Purpose - *Take*

1. To advise the Finance and Monitoring Committee that, as Chief Financial Officer (CFO), I do not currently have sufficient confidence to support the inclusion of the draft revaluation of water reticulation assets in the 2024/25 Annual Report. This is due to significant divergence between the draft revaluation and anticipated valuation movements.
2. The paper outlines the implications for Audit New Zealand's opinion, and the steps being taken to confirm or adjust the valuation basis ahead of the 2024/25 Annual Report, or asset valuation and accounting in the 2025/26 Annual Report prior to transfer to the Waters CCO on 1 July 2026

Staff Recommendation - *Tuutohu-aa-kaimahi*

3. That the Finance and Monitoring Committee receive the report.

Executive Summary - *Whakaraapopototanga matua*

4. The Council's infrastructure assets in practice are valued on a three-yearly cycle, using the fair value model under PBE IPSAS 17. Based on changes indicative in capital goods price indices (CGPI) since the 2022 revaluation, a moderate increase of 10–20%, but not greater than 30% was expected across water assets. However, the draft revaluation results for water reticulation assets particularly indicate increases in Depreciated Replacement Cost (carrying values), well beyond this range—120% for stormwater, 130% for wastewater, and 90% for water supply.

These results raise material concerns about the valuation's accuracy. Without sufficient validation, management **cannot** currently provide assurance that including these figures would not result in a material misstatement, nor that excluding them would avoid a material omission.

5. Management has advised Audit New Zealand (Audit NZ) that further investigation is required to put Council in a position to address queries, as they may have provide an unmodified Audit NZ opinion on the matter, and the 2024/25 financial statements are unlikely to incorporate the revised values. Audit NZ has noted that this would likely lead to a **qualified** opinion.

6. The Council has already been briefed on the issue and approved proceeding with the 2025/26 Annual Plan without adjustments for revaluation at its meeting of 29 May 2025 ([Agenda and Minutes](#)).
7. Management is prioritising a robust review with the valuer and peer reviewer, with further work underway to ensure confidence in valuations for the future transfer of water assets to the new Waters CCO in July 2026, and consideration of improvement in process and policy for future revaluations.
8. Prior to completion of the draft report, management was raising the issue on the potential to expand the perspectives on financial sustainability within the financial strategy, especially associated with the inter-generation depreciation funding strategies associated with high growth infrastructure and renewal of assets. This issue further highlights the need for this to be reviewed as part of setting Annual Plan 2026-2027 and /or Long-Term Plan 2027-2037.
9. Staff consider the decision in this report has medium significance and that the recommendations comply with Council's legal requirements.

Background - *Koorero whaimaarama*

10. Hamilton City Council prepares its financial statements in accordance with the Local Government Act 2002, the Local Government (Financial Reporting and Prudence) Regulations 2014, and generally accepted accounting practice in New Zealand (NZ GAAP). The External Reporting Board (XRB) sets these standards, with PBE IPSAS 17 Property, Plant and Equipment as the key accounting standard guiding the valuation of infrastructure assets.
11. Under PBE IPSAS 17, entities must measure infrastructure assets either at historical cost or at fair value. If fair value is chosen—as is Council's policy—then valuations must be conducted with sufficient regularity to ensure that the carrying amount in the financial statements does not differ materially from fair value. The standard does not prescribe a strict timeframe but recognises common practice in local government, to balance outcome versus resourcing, is that revaluations should occur every three to five years, or sooner if indicators of material difference arise.
12. Council has mostly applied a three-yearly revaluation cycle, aligning with Audit New Zealand's expectations and best practice. The last full revaluation of water reticulation assets was undertaken in the 2021/2022 financial year. The valuation was completed in 2022 by Hamilton City Council qualified staff and peer reviewed by Beca Ltd. It reflected the context and complexity of significant supply chain changes post Covid-19, including challenges in establishing current market / contract pricing deemed appropriate. The prior valuation was performed by Beca Ltd for the 2018/19 financial year and was independently peer reviewed.
13. The 2025 draft revaluation, prepared by Beca Ltd as external valuer, significantly diverged from these expectations. The preliminary results indicated, approximately:
 - i. 120% increase in stormwater asset carrying values (with a 140% increase in annual depreciation, 105% over Long-Term Plan projected depreciation),
 - ii. 130% uplift in wastewater reticulation assets (corresponding to a 120% increase in depreciation, 60% over Long – Term Plan projected depreciation), and
 - iii. 90% increase in water supply asset values (with a 80% uplift in annual depreciation, 45% over Long – Term Plan projected depreciation).
14. These movements are materially higher than the 10–20% range suggested by CGPI trends and introduce uncertainty about whether the valuation reflects real economic or physical changes in the asset base, or methodological anomalies.
15. In response, management undertook benchmarking using historical valuation movements for Hamilton and other councils. The benchmarking showed that:

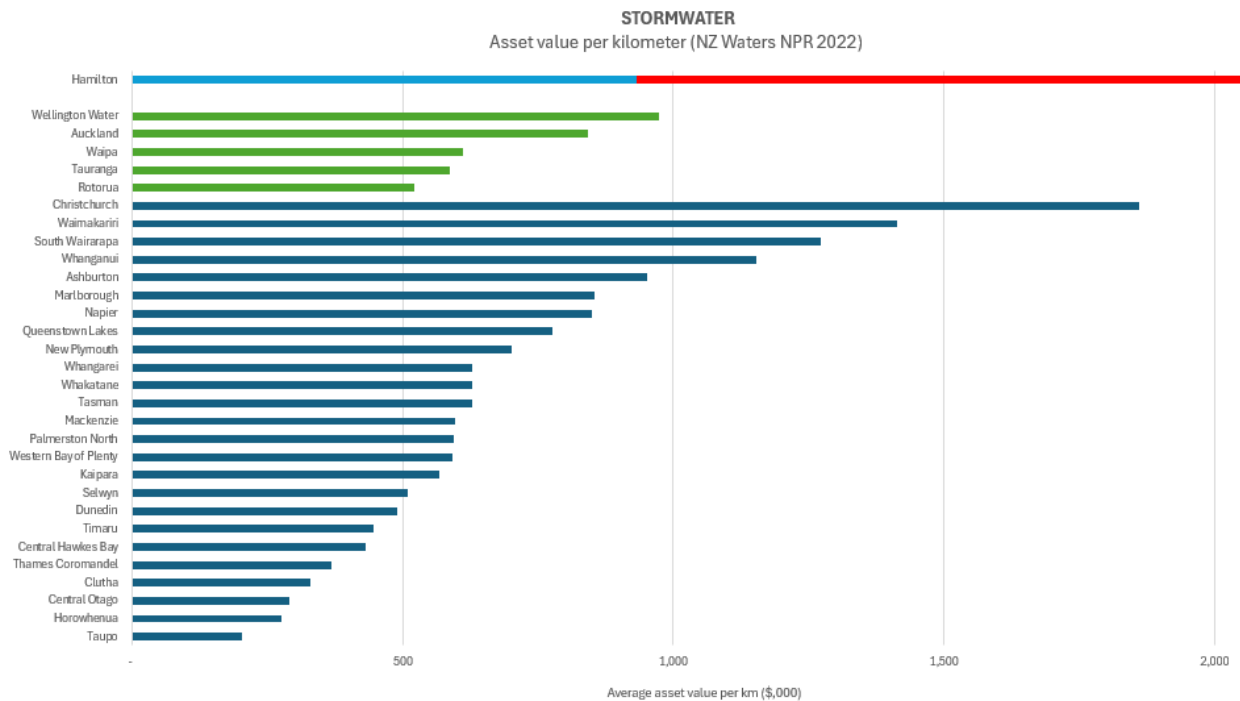
- i. In 2022, Hamilton's wastewater valuation increased by 13%, compared to 27% for a benchmarked fast-growth peer council and 24% for capital goods price indices.
- ii. Over prior cycles, Hamilton city Council's revaluations were broadly consistent with CGPI and its peers.
- iii. However, the 2025 draft uplift far exceeds both CGPI (10%) and prior local government trends. No other peer council has indicated a comparable step change for 2025, noting though that none have yet published their 2024/25 audited results.

Table 1: Benchmark comparison on carrying cost to assess draft revaluation results

	Capital Goods Price Indices	Hamilton City Council	Boundary Council	Growth Council
Wastewater				
2025	10%	130%		
2022	24%	13%	27%	49%
2019	13%	22%	5%	18%
2016	7%	16%	8%	12%
2014	1%	22%	1%	-6%
2011		9%	15%	15%
Water Supply				
2025	10%	90%		
2022	25%	13%	28%	28%
2019	9%	10%	5%	6%
2016	11%	-13%	8%	14%
2014	-10%	8%	-4%	1%
2011		22%	30%	11%
Stormwater				
2025	10%	120%		
2022	24%	12%	19%	32%
2019	13%	17%	5%	17%
2016	7%	41%	25%	23%
2014	1%	5%	-17%	12%
2011		33%	36%	-4%

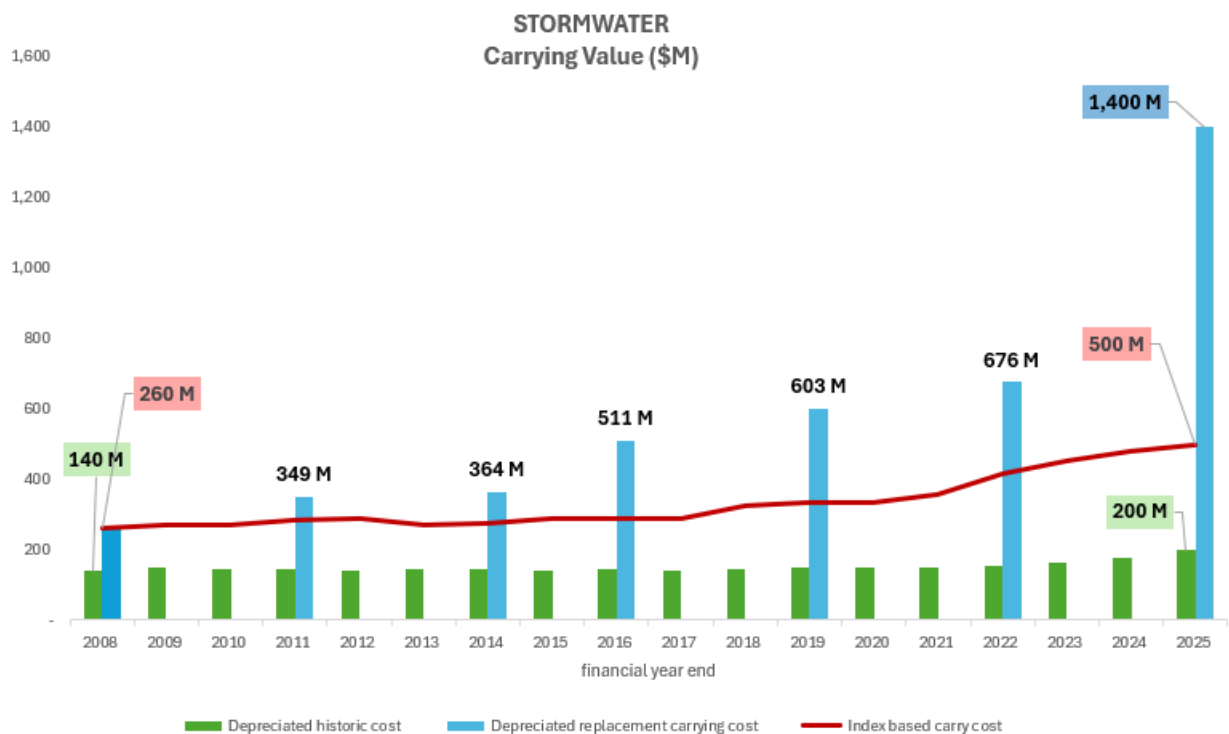
16. As part of further analysis (**Chart 1**), we used benchmarking from Waters New Zealand - National Performance Review Data 2021/22.
17. Though not like for like, based on different councils revaluation phasing and locational factors, this highlights that at \$932k per system Km of stormwater Hamilton City Council was 7th highest across the 33 reported councils at 2022, and the above 2025 revaluation would indicatively put Hamilton in the top 2-3 after allowing for CGPI since 2022, with a carrying value approximately 2.5-3.0x the average:

Chart 1 Waters New Zealand - National Performance Review Data 2021/22- Stormwater



18. We undertook additional analysis (**Chart 2**) to assess the result we would have expected in revalued asset carrying cost if it matched the underlying capital goods price indices and compared that against both the revalued carrying cost over time, and also assessed that against the depreciated historic carrying cost (what we actual spent on assets over time after associated depreciation).

Chart 2 Comparison of Trend in Carrying Costs 2008-2025 – Stormwater



19. This analysis indicates that the underlying depreciated historical cost based on spend / vested assets from 2008-2025 for stormwater infrastructure has increased from \$140m to \$200m over that period. If the revaluation of these assets had tracked in line with capital goods price indices we would have expected the 2025 revalued carrying cost to now be \$500m in 2025. Instead, the draft revaluation has indicated a revalued carrying costs of \$1,400m.
20. Over time we know that some of the shift in revaluation has come from changes in assumptions and improvement in asset knowledge and data. It may also reflect change in valuer assumptions, cost estimation methods, or a shift in how modern equivalent assets (MEA) are defined and costed. For example, the Āpōpō Infrastructure Asset Valuation & Depreciation Guidelines (2025) emphasise that MEA must reflect the most efficient, cost-effective designs using modern materials. It also cautions against mechanical use of cost indices unless calibrated against actual market inputs.
21. It is this level of analysis inconsistency which raises concern over the risk of material misstatement if the draft revaluation result were incorporated in the 2024/25 Annual Report Financial Statements.
22. It is noted that until the cause of this significant increase is understood and validated, there is not sufficient confidence to support the inclusion of these values in the 2024/25 Annual Report. This would risk a material misstatement under audit standards. Conversely, not incorporating a validated fair value could be considered a material omission.
23. Audit New Zealand was advised during the interim audit process. They noted that if the updated valuation is not incorporated or validated, a qualified audit opinion is likely. The draft audit update was provided to the Strategic Risk and Assurance Committee on 17 June 2025.

Discussion - *Matapaki*

24. Council has already considered the implications. At its 29 May 2025 deliberation meeting, it agreed to proceed with the 2025/26 Annual Plan without adjusting for the draft revaluation, pending further validation. The Annual Report, due for adoption on 26 June 2025, will include a disclosure note outlining the outstanding valuation issue and its implications.
25. Additionally, the valuation of water assets is critical for the planned asset transfer to the new joint Waters Council Controlled Organisation on 1 July 2026. This requires a robust, agreed valuation basis. Hamilton must coordinate with Waikato District Council to agree on consistent methodology and assumption approaches, which may differ from current valuation settings applied in the draft 2025 revaluation.
26. Staff's next steps include:
 - i. A formal meeting with the valuer before the end of June 2025,
 - ii. A request for additional detailed explanations and validation of valuation drivers,
 - iii. An expanded peer review scope, focusing on methodology, cost base, and remaining life assessments, any other core assumption changes
 - iv. Further benchmarking with councils publishing revaluations post-June.

27. Examples of the additional explanations and validation of valuation drivers anticipated to ensure appropriate insights are available to explain the significant shift in draft valuation movements, and /or establish an acceptable level of confidence in the revaluation results include:
- i. Schedule of asset level unit rates component comparisons between draft 2025 and 2022 and / or 2018,
 - ii. Identification of basis to establish unit rate between contract, market benchmark, comparable equivalent, index adjusted,
 - iii. Where asset unit rates are based on contract pricing, identification of actual movement in contract pricing from 2022 and / or 2018 through to 2025, to establish alignment between actual shift in HCC contract costs and CPGI over equivalent periods,
 - iv. Testing draft valuation results against accounting additions for constructed assets 2023-2025, in particular as related to stormwater additions, to ensure the validity between actual cost incurred and revaluation optimised replacement cost,
 - v. Testing draft valuation results against accounting additions for vested assets 2023-2025, in particular to ensure the validity of revenue recognition of vested assets in the surplus or deficit in the Statement of comprehensive income and expenditure,
 - vi. Provide additional commentary on benchmarking comparison of equivalent asset categories across an appropriate pool of similar Councils for major assets codes, including impacts of depth assessments,
 - vii. Provide additional commentary on the appropriateness of methodology applied with respect to assumptions on equivalent contract-based asset unit rates selected for non-critical assets, especially with respect to stormwater infrastructure,
 - viii. Ensure remaining useful life and condition assessments were consistently applied,
 - ix. Review 2025 unit rate components which are primarily based on assumptions, to identify revaluation shifts caused by changes in assumptions, unit rate components not previously included, when compared against 2022 and / or 2018 revaluations.
 - x. Review basis of assumptions to ensure they are not materially conservative, and where appropriate reflect anticipated or potential future component expectations rather than recent incurred costs, for example as associated with potential central government changes in Resource Management (Consenting and Other System Changes); Waters regulation changes; New Zealand Guide to Temporary Traffic Management,
 - xi. Review asset additions between 2022 and / or 2018 and 2025 to identify any proportion of excess future-proofing capacity.
 - xii. Identification of impact of 'found assets' since 2022 and / or 2028 valuations,
 - xiii. Identification of impact of change in "assumed standard asset lengths" versus 2022 and / or 2018 valuations,
 - xiv. Waterfall analysis of shifts in standard infrastructure system length across asset categories from 2022 and / or 2018 through to 2025,
 - xv. Waterfall analysis of shifts in revaluations amounts from 2022 and / or 2018 through to 2025, reflect impact of analysis factors identified above.

28. This process will support either a revised revaluation for 2024/25, though based on anticipated analysis this is unlikely, or more likely a robust base for 2025/26 reporting and asset transfer.
29. The above concerns in valuation result, and indicated approaches, are limited to water reticulation revaluations. Preliminary work associated with other asset categories scheduled for revaluations in the 2024/25, including Buildings, Water Treatment and Wastewater Treatment valuations, are largely consistent with expectations and are intended to be incorporated in 2024/25 financial statements as usual.
30. In addition to the above management is anticipating the following additional work to reduce risk and provide efficiency in future valuations:
 - i. Draft revaluation testing of major asset components within the Transportation infrastructure category to ensure it aligns with expectations,
 - ii. Review of revaluation policy and procedures to ensure they reflect lesson learned improvements from the current year revaluation activity.
 - iii. Ensuring confidence in revaluations results supports delivery against Council's Financial strategy.
31. Should the final revaluations still result in significant changes in depreciation compared with Long Term Plan 2024-2034, especially as related to the Stormwater assets remaining with Council following establishment of the Waters Council Controlled Organisation, this will strengthen managements anticipated briefing to Council to consider the potential benefits of a broader range of key indicators of financial sustainability within Council's Financial Strategy in advance of Consultation associated with Annual Plan 2026-27 and / or Long Term Plan 2027-2037.
32. This potential expansion of key indicators of financial sustainability is expected to increase transparency on key strategic funding decisions not currently reflected in Councils Balance the book measure, based on linear matching of revenue to accounted depreciation.
33. Strategic issues provided for, or made more transparent in a broader range of key indicators may include:
 - i. Funding operational and asset renewal debt repayments if any,
 - ii. Funding growth and level of service improvement debt repayments,
 - iii. Inter-generational funding of renewal of growth and level of service improvements,
 - iv. Inter-generational funding of asset renewals,
 - v. Inter-generational approach to front-loaded interest,
 - vi. Recognition of phasing of community benefits if any of third party capital funding of assets,
 - vii. Recognition of phasing of community benefits if any of third party vested assets,
 - viii. Recognition of use of money benefits / costs associated with timing of funding of renewals and timing of actual renewals occurring,
 - ix. Transparency in funded versus accounted depreciation strategic decisions using asset renewal reserves.

Options

34. No options have been identified for the Finance and Monitoring Committee to consider as the report is for information purposes only.

Financial Considerations - *Whaiwhakaaro Puutea*

35. Management has assessed the key financial considerations associated with this water reticulation revaluation report. These primarily relate to:
- i. Council's Financial Strategy – including the potential impact of increased annual depreciation resulting from changes in Optimised Replacement Cost and assumed useful lives. This may affect:
 - a. The “Balancing the Books” target,
 - b. Council's levels of debt,
 - c. Debt-to-revenue limits and covenants, and
 - d. Long-term funding required for asset renewals.
 - ii. Water Services Entity (CCO) Asset Transfer – scheduled for 1 July 2026, where water supplier and wastewater assets will transfer to the Waters Council controlled organisation. This includes:
 - a. Ensuring consistency in valuation methodology between Hamilton City Council and Waikato District Council,
 - b. Determining each Council's equity share in the new entity at commencement.
 - iii. Insurance Coverage – the valuation outcomes influence the insured value of Council's assets, which is used to set insurance coverage and premiums, and impacts risk exposure in the event of asset loss or damage.

Financial Strategy Context

36. The financial implications of the valuation issue were considered during the Council's deliberations on the 2025/26 Annual Plan (prior to expected adoption on 26 June 2025). If, following further review, the draft valuation results are validated—either as currently stated or at a materially higher level than anticipated in the 2024–2034 Long Term Plan (LTP)—the projected depreciation will increase accordingly.
37. A material increase in depreciation would reduce reported surpluses and negatively impact Council's “Balancing the Books” measure, a key financial strategy indicator. This would challenge Council's current strategy to return to a break-even or surplus position by 2026/27, as outlined in the 2024–2034 LTP.
38. Should the valuation uplift be confirmed, management anticipates the need to review the broader financial strategy as part of the 2026/27 Annual Plan and potentially the 2027–2037 Long Term Plan. This may include adopting a wider set of financial measures that better reflect Council's strategic priorities—particularly around intergenerational funding, asset renewal timing, third-party contributions, debt repayment, and the alignment of funded depreciation with lifecycle-based asset planning.
39. For the current 2025/26 year and over the 10-year period of the 2024–2034 LTP, the revaluation is not expected to materially impact Council's debt levels or debt-to-revenue ratios. This reflects:
- i. The fact that capital expenditure plans for water asset renewals over the next decade are not expected to change as a result of revaluation alone,

- ii. Stormwater asset renewals (which remain with Council) are not expected to significantly occur for another 50–100 years due to long remaining asset lives,
- iii. The revised capital investment programme agreed through the Waters CCO business case (February 2025), which underpins financial planning assumptions.

Waters CCO Asset Transfer Implications

40. The business case for the Waters council controlled organisation assumed an uplift in asset values aligned with capital goods price indices trends. These valuations underpin the allocation of equity between Hamilton City Council and Waikato District Council at go-live in July 2026.
41. Based on the initial business case, a 70:30 equity split between Hamilton and Waikato was anticipated. Although governance and operational decisions are to be made on a 50:50 basis under the Record of Agreement, asset valuation still materially affects equity interests. The agreement specifies that consistent valuation methodologies must be used across both councils, and this could lead to re-alignments in asset values at transfer, regardless of the carrying value reflected in each Council's 2024/25 Annual Report.

Insurance Implications

42. Council's asset revaluations are used to inform replacement values provided to insurers each year. The 2025 revaluation would normally form the basis of updated insured values for the new policy year commencing November 2025. While insurance premiums are not directly proportional to valuation changes (due to pooling, limits, and excess structures), a large increase in declared asset values can influence premium costs and coverage levels.
43. Council participates in a regional insurance pool through Co-Lab. The implications of any change in asset values on Council's insurance programme will be discussed at the Strategic Risk and Assurance Committee meeting on 17 June 2025.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

44. Staff confirm that, other than the issues of inconsistency with the implementation of Councils Accounting Policy on revaluation of property plant and equipment highlighted within the report, all other matters in this report comply with Council's legal and policy requirements

Climate Change Impact Statement

45. Staff have assessed this option against the Climate Change Policy for both emissions and climate change adaptation and have determined no adaptation assessment is required.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

46. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').
47. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below.
48. The approaches set out in this report are consistent with that purpose, particularly as associated with economic wellbeings and the potential implications of providing for a material misstatement in financial position and subsequent depreciation on revalued property plant and equipment.

Risks - *Tuuraru*

49. This report highlights in particular the reputational risks associated with a potential qualified audit based on either the material misstatement or omission in the annual report to 2024/25.
50. Management have assessed the likelihood of this reputational risk as almost certain, however the reputational consequences are considered low. The main control for this risk is democratic transparency in raising the issue with Council in public meetings, and the inclusion of

additional public disclosures on the issue within media releases, the 2025/26 Annual Plan and within the 2024/25 Annual Report.

51. Management have assessed the financial risk associated with the issues raised in the report, and although there may be significant mid-term risk, the likelihood of short-term financial risk are **considered unlikely** and **low**, as the change in accounted revaluation is not expected to impact planned capital expenditure or a shift in projected net debt position in the next 12-24 months.
52. Other risks associated with the issues raised in this report, such as impact on insurance coverage, have been addressed in the Strategic Risk and Assurance Committee Meeting of 17 June 2025.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

53. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the matter(s) in this report has/have a medium level of significance.
54. Depending on the ultimate outcome of the water reticulation asset revaluation, how Council decides to respond to it and how this fits with other decisions in the 2026/27 Annual Plan, the issues may have a high level of significance in the 2026/27 Annual Plan.
55. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the matter(s) in this report has/have a medium level of significance. Given the medium level of significance determined, the engagement level is medium. No engagement is required.

Attachments - *Ngaa taapirihanga*

There are no attachments for this report.