

Welcome to the last edition of Value for the year

It has been an eventful quarter for Beca Valuations, with a raft of new projects across a range of industries from breweries and quarries to wharves and water assets. We have helped companies and local authorities with insurance valuations, financial reporting (including acquisition values) and market value assessments.

As part of the wider Beca consultancy group we work alongside engineers, cost managers, and project managers who are completing capital works and upgrades. If you have a valuation or asset assessment task, regardless of size or complexity, call us so we can share our experiences and capabilities with you to help meet your requirements.



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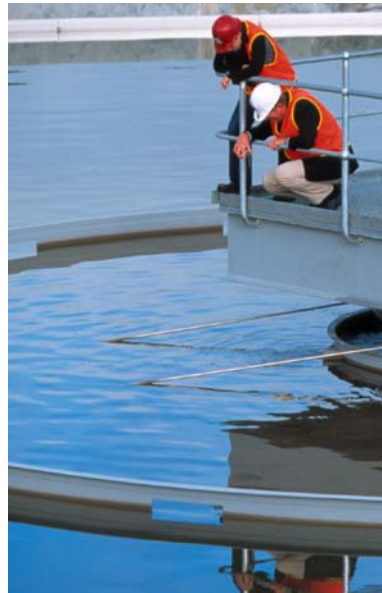
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Valuations for three water infrastructure assets



As public benefit entities, local government authorities use their equity and assets to provide services for community social benefit rather than for profit. This means the 'three waters' infrastructure assets in their water, stormwater and wastewater networks are specialised and not available in the market place for trade. However, for financial reporting, 'fair value' for such assets, as defined by International Accounting Standards, needs to be determined.

For infrastructure assets, 'fair value' is assessed using the depreciated replacement cost approach, which calculates the degraded value of an asset after accounting for its loss of service potential over its useful base or economic life. The Local Government Act 2002 requires local government authorities to report on asset values and the service potential loss depreciation, with sufficient scope for them to elect to fund all or part of this depreciation where financially prudent.

To determine the depreciation of three water assets and their depreciated replacement cost, the current replacement cost for each asset component must be determined, based on its modern equivalent. Using details of condition and depreciation methodologies, the current and projected depreciated replacement cost can be determined and capital or renewal funding can be planned to restore asset service potential.

Valuation methods for three waters today include using an Asset Management Maintenance Systems (AMMS) application or fixed asset register spreadsheets as detailed below.

Asset Management Maintenance Systems

Over the years many propriety AMMS systems have been available for local authorities and private operators. These generally consist of a database with an asset register with the ability to track customer requests, work scheduling, maintenance costs, capital works and equipment performance. Some also have the capability to include advanced modules for valuations, predictive costing and deterioration modeling.

In more recent times AMMS systems have been developed to integrate with generic GIS and financial systems and many of the larger local authorities are using AMMS this way effectively. However many medium-sized local authorities have found AMMS implementation complicated and have implemented GIS based systems (some have asset valuation capabilities) that are linked to an Access or SQL database.

For general information about Beca Valuations Ltd, please contact **09 300 9100**

Fixed Asset Register Spreadsheets

Traditionally valuations for three water assets have been done manually, applying valuation formulae and other factors such as performance, condition and optimisation to line, point and plant assets using spreadsheets. Spreadsheets can contain all the asset data and be used as simplistic asset registers, and this mechanism is still used by smaller local authorities. However, using spreadsheets carries the risk of data loss or corruption.

In all cases the valuation outputs are only reliable as the data stored about the assets. Local authorities are now producing Improvement Plans for their Asset Management Plans to identify knowledge gaps and set budgets and timeframes to develop processes that improve their knowledge of their assets over time.

Beca's valuation teams are experienced in assisting local government authorities to prepare three waters valuations by spreadsheet or conduct a peer review of their AMMS account asset valuations; as well as providing reports that satisfy financial audits.

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Insurance Valuation Issues from the Canterbury Earthquakes

Due to the Canterbury Earthquakes and the subsequent large scale rebuild effort which will be required, the price of construction materials and labour is likely to increase as demand increases across the marketplace.

Beca is making allowance in its insurance valuations reflecting these potential price increases over the estimated lead period required to demolish, plan and rebuild the assets.

These projections are inherently uncertain because they predict future circumstances, which cannot be assured. The ongoing Canterbury aftershocks have resulted in a delay in large scale rebuild projects getting underway, therefore the inflationary pressure has not yet been realised. Beca is constantly monitoring construction cost and inflation information, and adjusting our projections accordingly. Already it is being suggested that construction costs in Auckland are likely to increase by lower levels than originally

forecasted. This is due partially to low levels of new building consents and large scale projects.

Other factors that may need to be considered for future insurance renewals are:

- Demolition costs – the earthquakes have highlighted that in a time of widespread disaster demolition costs may increase, as the best method of demolishing a building is not necessarily the best option financially.
- Increased requirements from building codes – where historic building costs have been used as a basis for current replacement costs; these may need to be revised to allow for any additional strengthening works required.
- Accurate identification of building ages and construction materials – insurers are increasingly looking to identify those buildings (or sections of buildings) that, due to their age or materials may present increased risk.

It is advisable to discuss a further allowance to account for these and other additional increases in costs over the insurance period with your insurer. To discuss any aspect of your insurance valuation requirements please contact the Beca Valuations team.

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Valuating diverse assets in the electrical sector

In 1994 Beca Valuations completed a valuation of the Philippines National Electrical Supply and Distribution system. This set the scene for a wide variety of valuations for electrical and related assets in the Asia Pacific region over the ensuing years.

Our experience in valuing power generation assets ranges from hydro to wind, geothermal, gas fired or combined cycle installations. Every plant has its own mixture of assets, whether looking at the civil works associated with a hydro scheme or the cooling circuits for a thermal plant. No two schemes are the same and it is this diversity that makes our valuation work on the assets a challenging and rewarding experience.

Of course, generation is only the start, as transmission and distribution also play an important role in the wider electricity

market. While distribution businesses are reaching a certain maturity with regards to valuations due to regulation, there are still opportunities for us to assist for insurance purposes, due diligence or with peer review.



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Do we have your correct details?
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