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Achieving the Asset Management Value Proposition

Using real asset data for a real valuation

15-16 November 2010





The Key Team

A Team of people working together:

- ▶ **Franklin District Council – Andrew Morgan, Finance**
- ▶ **GHD Consultants – Rex Harland, David Jeffrey**
- ▶ **Darroch Valuations – Kerry Stewart**



Introduction

Community Assets Portfolio

- ▶ Parks Assets
- ▶ Cemeteries
- ▶ Playgrounds

- ▶ Public Toilets
- ▶ Swimming Pools
- ▶ Pensioner Housing
- ▶ Community Centers
- ▶ Corporate Property

- ▶ Land





Background 1

- ▶ **Past valuations based on Historic Cost**
- ▶ **Some assets were being inadequately funded (depreciation)**
- ▶ **Financial fixed asset register did not reflect reality**
- ▶ **Very good asset data**
- ▶ **A desire to maximise the return on investment in the high cost of asset data**
- ▶ **A desire to utilise asset data to drive the Financials (fixed asset register, valuation)**



Background 2

Valuation for 30 June 2009, but ...

- ▶ Auckland Transition – future amalgamation, but into what?
- ▶ In any case, the “need” to get asset records as accurate as possible, ready for any handover
- ▶ A good opportunity to give the valuation process a test run – time to fix any issues up



Unitary Authority?

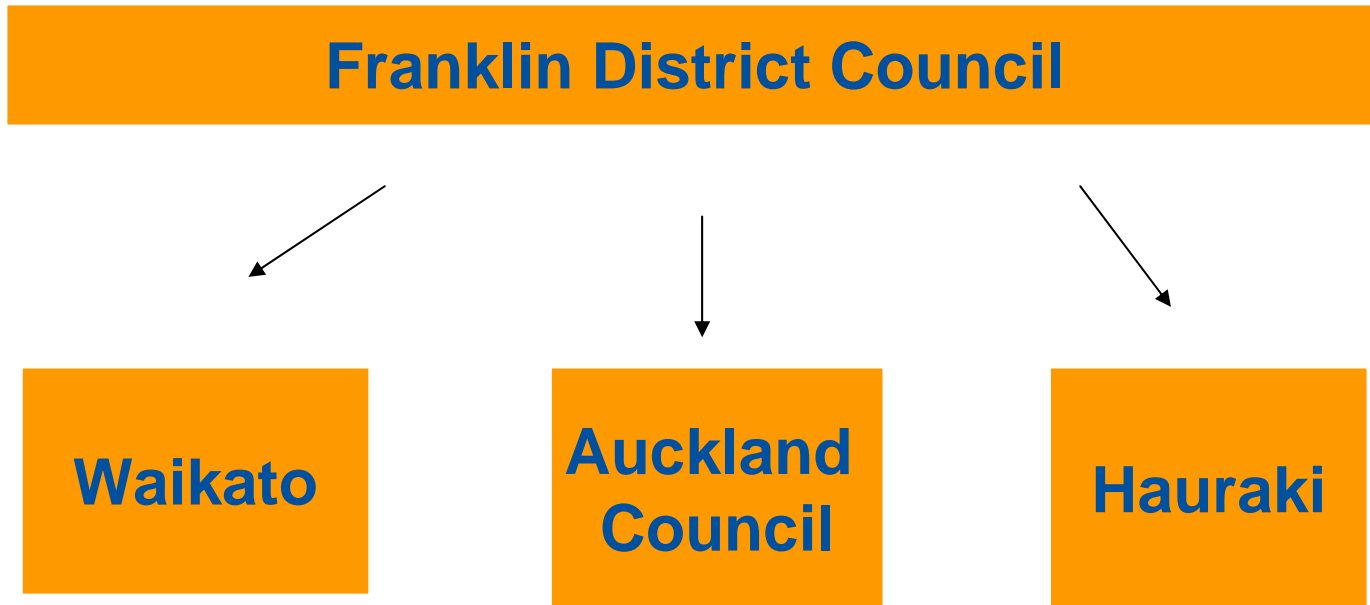
Auckland Council ?

Waikato ?



Background 3

- ▶ Just as well we got it right – It is a 3 way split !!!





Desired Outcomes

- ▶ IFRS Compliance (**Integrity**)
- ▶ Financial Information based on real asset data (**Integration**)
- ▶ Confirmation the asset data is accurate and reflects reality (**Intelligence**)
- ▶ Capture and document the process (**Innovation**)
- ▶ Above all else – a “Clean Audit”



Barriers are Opportunities

- ▶ Financial Requirements - The Accountants professional requirements

IFRS detail only please, but make it accurate!

- ▶ Valuation Requirements - The Valuers professional requirements

Establishing 'Fair Value'

- ▶ Asset Management Requirements – AM Professional requirements

It's all about detail – components!



Meeting Financial Requirements

- ▶ **The Accountants accepted the asset data was more accurate**
- ▶ **Few people resources - so the solution had to be easy to match asset data rolled up into IFRS asset classes (land and improvements)**
- ▶ **Depreciation calculated at component level in the AMS, and provided to Finance by the Asset Manager**



Meeting Registered Valuation Requirements

- ▶ Land and non-specialised assets - need fair value (market) established
- ▶ Specialised assets - component based DRC is acceptable

But there is this expensive AM data – is it of any use?

- ▶ Yes – adds to the information the Registered Valuer should consider
- ▶ Yes – allows the asset manager to validate the registered valuation
- ▶ Yes – integrate financial and asset information into one database



Meeting Asset Management Requirements

- ▶ Data collected for asset planning (asset name, useful life, remaining life, replacement costs)
- ▶ Data held at detailed 'component' level
- ▶ Data hierarchy – Component Group approach, standardisation of asset data e.g. adopted BCG structure
- ▶ Perform lifecycle analysis – renewal programme, expenditure analysis

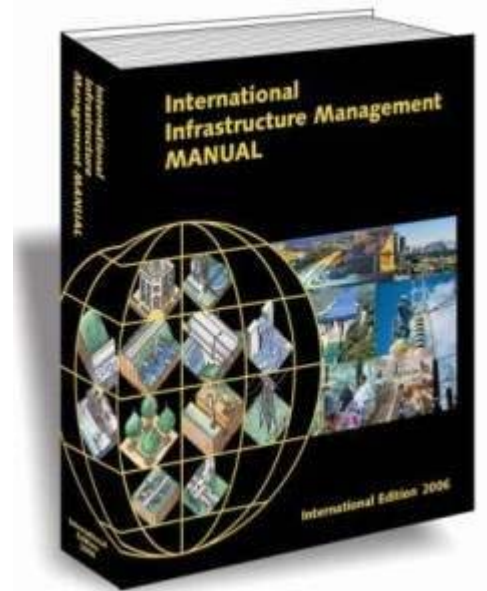
Suitable level of detail for valuation purposes (DRC) – specialised assets!



Valuation Framework Development

- ▶ Reference: NAMS Asset Valuation and Depreciation Guidelines; NAMS Property Manual

- ▶ **Communicate and seek advice early**
 - ▶ Finance
 - ▶ Auditors (if possible)
 - ▶ Valuers
 - ▶ Management/Councillors
 - ▶ Professional advice





Building Asset Data Confidence

In the field validation

Condition Survey's (surveyors, staff, contractors)

- ▶ Pensioner Housing
- ▶ Community Centres
- ▶ Aquatic Centres
- ▶ Public Toilets
- ▶ Office Buildings
- ▶ Cemeteries & Reserves & Playgrounds

Specialist Survey

- ▶ Pool Plant



Building Asset Data Confidence

Desktop Data Validation:

Perfection vs. Consistency

Time vs. Effort

Why do we do it? – working smarter

- ▶ **At the end of the day its about developing a future replacement fund often years out so simplifying your data pays dividends**
- ▶ **If you get this part right everything else follows on with few issues and high confidence**



Building Asset Data Confidence

Unit Rate Review & Update 2007 & 2009:

- ▶ **NAMS component list (BCG's)**
- ▶ **Rawlinson's based**
- ▶ **Specialised components – sought replacement costs from contractors**
- ▶ **2 year cycle seems about right**



Peer Review

Franklin Community assets:

- ▶ **Good data - but how good is it?**
- ▶ **How can the data be improved from this process?**
- ▶ **How can I track my data improvement over time?**



Peer Review

Provides assurance over the quality of the information underlying the valuation

- ▶ **Pulls the desktop data validation work into a peer review report**
- ▶ **Essential where the Asset Manager (internal) is effectively carrying out the valuation**
- ▶ **Allow enough time to address issues raised in the first draft**



Peer Review

Desktop Data Validation:

Developed a Template that measures data consistency by line

Identifies Consistent use of :

- ▶ Unit rates**
- ▶ Measurement methodology**
- ▶ Consistent application of asset lives**
- ▶ Assessed condition to remaining life is within the expected depreciation curve parameters (decay curve Vs survey result)**
- ▶ Data source, who and when downloaded**



Building Asset Data Confidence

	Accuracy	Accuracy Score
1 Accurate	95% -100%	
2 Minor inaccuracies	90% - 95%	92%
3 50% estimated	80% - 90%	
4 Significant data estimated	40% - 60%	
5 All data estimated	01% - 40%	



Building Asset Data Confidence

Overall Comments

The data set is very consistent and provides high confidence to the reviewer with the exception of the comments data appears that it has become mis aligned to the components. An additional concern is that this does not relate to the columns created by, modified and modified by.
The construction year anomalies do not impact on analysis and is therefore not significant, but has potential unless you are aware of how the system pulls this date into the component level reporting



Pensioner Housing Example

- ▶ Registered Valuers DRC estimate Vs Component Based DRC - - Were very close





Pensioner Housing Example

Table Pensioner Housing – Very close

	DRC	Fair Value	Variance
Source	SPM	Darroch	
Improvements	\$6,363,228	\$6,406,800	1%
Depreciation	\$230,192	\$223,582	6%



Public Toilets Example

- ▶ Toilets - - - **Not quite so close**





Public Toilets Example

Table & Photo of Toilets – Validation Process

	Replacement Value	Replacement Value	Variance
Source	SPM	Darroch	
Improvements	\$3,100,000	\$4,800,000	55%
Depreciation	\$103,000	\$150,000	46%

- Issue the resultant depreciation calculation would have increased the total operating budget

No Rate Rises!!

- Quote: Where am I going to find that?



Public Toilets Example

Revised Valuation

	Replacement Value	Replacement Value	Variance
Source	SPM	Darroch	
Improvements	\$3,100,000	\$3,900,000	26%
Depreciation	\$103,000	\$119,000	16%

**Good asset data provides the confidence to know -
you have got the right answers!!**



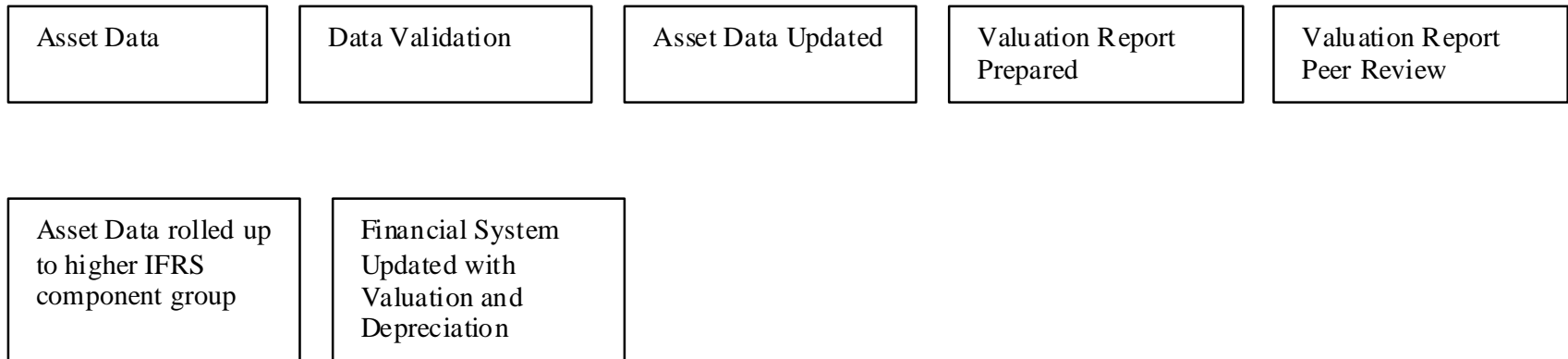
A Valuers Comment

- It is important that both the nature of the asset and the valuation approach are clearly understood by:
 - asset managers
 - finance staff
 - valuers
 - Auditors
- The level of detail captured should be driven by the entity's asset management and accounting requirements.
- The availability of “good” quality asset data at a component level is of considerable benefit to the valuation process.
- Should the valuer's estimate of useful life and the AMP differ then the valuer should complete the valuation based on his judgement but the extent of conflict should be noted.



Building Asset Data Confidence

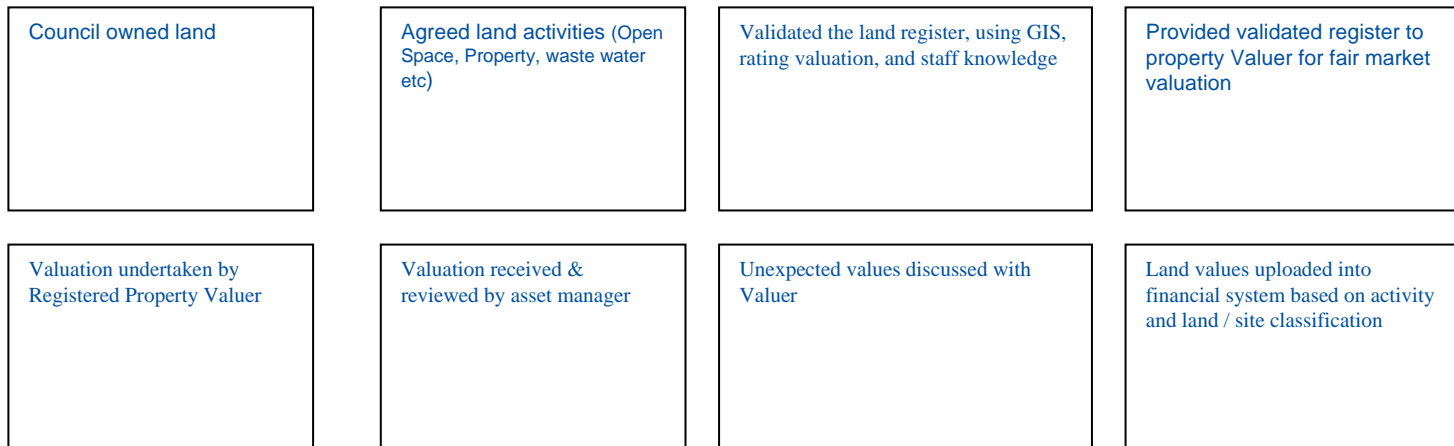
Asset Component Valuation Process (Specialised assets)





Building Asset Data Confidence

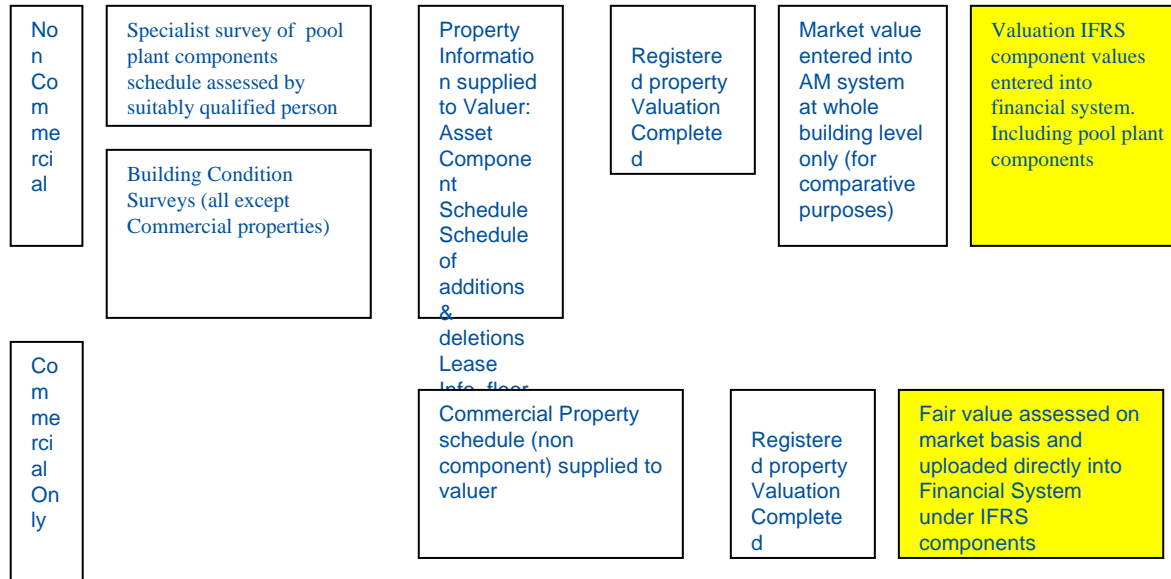
Land Valuation





Building Asset Data Confidence

Fair Value (non specialised assets)





Benefits and Opportunities

- ▶ Consistent and repeatable process (from an Audit perspective)
- ▶ Maximise benefit of existing data
- ▶ Demonstrates good AM practices
- ▶ High confidence in data leads to 'better' decision-making
- ▶ Improvement of asset data as measured by Desktop Validation – track improvement over time
- ▶ Benchmarking opportunities – other TLA's, standardise process
- ▶ Intimate knowledge of asset data and its impact (financial and system)

We (should) know our assets better than anyone else!