

Joint Agency Aide Mémoire

Health NZ Asset Revaluation 2024/25 and Impacts on Capital Charge and Depreciation Impact for 2025/26

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To:	Hon Simeon Brown, Minister of Health		
From:	Bevan McKenzie, Chief Financial Officer, Health New Zealand Fergus Welsh, Chief Financial Officer, Ministry of Health		
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Contact for further discussion (if required)			
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Purpose

1. This paper provides information on the valuation process and the draft outcome of the revaluations completed on Health New Zealand | Te Whatu Ora (Health NZ) land and buildings (including infrastructure) assets. You requested advice, specifically discussing 2024/25 financial reporting; flow on impacts on Health NZ Crown equity, capital charge, and depreciation versus budget in 2025/26; and longer-term considerations for funding into the sector.

Executive Summary

2. Health NZ has revalued its land and building assets for 2024/25 financial reporting purposes in line with the requirements of accounting standard (PBE IPSAS 17). Six districts completed full valuations and 14 districts completed comprehensive desktop assessments.
3. The impact of the 30 June 2025 valuation shows an increase of \$1.6 billion (Canterbury accounts for \$983 million of this increase), which increases the value of Health NZ assets and increases the Crown equity by the same amount. This increases capital charge by \$81 million and has a \$78.5 million unbudgeted impact on depreciation for 2025/26 (Canterbury districts accounts for \$61 million of this depreciation increase).
4. [Redacted]
5. Health NZ has considered seeking a second opinion of the Canterbury valuation, however in discussion with Audit NZ this is seen as unlikely to materially impact the outcome and may also prove challenging to achieve within timeframes for sign-off of the 2024/25 accounts.
6. The \$81 million impact on capital charge is expected to be fully offset by funding to be requested by the Ministry of Health during the 2026 March Baseline updates, hence this is a "neutral" outcome to the Crown as the charge is paid back to the Crown.

7. [Redacted]

8. [Redacted]

9. [Redacted]

10. Health HZ will continue to track its monthly spend and forecasts year end position, along with assessing options to live within its expenditure budget and will report progress against budget to you on a monthly basis.
11. Increased depreciation from large new assets coming on stream, and revaluation impacts from long-term construction inflation, is likely to be a feature of Health NZ's financial environment in coming years and will require consideration as part of long-term planning.

Background

12. Health NZ is required under accounting standards (PBE IPSAS 17) to undertake regular assessments to ensure that the carrying amount of land and buildings does not differ materially from their fair values. Health NZ's accounting policy is for asset revaluations to be completed at least every three years, if not sooner should the annual fair value assessment show a material difference to the carrying values. Fair value is defined as optimised depreciated replacement cost.
13. Prior to Health NZ, District Health Boards completed asset revaluations on different cycles, with each district engaging their own valuer. Each valuer applied building cost estimates and indices based on the best information available to them at the time - which in some cases would be quite limited if there were no relevant building projects undertaken in their district, or the valuers were not able to access health sector specific cost inflation indices.
14. In 2022/23, Health NZ instructed all districts to complete desktop assessments of land and buildings, some valuers completed full revaluations while others completed desktop valuations (which excluded additions). The outcome was an increase in value of \$1 billion which was included in the audited financial statements with the following impacts:
 - a) Increase in Crown equity of \$1 billion
 - b) Increase in capital charge of \$50 million, with funding to fully offset provided by the Ministry of Health
 - c) Increase in depreciation of \$67.7 million, which was absorbed in the financial results for 2023/24 with no compensating funding and flowed into the \$722 million loss reported against a budgeted breakeven position.
15. Following the financial audit of the 2022/23 accounts, Audit NZ recommended the need for Health NZ to comply with Accounting Standard PBE IPSAS 17 as a single entity by ensuring that valuations across all its components/districts are completed in a consistent manner respectively across each of the Health NZ land and buildings asset portfolios.
16. Health NZ has progressively moved towards a consistent valuation process in terms of methodology, type of valuation/assessment completed, the cycle or timing of valuations, optimisation adjustments, modern equivalent adjustments, impairment assessments and the application of health sector specific construction costs and inflation assumptions.
17. In 2023, Health NZ implemented a more uniform approach for insurance replacement costs to ensure the same methodology was applied regarding replacement cost values.
 - a) Prior to amalgamation, insurance valuations were managed at district level and consequently, various approaches were adopted to these assessments resulting in the potential risk that the Health NZ portfolio was underinsured.

- b) Concerns addressed included the potential for an incomplete scope in previous insurance valuations (e.g. omission of infrastructure), outdated construction costs, and the possible omission of current building Importance Level requirements – particularly for facilities located in the five most seismically prone districts - Canterbury, Capital & Coast, Hutt Valley, South Canterbury and Wairarapa.
18. Quantity Surveyor Rider Levitt Bucknall (RLB) was engaged to provide building cost assessments for the five seismically prone districts. This was informed by RLB Health Sector cost escalation indices across three regions (North, Mid, South) by category (high clinical use, low clinical use, admin, etc) from 2020 onwards in order that the valuers could bring their replacement costs up to date.
19. The RLB replacement cost estimates included current construction costs, connections into site-wide infrastructure, professional fees, internal client costs, consents, insurance and infrastructure. This information – along with regional and building-type indices – was made available to all valuers for use in both insurance and financial valuations. In 2023/24, Health NZ completed a fair value assessment with input from the lead valuer CBRE to determine if there was a material difference between fair value and carrying amounts for assets. Assessments were based on the 2022/23 desktop outputs (plus known additions since last full valuation). The outcome was a variance between the fair value and the carrying amount of \$357 million, which was considered below the materiality level and was not included in the 2023/24 accounts. Health NZ did, however, factor this uplift into its estimate for depreciation for its 2025/26 budget.

Discussion

2024/25 Financial Reporting Valuation Process – Land and Improvements

20. For 2024/25, Health NZ agreed the methodology for land and building valuations with Audit NZ. This involved: full valuations for the six largest districts (Canterbury, Auckland, Waitemata, Counties Manukau, Waikato, Capital & Coast); some minor indexing for remote low value sites and small value assets (porta-coms, dental pads, etc was undertaken); and desktop assessments with no site visits for the remaining fourteen districts.
21. For consistency, national instructions to all valuers were developed with input from the Lead Valuer CBRE and issued to all valuers. RLB costing information was also provided to all.
22. In all cases, additions, disposals, significant changes, impairments, modern equivalent replacement costs, remaining useful lives, building fair value componentisations have been updated on a building-by-building basis across all Health NZ districts. All Health NZ land has been valued or assessed based on most recent relevant information available.
23. Desktop assessments for 2024/25 included the assessment of all disposals, additions or changes and updating of all impairments since the valuers' last full valuation. The desktop assessments were also componentised on a building-by-building basis to enable accounting for these in Health NZ asset registers.
24. Valuers have componentised all buildings individually (Structure, Service, Fitout) and infrastructure to enable recording of valuation changes in Health NZ asset registers.

25. All valuation reports were reviewed by the Lead Valuer CBRE and Health NZ finance prior to being finalised. All valuations, desktop assessment reports and the componentisation schedules received from valuers were also provided to Audit NZ for review.
26. Regarding scale of insurance and financial reporting valuation work, there were 1,643 buildings in the last insurance exercise completed in December 2024, with a higher number of buildings included in this current financial reporting exercise completed in June 2025. The Health NZ portfolio is very large, and specialist input is required and Health NZ is reliant on:
 - a) Expert advice from a lead valuer ([REDACTED] CBRE) and lead QS [REDACTED] [REDACTED] RLB) both of whom, together with their wider organisation staff, have extensive experience in the health sector and have worked alongside the DHBs, Ministry of Health and Health NZ for many years now.
 - b) Individual valuers completing valuations for districts.

2024/25 Asset Valuation Outcome

27. Land values have generally remained static over the past few years and the combined valuations and desktops for 2024/25 show a small increase in land of \$37 million.
28. The value of buildings (including infrastructure) in the latest valuations has increased by \$1.57 billion compared to the net book value at 30 June 2025. Some of this increase was expected, given uplifts in construction costs since the completion of the prior valuations. Also, the latest valuations revealed that two of Health NZ's 20 districts (Canterbury and Waikato) had not previously included infrastructure.
29. Of the total \$1.57 billion increase across Health NZ, almost \$1 billion relates to Canterbury:
 - Canterbury Net book value at 30 June 2025 = \$1.257 billion
 - Canterbury Latest valuation = \$2.241 billion
 - Hence an uplift of \$983 million, or +78%.
30. As Health NZ has reviewed this \$983 million increase, the two key drivers have been identified as:
 - c.\$110 million relates to revaluation of infrastructure for the first time in Canterbury (i.e. a gap in the prior valuation); and,
 - c.\$710 million related to uplifts in estimated replacement costs (using latest RLB cost index) compared to the 30 June 2025 book value.
31. The key driver of the Canterbury valuation change is therefore the updated replacement costs, almost all of which relates to a single site: Waipapa.
 - This building was contracted in 2015 under a fixed price contract.
 - When completed in 2020, the book value of Waipapa was \$535 million, based on replacement costs of c.\$8,600 per square metre.
 - In 2022, the valuation of Waipapa was \$572 million, based on replacement costs of c.\$9,200 per square metre. This valuation implies that Waipapa could have been rebuilt in 2022 for more or less the same cost as what it was contracted for in 2015, which seems questionable.

- The latest valuation of Waipapa is \$1,204 million, based on replacement construction costs of c.\$19,400 per square metre.
32. Work is underway with the lead CBRE valuer to validate whether the valuation changes are fully justified, especially as relates to replacement costs for Waipapa. However, we note that replacement construction costs across the valuations completed in 2025 are in a range of c.\$15,000 to c.\$18,000 per square metre, hence the Waipapa costs are not materially out of line (especially considering the specific nature of the site).

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Accounting treatment

36. The accounted for position in CFIS financials is the increase of \$1.6 billion (\$37 million uplift for land and \$1.57 billion for buildings).

Financial impacts

37. The 30 June 2025 valuation completed has resulted in the following impacts:
- a) Increase in asset values and Crown Equity (revaluation gain) of \$1.6 billion
 - b) Increase in capital charge of \$81 million per year, noting this is not currently budgeted. Under current policy, funding is provided to fully offset the revaluation impact on capital charge. Funding is requested for by the Ministry of Health in the March Baseline Updates.
 - c) Increase in unbudgeted depreciation expense as a result of the revaluation of \$78.5 million, with \$61 million of this relating to Canterbury district and subject to completion of the review underway.
 - d) No capital expenditure allocation has been made nor intended for the additional depreciation, as such the expense is a non-cash impact at this stage (for both Health NZ and the Crown).

The following two pages have been withheld

Consultation

44. The paper has been developed jointly by officials at Health NZ and the Ministry of Health. Input has also been received from officials at Treasury.

Next steps

45. Health NZ will continue to track its monthly spend and forecasts year end position, along with assessing options to live within its expenditure budget and will report progress against budget to you on a monthly basis.
46. Health NZ will review timing of its asset revaluation process to allow this to be better integrated into its annual planning cycle.
47. The Ministry and Treasury, in consultation with Health NZ, will consider approaches to long-term funding of depreciation impacts.