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POLICY

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Policy title: **REVALUATION OF NON-CURRENT ASSETS**

Directorate: ORGANISATIONAL SERVICES

Branch: FINANCE

Policy objective: To develop a system of accounting for revaluations that will comply with the requirements of the *Local Government Act 2009*, Local Government Regulation 2012, and Australian Accounting Standards.

Policy scope:

This policy statement, in relation to accounting for asset revaluations, will ensure that Council's assets are measured at cost or fair value and that processes are in place to ensure that carrying amounts of assets accounted for under a fair value model approximate fair value at financial reporting date.

Definitions:

TERM	DEFINITION
Asset	An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
Class of assets	Means a category of assets with similar properties, nature or function in operations which, for the purpose of accounting, is reported as a single item without further dissection.
Carrying amount	Means the Current Cost less accumulated depreciation. This is the written down value of the asset.
Current cost	Means the cost currently recorded as the cost of the asset.
Depreciated replacement cost	Means the current replacement cost of an asset less the accumulated depreciation and the accumulated impairment of the asset.
Fair value	Means the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.
Historic cost	Means the original cost of purchasing the asset, or the original fair value of an asset that was received by the Council at no cost or a reduced cost.
Major plant and equipment	Means plant and equipment with a net carrying value in excess of $1m.
Non current asset	Means an asset where the future economic benefit will not expire in the current accounting period.
Revaluation	Means the process of valuing the assets at current market value for an asset of similar type and age.

Policy statement:

The following procedure is to be undertaken for this policy:

1. Standards
   - (a) Statement of Accounting Practices SAP 1 - Current Cost Accounting
   - (b) AASB CF1 Framework for the preparation and presentation of financial statements
   - (c) Australian Accounting Standards Board AASB116 Property, Plant and Equipment
   - (d) Local Government Regulation 2012.

2. Preamble

   AASB CF1 - Framework for the preparation and presentation of financial statements requires that general purpose financial reports provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

   The framework also states that the relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report.

   The underlying presumption for valuing assets is that historic costs and the written down value based on these costs are generally not an accurate representation of the future economic value held in existing assets. Revalued assets in the general purpose financial reports generally provide end users with a more reliable base on which to evaluate the financial position of the Council. However, where the original costs of assets do not materially differ from fair value or where the carrying value of a class of assets is not material in the context of total assets, it is possible to measure a class of assets at original cost.

3. Methodology
   - (a) The Local Government Regulation 2012 s102 (2) states:

     The general purpose financial statement must be prepared in accordance with the following documents (each a relevant accounting document) published by the Australian Accounting Standards Board—
     - (i) Australian Accounting Standards
     - (ii) statements of accounting concepts
     - (iii) interpretations
     - (iv) framework for the preparation and presentation of financial statements
   - (b) Accounting standard AASB116, Property, Plant and Equipment (PP&E), requires that items of property, plant and equipment that qualify as assets are initially measured at cost and subsequently measured at either cost or valuation. The method chosen shall be applied consistently to an entire class of assets.
   - (c) The valuation method chosen for measuring PP&E should be the method that provides the most relevant information to users of Council's financial reports.
   - (d) Council's policy is that Council assets will only be measured at valuation where valuation provides more relevant information to users of Council's financial statements, valuation can be reliably determined and the process of determining valuation is cost effective. Specifically:
     - (i) Where the carrying value of a class of assets is not material then these assets will be measured at cost.

(ii) Where the carrying value of a class of assets is material then these assets will be measured at valuation.

(e) "Fair value" is defined in AASB116, Property, Plant and Equipment, as "the amount for which an *asset* could be exchanged, or a *liability* settled, between knowledgeable, willing parties in an arm's length transaction". A number of methodologies are available to determine fair value:

(i) Where an active and liquid market exists for an asset or other market-based evidence is available, fair value is determined at market price less costs to sell by appraisal normally undertaken by professionally qualified valuers.

(ii) Where there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, fair value is measured at depreciated replacement cost.

(f) AASB116 Property, Plant and Equipment further provides that the cost basis or revaluation basis may be used for the valuation of assets, provided the basis chosen is applied to a whole class of assets.

(g) Australian Accounting Standards do not require that the Council must necessarily use an external valuer in a revaluation of assets, as long as the Council chooses a competent person to undertake the revaluation. As the Council's engineers have the most experience with the type of assets that make up Infrastructure Assets, and knowledge of the costing and condition, revaluation of these assets will be undertaken by the relevant engineers, with due consideration to accurate documentation of the assumptions and rationale in the revaluation process.

4. <u>Accounting issues</u>

(a) Infrastructure and facilities assets

Infrastructure and facilities assets are rarely disposed by Council and there is little or no information available to determine market value. Infrastructure and facilities assets are valued at fair value using a valuation technique that is appropriate to the nature of the assets and Council's intentions. Individual valuation techniques are described under the asset classes listed below.

(b) Roads and drainage assets

The nature and size of the roads and drainage assets as a component of the statement of financial position is such that an over or understatement of these assets would represent a material misstatement. All roads and drainage assets are to be subject to a full revaluation at least every three years. However, in order to accurately represent the value of these assets a review of the standard costs for roads and drainage assets is to be undertaken annually and, where there is a material change in price, the assets are to be revalued. Roads and drainage infrastructure assets are valued at fair value using a depreciated replacement cost valuation technique.

(c) Water and sewerage assets

The nature and size of the water and sewerage assets as a component of the statement of financial position is such that an over or understatement of these assets would represent a material misstatement. All water and sewerage assets are to be subject to a full revaluation at least every three years. However, in order to accurately represent the value of these assets a review of the values of water and sewerage assets is to be undertaken annually and, where there is a material change in price value, the assets are to be revalued. Council's water business is considered a cash generating business unit and as a result water and sewerage infrastructure and facilities assets are valued at fair value using a discounted cash flow valuation technique.

(d) Plant and equipment

Plant and equipment, other than major plant and equipment, assets are to be measured on the cost basis per paragraph 30 of AASB116. "Major Plant and Equipment" will constitute a separate class of property, plant and equipment measured at fair value.

(e) Land and building assets

(i) Land and building assets will be subject to a full revaluation every three (3) to five (5) years and a desktop review annually. The nature of these assets is such that where they are over or understated in the Council's financial reports, they would not represent a material misstatement. These assets will be revalued by an external valuer.

(ii) Where an active and liquid market exists for land and buildings assets, these assets are valued at market value less costs to sell.

(iii) Where an active and liquid market does not exist for land and buildings assets, due to their specialist nature or because assets will not be replaced, these assets are valued at depreciated replacement cost.

(f) Accounting for revaluations

The method of accounting for non-current assets is outlined in Statement of Accounting Practices SAP 1 (“SAP 1”). This method promotes the use of current costs accounting for the recognition of non-current assets in the financial statements.

(g) Revaluation issues

(i) Where a non-current asset is revalued, all assets within that class of assets will be revalued.

(ii) Where an asset's carrying value is greater than its recoverable amount, the Council will revalue that asset downwards using the methods outlined in SAP 1.

(iii) The revaluation of a non-current asset cannot result in the carrying value of the asset being greater than its recoverable amount.

(h) Information required from a valuer

(i) A revaluation has a greater impact on the Council than just valuing assets at current written down replacement cost; it also has an impact on the remaining lives of the assets, and thus the rate of depreciation applicable to each asset.

(ii) The data for each asset that a valuer is required to provide to the Council is:

a. current cost

b. where an asset is to be retained, the gross replacement value and accumulated depreciation

c. where an asset is not to be replaced, net realisable value (market value less costs to sell)

d. residual value

e. insurance value (replacement cost)

f. estimated remaining life.

(iii) The valuer will provide valuation data for each major asset component.

(i) Accounting for revaluation increments and decrements:

(i) When an asset is re-valued.

(ii) If the carrying amount of a class of assets is increased as a result of a revaluation, the net revaluation increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the net revaluation increase shall be recognised in profit or loss to the extent that it reverses a net revaluation decrease of the same class of assets previously.

(iii) If the carrying amount of a class of assets decreased as a result of a revaluation, the net revaluation decrease shall be recognised in profit or loss. However, the net revaluation decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in any revaluation surplus in respect of that same class of asset. The net revaluation decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

(j) Accounting for the disposal of revalued assets

(i) Where non-current assets are sold or scrapped, the difference between the proceeds of sale or scrapping and the net carrying amount of the asset, as restated at the date of sale or scrapping, should be brought to account in the Income Statement and not as an adjustment to the asset revaluation reserve.

5. Timing of asset revaluation processes

(a) Revaluation of Council assets is to be timed to ensure that the resultant carrying value of the asset sufficiently approximates fair value at the financial reporting date in compliance with Australian accounting standards.

(b) The effective revaluation date and update of asset databases is to remain at 30 June to coincide with financial year-end processes.

Related policies/legislation/other documents:

DOC ID	DOCUMENT TYPE	DOCUMENT NAME
-	Legislation	Local Government Regulation 2012
-	Standards	Australian Accounting Standards