

# POLICY



**Date adopted:** 30/05/2017  
**File no:** 416945-1  
**Minute number:** 148/2017

**Policy title:** ASSET MANAGEMENT - INVESTMENT PROPERTY

**Directorate:** ORGANISATIONAL SERVICES

**Branch:** FINANCE

**Policy objective:** To provide a management framework to prescribe the accounting treatment for *investment property* and related disclosure requirements in accordance with the Australian Accounting Standard AASB140.

**Policy scope:**

This policy formalises Council's approach to the definition, identification, review, measurement, recognition and disclosure of investment property.

Investment property is to be recognised as a separate category of asset from "owner- occupied property" and subject to annual review and valuation at fair value.

References

1. the *Local Government Act 2009*
2. the Local Government Regulation 2012
3. Australian Accounting Standard AASB140 Investment Property.

**Definitions:**

TERM	DEFINITION
Carrying amount	Means the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.
Fair value	Means the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. There is no deduction for transaction costs that may occur on sale or other disposal.
Investment property	Means property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (i) Use in the production or supply of goods or services or for administrative purposes; or (ii) Sale in the ordinary course of business.
Owner occupied property	Means property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

**Policy statement:**

The following procedure is to be undertaken for this policy:

1. Preamble

- (a) AASB140 is the Australian standard for investment property.
- (b) AASB140 requires the separate recognition and disclosure of investment property in the annual financial statements of reporting entities. As the classification of property may change based on intended and actual use, AASB140 requires an annual review of the status of investment property.

2. Identification of investment property

- (a) Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from *owner-occupied* property.
- (b) Inclusions - the following are examples of investment property:
  - (i) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business
  - (ii) land held for a currently undetermined future use (if an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation)
  - (iii) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases
  - (iv) a building that is vacant but is held to be leased out under one or more operating leases.
- (c) Exclusions - the following are examples of items that are not investment property:
  - (i) property intended for sale in the ordinary course of business or in the process of construction or development for such sale, for example, property acquired for development and resale
  - (ii) property being constructed or developed on behalf of third parties
  - (iii) owner-occupied property, including property held for future use as owner-occupied property and owner-occupied property awaiting disposal
  - (iv) property that is being constructed or developed for future use as investment property. AASB 116 (property, plant and equipment standard) applies to such property until construction or development is complete, at which time the property becomes investment property
  - (v) property that is leased to another entity under a finance lease
  - (vi) property held by not-for-profit entities to meet service delivery objectives rather than to earn rental or for capital appreciation for example:
    - property held for strategic purposes
    - property held to provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property.

3. Review of investment property

- (a) Operational management will:
  - (i) Develop and ensure consistent application of criteria for the review and classification of Council property as investment property.

- (ii) Undertake an annual review and advise the Asset Accountant of investment property status per definition and agreed criteria.

4. Recognition and measurement of investment property

(a) Measurement at initial recognition

- (i) Investment property will be recognised initially at cost, which includes costs incurred to acquire the property, directly related transaction costs and costs incurred subsequently to add to, or replace part of the property.
- (ii) Where an investment property has been acquired at no cost or for nominal amount, its cost shall be deemed to be its fair value at the date of acquisition.

(b) Measurement after initial recognition

- (i) Subsequent to initial recognition, all investment property shall be recognised according to the fair value model proposed.
- (ii) Fair value of investment property will be determined annually on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.
- (iii) Fair value shall be determined at a time approximate to the reporting date of Council and shall reflect market conditions at the reporting date.
- (iv) Fair value will be determined according to current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts.
- (v) In the absence of current prices in an active market, fair value will be determined by reference to current prices in an active market for properties of different nature, condition or location adjusted to reflect those conditions.
- (vi) Component assets such as lifts or air conditioning that form an integral part of an investment property are included in the fair value of the investment property and are not recognised separately as property, plant and equipment.
- (vii) Where fair value cannot be reliably determined, investment property will be measured at cost.

(c) Gains or losses from changes in fair value

- (i) A gain or loss arising from a change in fair value of investment property shall be recognised in profit or loss for the period in which it arises and will be accounted for separately from gain or loss on subsequent disposal.

(d) Transfers to or from investment property

- (i) Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
  - commencement of owner-occupation, for a transfer from investment property to owner-occupied property
  - commencement of development with a view to sale, for a transfer from investment property to inventories
  - end of owner-occupation, for a transfer from owner-occupied property to investment property
  - commencement of an operating lease to another party, for a transfer from inventories to investment property; or

- end of construction or development, for a transfer from property in the course of construction or development (covered by AASB 116) to investment property.
  - (ii) A transfer to or from investment property is to be approved by operational management in conjunction with the Asset Accountant.
  - (iii) For properties valued at fair value and transferred from investment property to property, plant and equipment or Inventory, the deemed cost is the fair value at the date of transfer.
  - (iv) For properties transferred from property, plant and equipment to investment property, any difference between the fair value and carrying value at date of transfer shall be treated as a revaluation adjustment.
  - (v) For properties transferred from inventory to investment property, any difference between the fair value and carrying value in inventory at date of transfer shall be recognised in profit or loss as if the property had been sold.
  - (vi) For properties transferred from capital work in progress to investment property, any difference between the fair value and construction value shall be recognised in profit in loss as a gain or loss on change in fair value.
- (e) Disposals of investment property
- (i) Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss in the period of the retirement or disposal.
- (f) Impairment of investment property
- (i) Investment property will be subject to impairment testing and impairment of investment property will be recognised according to Council's 'Impairment' policy.
5. Disclosure of investment property
- (a) Investment property will be separately disclosed in Council's annual financial statements.
  - (b) Disclosures will include:
    - (i) The application of the fair value model.
    - (ii) The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which shall be disclosed) because of the nature of the property and lack of comparable market data.
    - (iii) The extent to which the fair value of investment property (as measured or disclosed in the financial report) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.
    - (iv) The amounts recognised in profit or loss for:
      - rental income from investment property
      - direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period
      - direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.

- (v) A reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:
- additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset
  - net gains or losses from fair value adjustments
  - transfers to and from inventories and owner-occupied property
  - other changes.
- (vi) Where fair value cannot be determined reliably and the cost model applied, disclosures shall include:
- a description of the investment property
  - an explanation of why fair value cannot be determined reliably
  - the range of estimates within which fair value is highly likely to lie.
- (vii) On disposal of investment property not carried at fair value:
- the fact that the entity has disposed of investment property not carried at fair value
  - the carrying amount of that investment property at the time of sale
  - the amount of gain or loss recognised.

**Related policies/legislation/other documents:**

DOC ID	DOCUMENT TYPE	DOCUMENT NAME
-	Legislation	<i>Local Government Act 2009</i>
-	Legislation	Local Government Regulation 2012