



Valuation of Non-Current Assets- Council Policy

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Related Documents	<i>Nil</i>

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1	04/04/2011	
2	17/08/2016	Ordinary Meeting of Council

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PURPOSE

The purpose of this policy is to provide the framework for valuing non-current assets.

POLICY

The basis for presentation of financial statements identifies four principal characteristics that make the information provided in financial reports useful to users. These are they must be understandable, relevant, reliable and comparable. Other important factors in the recording of assets are timeliness, materiality and cost versus benefit.

In choosing the approach to valuing assets, under paragraph 29 of AASB116, Council can either use the **cost approach** or the **revaluation model** for valuing property plant and equipment as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Under paragraph 31 of AASB 116, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost approach allows for an asset, an item of property, plant and equipment to be carried at its cost less any accumulated depreciation and any accumulated impairment losses (paragraph 30 of AASB116).

PREFERENCE FOR "REVALUATION MODEL" TO SUBSEQUENTLY VALUE PROPERTY PLANT AND EQUIPMENT

This policy takes the position that, for the most part, the characteristic of relevance will be met by valuing non-current assets, using the revaluation model, at their fair value, rather than cost.

The method of valuation (i.e. cost approach versus revaluation model) for each of Council's asset classes is set out below:

	Asset Class	Measurement Method
Property, Plant and Equipment	Land	Revaluation
	Land improvements	Revaluation
	Buildings	Revaluation
	Plant and equipment	Cost
	Furniture and fittings	Cost
	Road and bridge network	Revaluation
	Water infrastructure	Revaluation
	Wastewater infrastructure	Revaluation
	Stormwater	Revaluation
	Gas Infrastructure	Revaluation
	Heritage assets	Revaluation
Intangibles	Computer Software	Cost

Under paragraph 36 of AASB116, if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

APPLICATION OF FAIR VALUE

Property, plant and equipment assets are to be recognised initially at the cost of acquisition. Where assets are acquired at no cost, the cost of acquisition is the fair value, the best estimate of the price reasonably obtainable in the market at the date of valuation.

The term 'fair value' is defined in paragraph 6 of AASB 116 as being:

'the amount for which an asset could be exchanged between knowledgeable, willing parties in an



arm's length transaction'.

Application of fair value to individual assets requires different approaches for different assets. An important distinction is that between:

- Assets for which a market price for the asset in its current type and condition exists or is able to be inferred from market activity; and
- Assets for which no such market price exists or can be inferred.

For the former, the market price is the fair value. The fair value of an asset is determined by reference to its highest and best use, that is, the most probable use of the asset that is physically possible, legally permissible, financially feasible, and which results in the highest value. For the latter, fair value can be estimated using an income or a depreciated replacement cost (DRC) approach.

MEASUREMENT OF ASSETS AT FAIR VALUE

Assets for which a Market Price can be determined

Where there is an active and liquid market for assets similar in type and condition, the fair value of an asset is its price in that market .e.g. land, houses and motor vehicles. The market price should exclude any incidental costs of acquisition (e.g. delivery and handling costs) that would accrue if the asset was acquired. These costs are excluded when the assets is recorded at market selling price.

Where a market price can be derived from market information, that price is regarded as the fair value of the asset.

In the case of some complex assets which comprise several significant components, it may be difficult to identify a market price of each individual significant component. If the fair value for the significant components is not readily obtainable, the value of the complex asset as a whole should be apportioned between the significant components on a consistent and rational basis.

Assets where No Market Price Exists

Depreciated Replacement Cost

Infrastructure assets are not usually traded in a market and their fair value is determined by the Depreciated Replacement Cost. This is the cost of replacing the gross future economic benefits (service potential) of the existing asset, adjusted to reflect the condition of the asset being currently valued.

Depreciated replacement cost can be determined in one of two ways:

- As the cost per unit of service potential of the most appropriate modern replacement facility, adjusted for any differences in future service potential (i.e. quality and quantity of outputs, useful life and over- design/over-capacity) of the asset being valued; or
- As the cost of reproducing or replicating the future service potential of the asset.

Where the remaining service potential from the asset is assessed as having changed, this is to be taken into account in the revaluation. Adjustments to useful life may also be required.

Example: A bridge may have been constructed of wood. The modern equivalent replacement bridge will be constructed of concrete; therefore the replacement cost is adjusted for the difference in utility and also for the remaining useful life of the existing asset.

ASSETS WITHDRAWN PERMANENTLY FROM USE

Where an asset is withdrawn permanently from use, for example, because it has previously been replaced or because it is surplus to requirements, Council must review the carrying value of that asset.



The majority of assets that are required to be valued at fair value are valued at depreciated replacement cost as there is no active and liquid market for those assets. Where the asset is to be withdrawn permanently from use, valuation at depreciated replacement cost is no longer appropriate, and the asset is therefore to be valued at selling price or scrap value.

The provisions of AASB 136 *Impairment of Assets* may therefore apply when the decision to withdraw assets from use is taken.

Two situations need to be considered in relation to the permanent withdrawal of an asset:

1. Sale – where the asset is to be sold, the provisions of AASB 5 Non-Current Assets Held for Sale (Refer also to Non-Current Assets held for Sale - Council Policy) and Discontinued Operations will apply.
2. Abandonment – an abandoned asset is one which has been decommissioned or scrapped. Assets of this type are normally used to the end of their useful life or until such time as they are closed down. The write-off of the old asset is treated according to the provisions of AASB 116.

USE OF COST BASIS

Under AASB 116, Council may record classes of assets at cost in lieu of fair value. Where assets have relatively short useful lives, fair values may not differ significantly from depreciated cost. The cost of carrying out revaluations in such cases outweighs the benefits of regular asset valuations.

Council must record at cost plant and equipment for which there is no active market. Work in Progress is also to be carried at cost.

Assets measured at cost are never to be revalued. The annual review of estimated useful life should ensure the assets are not fully depreciated while they retain some service potential. Once they are fully depreciated, assets carried at cost cannot be revalued.

LAND

Where an active or liquid market exists for land, fair value is to be used. Where there is no market, fair value is determined by depreciated current replacement cost.

LAND IMPROVEMENTS

Land improvements represent the other types of assets often associated with buildings e.g. Fences, retaining walls, BBQ's etc. These assets are to be valued at depreciated current replacement cost.

BUILDINGS

Most buildings are specialized, such as administration centres, depots and pump stations, and to be valued at depreciated current replacement cost. Those valued at fair value are limited in number and typically are residences and commercial buildings.

ROAD AND BRIDGE NETWORK, WATER & WASTE WATER INFRASTRUCTURE, STORMWATER & GAS INFRASTRUCTURE

Assets which fall under this class are considered to be complex assets. Each asset is to be disaggregated into its various components. The most appropriate depreciation method for each component is to be determined by reference to the process shown in figure 2.



Figure 1: Determination of Fair Value

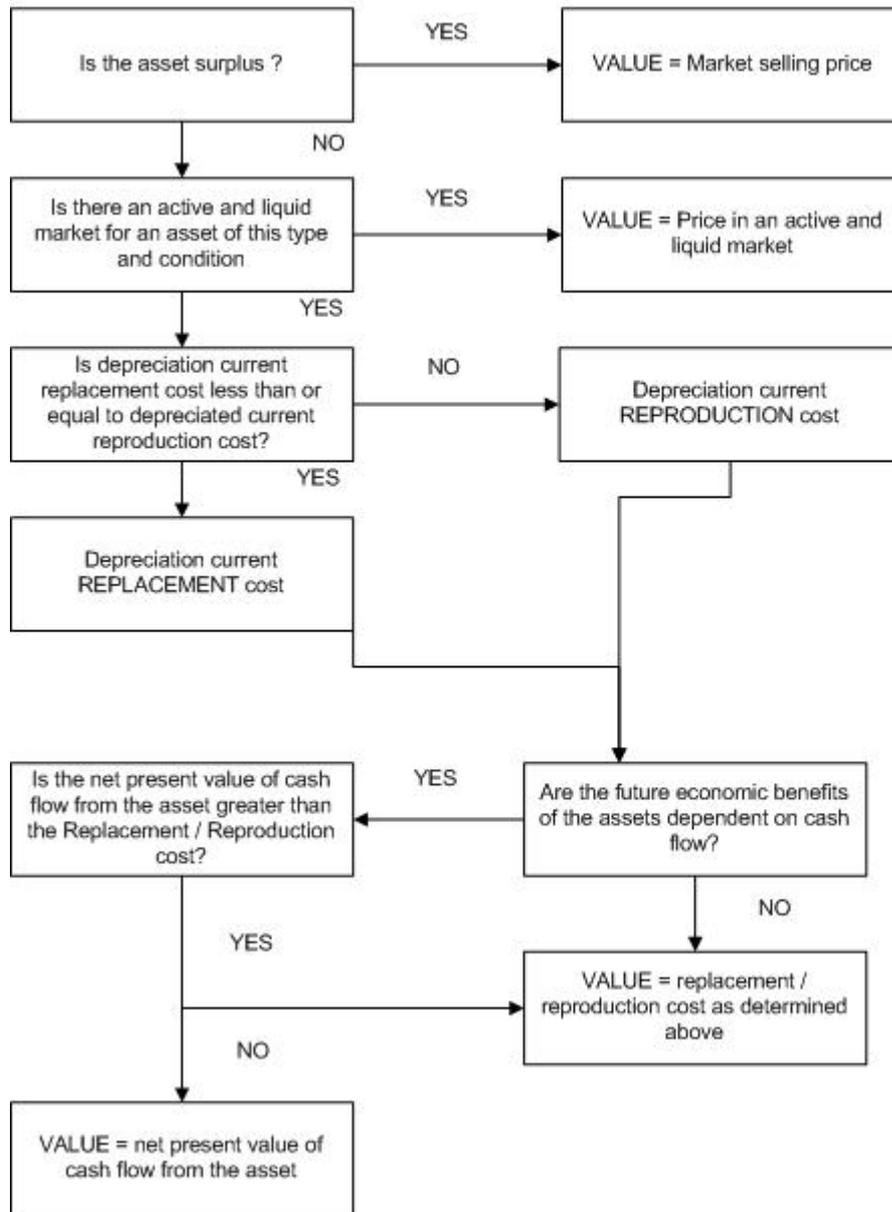


Figure 2: Depreciation Method Determination Process

