



Department of **Local Government,**
Industry Regulation and Safety

Non-financial assets valuation guidelines

Local government context

March 2026

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About LGIRS

Following the WA State Election in March 2025, the WA Government announced targeted reforms involving nine departments which came into effect on 1 July 2025. The reform included reshaping the Department of Local Government, Sport and Cultural Industries (DLGSC). The local government and racing, gaming and liquor functions of DLGSC joined the industry regulation and safety functions (remit of the Department of Energy, Mines, Industry Regulation and Safety) to form LGIRS.

LGIRS supports a safe, fair and resilient economy where Western Australian industries, workers, consumers and communities thrive.

LGIRS provides regulation and support to local governments to maintain quality and compliance with relevant legislation, for the benefit of all Western Australians.

Abbreviations

Reference	Abbreviation
<i>Local Government Act 1995 (WA)</i>	LG Act
Local Government (Financial Management) Regulations 1996 (WA)	LG (FM) Regs
Australian Accounting Standards	AAS Any bold citations from AAS are referenced as disclosed in those documents.
Australian Accounting Standards Board	AASB
Western Australia Local Government Association	WALGA
Local Government Professionals WA	LG Pro
Office of the Auditor General (WA)	OAG
Department of Local Government, Industry Regulation and Safety	LGIRS

Reference	Abbreviation
Western Australia Treasury Corporation	WATC
Public Sector Community Use	PSCU
LG (FM) Regs, regulation 17A(2)(a) Assets	17A(2)(a) Assets
Non-financial assets valuation guidelines	Guidelines
Western Australia	WA

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Preface and acknowledgments

The Guidelines have been developed following extensive consultation with sector bodies, which identified a need for clear and consistent advice. They are the culmination of stakeholder engagement that included the OAG, WALGA and LG Pro.

Through the Local Government Minister's Forum, WA was asked to lead the development of nationally consistent guidelines for the valuation of local government non-financial assets in accordance with the AAS. LGIRS has developed the Guidelines as a resource to support greater consistency in the sector with a specific focus on:

- guidelines on methodologies to be used in valuing non-financial assets in accordance with AAS
- a model scope of works to be used when engaging contractors to undertake revaluations of non-financial assets
- guidelines on reviewing assumptions used by a contract valuer.

The first section of the Guidelines has been developed specifically for WA. It provides direction for the application of recent legislative changes for asset valuations. The WA legislation's application prevails over inconsistencies with AAS. Consequently, the WA specific guidance helps ensure the legislative compliance of asset valuations.

The rest of the Guidelines are general in nature and focus on compliance of asset valuations with AAS and valuation practice. Other jurisdictions may add sections to the Guidelines to provide territory specific legal direction to local governments in their area. This may be needed if territory specific legal stipulations override AAS.

The Guidelines have been developed in collaboration with stakeholders. LGIRS acknowledges the contributions from:

- Northern Territory Local Government Unit, Department of the Chief Minister and Cabinet
- Tasmania Local Government, Minister for Local Government
- Victoria Local Government, Minister for Local Government
- OAG
- Institute of Public Works Engineers Association (IPWEA) WA
- WALGA
- WA Treasury Corporation (WATC)
- LG Pro.

LGIRS also acknowledges Anton Prinsloo for his time and dedication in developing this document.

Brief introduction

Challenges

From a national perspective the Guidelines will assist with the following challenges:

Challenge	Solution	Guidelines reference
Restrictions on land use are not consistently considered in valuations. This inconsistent treatment may result in material swings in land values without any underlying change in the actual use of the asset.	Apply the market approach to valuing land. Account for public sector community use restrictions.	Part A for WA - pages 4 to 24 Attachment B for other states – pages 98 to 116
Incomplete or incorrect asset information is given to valuers. This practice results in unreliable valuation reports and consequently not fair presentation in the financial report.	Complete, accurate and reconciled asset records are to be provided to valuers. Existence and condition of assets are key to accurate valuations. Perform regular stocktakes of assets to confirm existence and assess condition.	Part B – pages 25 to 48
Insufficient technical understanding of AAS and accounting/ financial management regulations applicable in each jurisdiction.	Provide guidance and training materials on AAS and accounting/ financial management regulations requirements and how it interacts.	Attachment A – pages 49 to 97
Insufficient technical understanding of the valuation process and key inputs.	Provide guidance and training materials on the valuation process.	Part B – pages 25 to 48 Attachment C – pages 117 to 135

Part A

Part A provides guidance based on the LG Act, LG (FM) Regs, AAS and generally accepted Western Australian accounting practice.

Part A applies exclusively to WA.

Other states and territories may have jurisdictional legislation which overrules the AAS. Consequently, it is recommended that each state and territory consider providing guidance to their local governments regarding any precedence of legislation over the AAS, if applicable. Part A of the Guidelines should be customised as needed.

AASB 13 Fair Value Measurement (2022) addresses the concept of jurisdictional rules:

(AASB 2022: 49)
‘Basis for Conclusions on AASB 2022-10’ (BC numbering) <i>‘This Basis for Conclusions accompanies, but is not part of, AASB 13.’</i>
(AASB 2022: 84)
‘BC234 ...In relation to the Board’s conclusion not to develop guidance beyond the scope of that in this Standard, if the Treasury or Finance Department (or other authority) and/or the Office of Local Government in a jurisdiction desires greater consistency in the valuation approach(es) used to measure the fair value of particular types or classes of non-financial assets in a jurisdiction, it may choose to designate a valuation approach for application to those assets held by public sector entities in its jurisdiction...’
Application to WA
The LG (FM) Regs require local governments to comply with the requirements of the AAS. Therefore, where LGIRS as the regulator for local government in WA designates a valuation approach for applying AAS, that designated approach is legally binding pursuant to the LG (FM) Regs.

Introduction

Local governments play a pivotal role in ensuring the effective management of public funds and resources within WA. As stewards of taxpayer money, transparency and accountability are paramount, necessitating the preparation of comprehensive financial reports.

In accordance with legislative requirements, notably the LG Act governing local government operations, including the associated LG (FM) Regs, local governments are mandated to ensure fair presentation of their financial reports. These reports must adhere to the provisions outlined in the LG Act and its accompanying regulations.

Furthermore, local governments are directed to comply with AAS, provided such standards do not conflict with the overarching legislative framework. This dual commitment ensures that financial reporting practices align with both statutory obligations and nationally recognised accounting principles, thereby fostering transparency, consistency, and reliability in the presentation of financial information.

It is recommended that local government CEOs, finance officers, asset managers and those charged with governance apply the Guidelines.

Corporate governance

Section 6.5 of the LG Act holds the CEO responsible for managing the valuation of the local government’s non-financial assets. Section 2.7(1) of the LG requires that Council should provide oversight of the valuation process.

Specific corporate governance principles applied in the Guidelines include:

Corporate governance principles	Application
Accountability	Local governments are accountable for the valuation of non-financial assets. This responsibility cannot be contracted out to an external consultant. Consequently, local governments must apply due diligence across the valuation process – from identifying the need to revalue non-financial assets to disclosing such valuations in their financial reports.
Transparency	Transparency enables accountability. Local governments must keep accurate and complete records regarding the valuation process. These records support the accounting records and annual financial report. The annual financial report must provide appropriate information regarding asset valuations (in accordance with AAS).

Compliance with LG (FM) Regs and AAS

Requirements

Local governments must comply with the LG (FM) Regs and AAS. In case of an inconsistency between the LG (FM) Regs and AAS, the regulations override the requirements of the AAS:

LG (FM) Regs, regulations 4(1) and (2)
<p>‘(1) These regulations are in addition to and not in derogation of the requirements of the AAS.</p> <p>(2) If a provision of the AAS is inconsistent with a provision of these regulations, the provision of these regulations prevails to the extent of the inconsistency.’</p>

Practical application

Compliance with both sets of requirements can be explained as follows:

Situation	Complies with LG (FM) Regs?	Complies with AAS?
Item covered by LG (FM) Regs only	Yes	n/a
Item covered by AAS only	n/a	Yes
Item covered by both the LG (FM) Regs and AAS but require different treatments	Yes	No, as legislation overrules AAS

17A(2)(a) Assets

Identity of 17A(2)(a) Assets

The LG (FM) Regs identifies 17A(2)(a) Assets as follows:

LG (FM) Regs, regulation 17A(2)
<p>‘(2) A local government must show in each financial report for a financial year ending on or after 30 June 2020 —</p> <p>(a) the reportable value of all of the non-financial assets of the local government that are —</p> <p>(i) land and buildings that are classified as property, plant and equipment; or</p> <p>(ii) investment properties; or</p> <p>(iii) infrastructure; or</p> <p>(iv) vested improvements that the local government controls;’</p>

LG (FM) Regs, regulation 17A(2)

These items will collectively be referred to as **17A(2)(a) Assets**.

Explanation of terms used

The LG (FM) Regs defines terms included in the above table as follows:

LG (FM) Regs, regulation 17A(1)

‘(1) In this regulation —

fair value, in relation to a non-financial asset, means the fair value of the non-financial asset measured in accordance with the AAS;

last valuation date, in relation to a non-financial asset of a local government, means —

(a) if the asset has been revalued by the local government — the date of the last revaluation;

(b) otherwise — the date of acquisition by the local government;

vested improvement, in relation to a local government, means a pre-existing improvement on land of which the care, control or management is vested in the local government at nil or nominal cost for an indefinite period.’

Reportable value of 17A(2)(a) Assets

Definition of reportable value

The LG (FM) Regs defines the term reportable value as follows:

LG (FM) Regs, regulation 17A(4)

‘(4) For the purposes of sub-regulation (2)(a), the **reportable value** of a non-financial asset of a local government is the fair value of the asset as at its last valuation date minus the following (to the extent applicable) —

(a) the accumulated depreciation in respect of the asset subsequent to its last valuation date;

(b) the accumulated impairment losses in respect of the asset subsequent to its last valuation date.’

Example of calculating reportable value

The following example shows how local governments should account for the effect of depreciation and impairment on the reportable value of 17A(2)(a) Assets:

A local government finalises construction of a water and sewer system (water system) at a cost of \$750,000 at the beginning of Year 1. The water system is estimated to have a useful life of 20 years.

Year 0:

The construction cost of the water and sewer system is recorded at \$750,000.

Depreciation

Year 1:

The water system is immediately placed in use. At the end of Year 1, the water system's value has decreased due to its use during Year 1.

This decrease in value is recognised by depreciating the water system by \$37,500 (being $\$750,000/20$ years).

Impairment:

Year 2

At the beginning of Year 2 the water system is damaged in a flood. After repairs it is estimated that the water system can now only be used for a further 9 years. The value of the water system has declined substantially as it has lost 10 years' worth of value in use. The recoverable amount of the water system is calculated as being \$337,500 (being $\$750,000/20$ years times 9 years).



Reportable value after depreciation:

The reportable value of the water system at the end of Year 1 is calculated as follows:

Cost price of \$750,000 minus depreciation of \$37,500 equals a reportable value of \$712,500.



Reportable value after impairment:

The recoverable amount of the water system (\$337,500) is less than its carrying amount of \$712,500.

Therefore, the carrying amount of the water system must be reduced to its recoverable amount of \$337,500. This reduction in value is an impairment loss of \$375,000 (being $\$712,500$ minus $\$337,500$).

The recoverable amount of \$337,500 is the reportable value of the water system.

Valuation interval

The LG (FM) Regs states regarding the valuation interval for 17A(2)(a) Assets:

LG (FM) Regs, regulation 17A(4A)
<p>‘(4A) A local government must revalue a non-financial asset of the local government referred to in subregulation (2)(a) as follows —</p> <p>(a) if the asset is an investment property —</p> <p style="padding-left: 20px;">(i) whenever required under the AAS known as AASB 140; and</p> <p style="padding-left: 20px;">(ii) in any event, on the day after the period of 5 years beginning on the asset’s last valuation date;</p> <p>(b) otherwise — on the day after the period of 5 years beginning on the asset’s last valuation date.’</p>

Investment property

AASB 140 Investment Property (2022), allows entities to choose, after initial recognition, either the fair value model or the cost model as its accounting policy. LG (FM) Regs, regulation 17A(4A)(a)(ii) requires investment properties to be valued in terms of AAS, which may require annual valuations.

Changes made to the LG (FM) Regs in October 2023

The October 2023 amendments to the LG (FM) Regs, regulation 17A resulted in substantial changes to earlier versions of this regulation. The most significant change made related to the frequency of revaluations. The amended LG (FM) Regs, regulation 17A came into effect from the 2023-2024 financial year.

Example: difference in the revaluation interval between the old rules and the new rules

Valuation of an administrative building (old requirements versus new requirements)
 Year 0: building is revalued.
 Year 2: material change takes place in the fair value of the building. This could be caused by several factors including:

- changes in the underlying replacement cost of assets, or
- changes in asset conditions due to upgrades, or
- obsolescence due to council decisions.

Consequently, a material difference exists between the building’s carrying amount and its fair value at the reporting date.

Before October 2023 change	After October 2023 change
<p>Revalue the 17A(2)(a) Asset whenever the LG is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount.</p> <p>Application: Revalue the building in Year 2.</p>	<p>Revalue the 17A(2)(a) Asset once every 5 years.</p> <p>Do not have to assess for material differences between the building’s carrying amount and its fair value in the intervening years (between the 5 yearly revaluation cycle).</p> <p>Application: Do not revalue the building in Year 2.</p>

Conflicting requirements: valuation intervals between the LG (FM) Regs and AAS

This October 2023 amendment to the LG (FM) Regs resulted in a substantial difference from AASB 116 Property, Plant and Equipment (2022) regarding the frequency of revaluations. As stated above, the LG (FM) Regs overrules AAS.

Example of the difference in the revaluation interval between the LG (FM) Regs and AASB 116 Property, Plant and Equipment (2022)

<p>Example: Using discretion in valuation of an administrative building. (Does not apply to the valuation of investment property.) Year 0: building is revalued. Year 2: building’s value falls dramatically due to a market downturn. Consequently, a material difference exists between the building’s carrying amount and its fair value at the reporting date.</p>	
<p>LG (FM) Regs, regulation 17A(4A)(b) Revalue 17A(2)(a) Assets once every 5 years. Application: Do not revalue the building in year 2.</p>	<p>AASB 116 Property, Plant and Equipment (2022 - 10, paragraph 31). Revalue assets whenever required: If the revaluation model has been chosen for an asset class, the local government should: annually assess whether that asset class’s carrying amount ‘differs materially’ from its ‘fair value at the end of the reporting period’, and if such an assessment suggests a material difference exists, an actual revaluation of the asset class must be performed. Application: Revalue the building in year 2.</p>



Situation is covered by both the LG (FM) Regs and AAS but require different treatments. Which treatment should be followed?
Do not revalue the building in year 2. The LG (FM) Regs overrules AASB 116 Property, Plant and Equipment (2022).

Prior period errors

The non-revaluation of 17A(2)(a) Assets in the intervening years does not constitute a prior period error unless a fundamental error is identified. Therefore, the doubling in the asset's value in the intervening years between revaluations does not need to be treated as a prior period error in the fifth year when the asset is revalued.

Discretion

The LG (FM) Regs allows local governments to use discretion to revalue 17A(2)(a) Assets more frequently than once every 5 years, and states:

LG (FM) Regs, regulation 17A(4B)
'(4B) A local government — (a) is not required to revalue a non-financial asset of the local government referred to in subregulation (2)(a) otherwise than as required under subregulation (4A); but (b) may revalue the asset earlier than is required under subregulation (4A) if the local government chooses to do so.'

Example: use of discretion in revaluing 17A(2)(a) Assets

Valuation of an impaired administrative building.
Year 0: Building is revalued.
Year 2: Building's value falls dramatically due to a market downturn. Consequently, a material difference exists between the building's carrying amount and its fair value at the reporting date.

Does the LG (FM) Regs, regulation 17A address the value decline due to the market downturn?

Yes

The local government has one of two options.

**Revalue building once every 5 years.
No need to assess for material changes in asset values in the intervening years during the 5 year revaluation cycle.**
[LG (FM) Regs, regulation 17A(4A)(b)]

Use discretion and revalue the building to recognise the fall in the building's value.
[LG (FM) Regs, regulation 17A(4B)(b)]

Impairment

LG (FM) Regs

Impairment signifies that the asset's value has declined, and it may be worth less than what it's currently recorded for in accounting records.

AASB 136 Impairment of Assets (2022) requires local governments to assess assets annually to identify impairment indicators. However, the LG (FM) Regs limits the impairment losses to be recognised in determining the “reportable value” of 17A(2)(a) Assets. Consequently, the LG (FM) Regs distinguishes between two types of impairment losses and states:

LG (FM) Regs, regulation 17A(4C)
‘(4C) A local government is not required to comply with the AAS known as AASB 136 to determine the recoverable amounts of its non-financial assets referred to in subregulation (2)(a) for an impairment indicator of a general decrease in asset values.’

Example of the two types of impairment indicators

LG (FM) Regs, regulation 17A(4C)	Example
Do not comply with AASB 136 Impairment of Assets (2022) regarding ‘an impairment indicator of a general decrease in asset values.’	Building’s value falls dramatically due to a market downturn.
Comply with AASB 136 Impairment of Assets (2022) regarding ‘an impairment indicator’ other than ‘of a general decrease in asset values.’	Building suffers material damage due to a cyclone.

AASB 136 Impairment of Assets (2022)

The LG (FM) Regs reference to AASB 136 Impairment of Assets (2022) requires further explanation:

(AASB 2022: 7-8 and 14)
'6 The following terms are used in this Standard with the meanings specified: ...The <i>recoverable amount</i> of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. ...<i>Value in use</i> is the present value of the future cash flows expected to be derived from an asset or cash-generating unit '
'9 An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.'
'59 If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.'

Example of impairment losses to be recognised in terms of the LG (FM) Regs

Example: Impairment of an administrative building.

Year 0: Building is revalued.

Year 2: Building's value falls dramatically due to a market downturn.

Year 4: Building suffers material damage due to a cyclone.

Assess building annually for an impairment indicator.
AASB 136 Impairment of Assets (2022:8, par.9).

Year 2: market downturn

Year 4: cyclone damage

This situation represents 'an impairment indicator of a general decrease in asset values.'

Application:
Do not account for impairment.
No impairment loss should be recognised.
[LG(FM) Regs, regulation 17A(4C)]

This situation represents 'an impairment indicator' **other than** 'a general decrease in asset values.'

Application:
Account for impairment.
Two steps must be followed: estimate the recoverable amount of the asset and reduce the carrying amount of the asset to its recoverable amount. This reduction equals an impairment loss.
[LG(FM) Regs, regulation 17A(4C)]

The accounting treatment of impairment losses is disclosed in the 'Example of calculating reportable value' in these Guidelines.

Assets other than 17A(2)(a) Assets

Identity of assets other than 17A(2)(a) Assets

Assets other than 17A(2)(a) Assets are identified in the LG (FM) Regs:

LG (FM) Regs, regulation 17A(2)(b) and (c)
<p>‘(2) A local government must show in each financial report for a financial year ending on or after 30 June 2020 —</p> <ul style="list-style-type: none"> (b) the carrying amount of all of the non-financial assets of the local government that are plant and equipment type assets measured using the cost model in accordance with the AAS; and (c) the carrying amount of all of the right-of-use assets of the local government (other than vested improvements referred to in paragraph (a)(iv) measured using the cost model in accordance with the AAS.’

Explanation of terms used

The LG (FM) Regs defines terms included in the table directly above as follows:

LG (FM) Regs, regulation 17A (1)
<p>‘(1) In this regulation —</p> <p><i>carrying amount</i>, in relation to a non-financial asset, means the carrying amount of the non-financial asset determined in accordance with the AAS...</p> <p>...<i>right-of-use asset</i>, of a local government, includes the local government’s right to use —</p> <ul style="list-style-type: none"> (a) Crown land; or (b) other land that is not owned by the local government, that is vested in the local government at nil or nominal cost for an indefinite period for the purpose of roads or for any other purpose...’

Impairment signifies that the asset's value has declined, and it may be worth less than what it's currently recorded for in accounting records.

The term right-of-use asset signifies a lessee's right to use an asset under a lease agreement against the obligation to make payment to the lessor for the right to use the asset.

Carrying amounts of assets other than 17A(2)(a) Assets

AASB 116 Property, Plant and Equipment (2022), states regarding the term carrying amount:

(AASB 2022:6)

'6 The following terms are used in this Standard with the meanings specified:

***Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.'**

The deduction of depreciation and impairment losses from the fair value of 17A(2)(A) Assets to calculate its reportable value is disclosed in the "Example of calculating reportable value" in these Guidelines. The methodology applied in that example is also applicable to determining the carrying amount of plant and equipment and right-of-use assets.

Excluded assets

Certain assets are excluded from recognition as assets, being:

(LG (FM) Regs, regulation 17A(5))

'(5) A non-financial asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under \$5,000.'

Consequently, local governments should:

- expense the cost of acquisition of such assets upon purchase; and
- keep a record of such assets, especially attractive and portable assets (LG (FM) Regs, regulation 17B).

Summary of LG (FM) Regs, regulation 17A

A summary of the stipulations of the LG (FM) Regs, regulation 17A is as follows:

Three asset classes	LG (FM) Regs, regulation 17A
Land and buildings Infrastructure	Disclose 'reportable value' in the annual financial report. [Regulation 17A(2)(a)]
Local government controlled vested improvements Investment property (Collectively referred to as 17A(2)(a)Assets)	'Reportable value' is the fair value of the asset at its last valuation date minus accumulated: <ul style="list-style-type: none"> • depreciation after the last valuation date; and • impairment losses after the last valuation date. [Regulation 17A(4)]
	Revalue investment property whenever required under AASB 140 Investment Property (2022) and in any event once every 5 years. Revalue other 17A(2)(a) Assets once every 5 years. [Regulation 17A(4A)]
	Revalue 17A(2)(a) Assets more often if the local government chooses to do so. [Regulation 17A(4B)]
	Only determine the recoverable amounts of 17A(2)(a) Assets when an impairment indicator other than 'a general decrease in asset values' exists. [Regulation 17A(4C)]

<p>Plant and equipment</p>	<p>Disclose the carrying amount of the asset measured using the cost model in accordance with AAS. [Regulation 17A(2)(b)] Regulations 17A(4),(4A),(4B) and (4C) do not apply to this asset category.</p>
<p>Right of use assets (not vested improvements referred to above)</p>	<p>Disclose the carrying amount of the asset measured using the cost model in accordance with AAS. [Regulation 17A(2)(c)] Regulations 17A(4),(4A),(4B) and (4C) do not apply to this asset category.</p>
<p>Items of expenditure</p>	<p>Non-financial assets under \$5,000. Exclude from the assets of the local government if its fair value at the acquisition date was less than \$5,000. [Regulation 17A(5)]</p>

Summary of fair value measurement for WA

The practical application of AASB 13 Fair Value Measurement (2022) to the valuation of land is as follows:

Land	Fair value hierarchy	Valuation technique	Inputs
Land	2	Market approach using recent observable market data for similar properties.	Price per square metre.
Land - subject to usage restrictions	3	Market approach using recent observable market data for similar properties.	Price per square metre, discounted due to usage restrictions.
Crown land and leased land	Crown land is considered a concessionary lease right-of-use asset measured under the cost model - at zero cost.		
Land under roads	Land under roads is treated as a right-of-use asset in terms of LG (FM) Regs, regulation 17A(2)(c) and is measured at zero cost.		

The practical application of AASB 13 Fair Value Measurement (2022) to the valuation of buildings is as follows:

Buildings	Fair value hierarchy	Valuation technique	Inputs
Non-specialised	2	Market approach using recent observable market data for similar properties.	Price per square metre.
Specialised	3	Cost approach using current replacement cost.	Construction costs and current condition, residual values and remaining useful life assessments inputs.

The practical application of AASB 13 Fair Value Measurement (2022) to the valuation of infrastructure is as follows:

Infrastructure	Fair value hierarchy	Valuation technique	Inputs
Roads Footpaths Drainage Parks and ovals Other Landfill assets	3	Cost approach using current replacement cost.	Construction costs and current condition, residual values and remaining useful life assessments inputs.

The practical application of AASB 13 Fair Value Measurement (2022) to the valuation of investment property is as follows:

Investment property	Fair value hierarchy	Valuation technique	Inputs
Investment property	3	Market approach or income approach.	Discount rates, yields, expected vacancy rates and rental growth rates estimated by management based on comparable transactions and industry data.

The practical application of AASB 13 Fair Value Measurement (2022) to the valuation of other assets is as follows:

Asset class	Fair value hierarchy	Valuation technique	Inputs
Plant and equipment	Use the cost model in accordance with AAS.	Use the cost model in accordance with AAS.	Use the cost model in accordance with AAS.
Right-of-use-assets (other than local government controlled vested improvements)	Use the cost model in accordance with AAS.	Use the cost model in accordance with AAS.	Use the cost model in accordance with AAS.

Application of Guidelines sections to WA

The remainder of the Guidelines applies to WA local governments as follows:

Area	Contents	Applicable to WA
Part B	General guidance	Yes, except as specifically excluded.
Attachment A	Valuation under the Accounting Standards	Yes, except as specifically excluded.
Attachment C	Pro-forma RFQ specifications	Yes
Attachment B	Guidance on specific asset types	No

Part B

Part B provides guidance regarding valuation practice.

Part B applies across all Australian jurisdictions. However, Part B does not consider jurisdictional legislation which may overrule the guidance it provides.

If a conflict arises between jurisdictional legislation and the guidance provided in Part B, the jurisdictional legislation may take precedence.

Part B is applicable to WA, except where specifically excluded.

Background

For many years practitioners, auditors and regulators have highlighted the importance of clear guidance on the fair valuation of non-financial assets. The AASB recognised the inconsistency in valuation methodologies across jurisdictions and the potential for non-compliance with AAS. This led to the updated AASB 13 Fair Value Measurement (2022).

However, recent reports from Auditors General of various states and territories have shown that local governments use inconsistent practices when valuing non-financial assets. Additionally, timeliness of valuations and the impact of delayed valuations on financial statement preparation is an area of concern.

Non-financial assets often make up more than 50% of the total asset value of a local government. Consequently, the fair value measurement of such assets is essential. Valuation relies on professional judgements and assumptions. Therefore, local governments must conduct thorough quality reviews.

A local government's failure to comply with AAS regarding the valuation of assets which are accounted for under the revaluation model means a local government cannot state that the financial report:

- complies with AAS and
- fairly presents the local government's financial position, financial performance and cash flows.

In addition, fair presentation of non-financial assets also requires compliance with appropriate jurisdictional legislation.

The table below outlines key risk areas for valuations.

Key risk area	Risk mitigation
Valuer's credentials	Internal and external valuers possess the relevant qualifications, expertise and experience.
Currency of valuation	The valuation is current and avoids significant variance between the carrying amount and the fair value at the reporting date.
Data accuracy	Asset data is complete and accurate, and all data sources are reconciled prior to the valuation commencement.
Compliance with AAS	The valuation methodology complies with AAS.
Compliance with jurisdictional legislation	The valuation methodology fully complies jurisdictional legislation which may override AAS.
Asset management practices	The valuer's assumptions reflect local asset management practices and experiences.

Key risk area	Risk mitigation
Valuation consistency	Valuation methodology and assumptions are consistently applied across years to minimise the risk of large changes in valuations.
Documentation	Proper records are kept of the valuation process including the quality review of the valuer's work.

Accounting records for assets

Accounting records track a local government's financial transactions. Asset transactions are recorded in accounting records (for example: purchase, valuation, disposal and depreciation of assets). Keeping proper accounting records is essential.

Accounting records must comply with AAS. The Valuation under the Accounting Standards Guidelines in Attachment A provide guidance regarding compliance with AAS when conducting valuations.

Local governments should complete the following **accounting records for assets** tasks:

Local government tasks
<p>Local governments should keep proper accounting records for all assets to help ensure such records are:</p> <ul style="list-style-type: none"> • complete (records include <u>all</u> items which meet the definition of an asset and the recognition criteria) • accurate; and • lawful, meaning such records comply with: <ul style="list-style-type: none"> ○ jurisdictional legislation and ○ AAS.
<p>Local governments should also keep records of their reviews of accounting records for assets to confirm completeness, accuracy and legitimacy.</p>

Asset registers

Asset registers provide information about the value, condition and location of the local government's assets and provide important data to valuers. Keeping comprehensive asset records is essential.

Local governments should complete the following **asset register** tasks:

Local government tasks
<p>Before providing asset registers to valuers, local governments should ensure they are:</p> <ul style="list-style-type: none"> • checked for completeness and accuracy • reconciled to the asset management system • reconciled to the accounting records • independently reviewed/approved. <p>If asset listings are provided to valuers instead of asset registers, such listings should be agreed to asset registers prior to submission to the valuer.</p> <p>Asset registers, asset management systems and accounting records should all be updated and reconciled after the valuation process.</p>
<p>The local government must keep records of the reconciliation process of asset registers with other records. The preparer and reviewer should both sign and date reconciliations as evidence of compliance with their responsibilities.</p>

Operational controls for assets

Operational controls help ensure the authenticity of asset data. Local government operational controls for assets help ensure the completeness, accuracy and legitimacy of both accounting records for assets and asset records. Key **operational controls for assets** are as follows:

Local government operational controls
<p>Local governments should apply the following key operational controls:</p> <ul style="list-style-type: none"> • Restricted access to asset records. • Segregation of operational asset functions: <ul style="list-style-type: none"> ○ authorisation of asset acquisitions and disposals ○ asset record maintenance ○ asset custody ○ asset stocktakes ○ accounting records maintenance. • Supervision of employees responsible for asset accounting.

Local government operational controls
<ul style="list-style-type: none"> • Maintenance of asset register(s) which includes: <ul style="list-style-type: none"> ○ records of land owned or under local government control ○ records of leases or licences for land owned or under local government control. • Monthly reconciliation of the accounting records to underlying asset records. • Regular stocktake of physical assets and reconciliation of stocktake results with asset registers including: <ul style="list-style-type: none"> ○ reporting significant stocktake differences to management and investigation thereof ○ management approval for writing off discrepancies. • Management approval for asset acquisitions and disposals (in accordance with asset policies). • Attachment of prenumbered identification tags to assets on acquisition to facilitate accurate identification of assets and recording of details. • Maintenance of an asset management plan which includes: <ul style="list-style-type: none"> ○ an inventory of all assets within each class ○ record of the current condition of assets including useful lives ○ record of service status (technical and customer service levels) and ○ asset replacement program. • Existence of asset data collection systems including: <ul style="list-style-type: none"> ○ methods for carrying out regular asset condition surveys; and ○ maintenance and renewal programs and associated cash flow forecasts for asset maintenance. • Maintenance of vehicle logs which list the dates, times, mileage or odometer readings, trip purpose and name of the employee using the vehicle.
<p>The local government must keep proper records regarding implementation of, and compliance with, these key operational controls.</p>

Scheduling of valuations

The proper scheduling of valuation activities is crucial to help ensure valuations do not delay financial statement preparation and annual financial audits. Asset valuations take time and include:

- examination of asset records
- inspections of assets
- actual valuation of assets

- review of valuations by the local government
- finalisation of valuations.

The proper scheduling of all these activities helps ensure valuations do not delay financial statement preparation and annual financial audits.

Local governments are responsible for specifying the effective date for a valuation. There are two important valuation dates that should be considered:

- effective date for the valuation
- reporting date for the local government.

These two dates may match. If they don't, there is a risk that major movements in asset values may occur between the two dates. Local governments are responsible for assessing all movements in asset values between the effective date and reporting date.

Local government tasks for the **scheduling of valuations** are as follows:

Local government tasks
<p>Local governments should consider:</p> <ul style="list-style-type: none"> • starting the valuation process in August with an aim of appointing valuers by the end of October to allow sufficient time for valuation activities to be duly completed before the financial year end • appointing valuers on a multi-year contract to value assets over financial years (and not all assets in a single financial year) • engaging internal staff with appropriate qualifications and expertise to undertake specific valuations • using the pro-forma RFQ specification and assessment tool provided in Attachment C as a base specification and tailor it as appropriate.
<p>Local governments must keep records of their scheduling of valuation activities.</p>

Valuation strategy

A local government's valuation strategy is a plan to help ensure the fair presentation of non-financial assets in the annual financial report (amongst other valuation objectives).

Local governments may implement different strategies to perform the valuation of their asset portfolio: including:

- procuring external valuers for one-off projects as required
- procuring external valuers via a multi-year contract to undertake the valuation of all assets ensuring consistent methodology and assumptions

- engaging internal staff with appropriate qualifications and expertise to undertake specific valuations. This strategy does not prohibit the use of external contractors to undertake data capture (for example road condition assessment)
- working collaboratively with an external valuer to build internal capability or share the valuation load using consistent methodology and assumptions. This may include the use of specialised software.

Irrespective of the chosen valuation strategy, it is critical that the valuation is undertaken by someone with the relevant qualifications, expertise and experience.

Local governments should assess their needs and internal capability before selecting a strategy that delivers the best long-term value and best manages inherent risks attached to asset valuations.

For example, a local government with:

- high staff turnover might best be suited to a multi-year contract with a single valuer, or
- lower levels of staff turnover might be better suited to developing internal capability.

Local government tasks regarding the **valuation strategy** are as follows:

Local government tasks
<p>Local governments must:</p> <ul style="list-style-type: none"> • design, record and implement an annual ‘valuation strategy’ that considers the local government’s present and desired capabilities, valuation risks and costs; and • incorporate this strategy into the local government’s asset policy.
<p>The local government must keep proper records regarding its valuation strategy and the annual update thereof.</p>

Valuation methodology

The valuation methodology is the procedure the valuer will follow during the valuation process. It provides a structured approach for the valuation of assets in accordance with AAS and jurisdictional legislation.

Background

The adoption of inconsistent and non-compliant methodologies has resulted in significant variations in valuations across financial years for a local government and across local governments.

Local governments need to prepare valuations that comply with over a dozen accounting standards. The accounting standards have undergone significant change over the past two decades and continue to be regularly updated; jurisdictional legislation also changes

over time. Valuation methodologies used in practice may not have kept pace with these changes.

For example, valuations undertaken using a depreciated replacement cost (DRC) approach rather than a current replacement cost (CRC) approach. Use of the DRC approach may not have considered all types of obsolescence as prescribed by AASB 13 Fair Value Measurement (2022).

Consequently, it is essential the local government undertakes a thorough quality review of the proposed valuation methodology prior to its implementation in practice. This quality review will help ensure compliance of the valuation methodology with both accounting standards and jurisdictional legislation.

Local government tasks for **valuation methodology** are as follows:

Local government tasks
<p>Local governments should:</p> <ul style="list-style-type: none"> • ensure valuations comply with current jurisdictional legislation. Consequently, prepare valuation models and valuation techniques in compliance with legislation. Identify legislative amendments on a timely basis and update valuation models and valuation techniques (as appropriate). • ensure valuations comply with current AAS. Consequently, prepare valuation models and valuation techniques in compliance with AAS. Identify AAS amendments on a timely basis and update models and techniques (as appropriate). • ensure assets are valued in accordance with the correct accounting standard. Ensure the valuation report separately addresses assets valued using different accounting standards. The Guidelines in Attachment A entitled: “<i>Valuation under the Accounting Standards</i>” provides guidance regarding different standards to comply with when valuing assets. • Ensure the valuation report clearly identifies: <ul style="list-style-type: none"> ○ the valuation techniques used (market approach, cost approach or income approach) ○ source of the data used (for example: quoted prices) ○ assumptions made and its reasonableness (for example: assumptions about market trends, comparable sales etc.)
<p>The local government must keep proper records regarding:</p> <ul style="list-style-type: none"> • its valuation methodology, its compliance with applicable legislation and AAS and amendments to these sources; and • the review of the valuation report.

Scope of works

The scope of works is an essential element of a local government’s valuation strategy. Parties must agree on the scope of works for the valuation prior to its commencement. The scope of the work sets out the responsibilities and obligations of the parties regarding the operational valuation process. If the valuation’s scope is not properly defined, there is a risk of:

- unclear valuation objectives resulting in valuations not meeting expectations; and
- future scope amendments.

The **scope of works** must address the following criteria:

Criterion	Comments
Objective for the valuation	The objective of the valuation is to determine, in compliance with both AAS and jurisdictional legislation, a fair value for the specified assets on an identified date.
Compliance with AAS	The valuation must comply with AAS. Specifically, the valuation process should comply with AASB 13 Fair Value Measurement (2022). The local government should consider providing the valuer with a list of applicable AAS. AASB 13 Fair Value Measurement (2022) and other relevant AAS are addressed in the Guidelines - Attachment A - entitled: ‘Valuation under the Accounting Standards’.
Compliance with jurisdictional legislation.	The scope should identify the jurisdictional legislation to be complied with in the valuation. For example: jurisdictional legislation and its effect on the valuation process is addressed in the Guidelines – Part A.
Valuation techniques	The scope should stipulate the valuation technique(s) to be used for individual classes of assets to be valued. Valuation techniques are addressed in the Guidelines – Attachment B.
Specified assets	Local governments must provide the valuer with an accurate, complete and reconciled asset register which specifies all non-financial assets to be valued, including a physical description, location etc.

Criterion	Comments
	Asset registers are addressed in the Guidelines – Part B – section entitled: ‘Asset registers’.
Identified date	<p>Local governments are responsible for specifying the effective date for a valuation. There are two important dates regarding valuations that should be considered. These dates are:</p> <ul style="list-style-type: none"> • effective date for the valuation; and • reporting date for the local government. <p>The timeliness of valuations is addressed in the Guidelines - Part B - section entitled: ‘Scheduling of valuations.’</p>
Assumptions used	<p>Assumptions are an integral part of valuation. It is essential that the valuer’s records disclose:</p> <ul style="list-style-type: none"> • all assumptions used to measure an asset’s fair value; and • sources for relevant assumptions (e.g. source for market values inputs used in a valuation).
Valuer’s deliverables	<p>It is essential that the valuer agree to provide the local government with:</p> <ul style="list-style-type: none"> • a copy of the complete set of the valuer’s working papers (or alternatively sufficient access to the valuer’s working papers for review thereof) • an appropriate level of detail regarding the individual assets in different asset classes which have been revalued, to enable the local government to update their asset register with the revaluation data (preferably in an Excel format); and • valuation report(s). <p>Such working papers are required by the local government to review the valuer’s:</p> <ul style="list-style-type: none"> • assessments of the value of asset classes • valuation report produced by the valuer. <p>Valuer’s report is addressed in the Guidelines - Part B section ‘Valuer’s Report’.</p>

Criterion	Comments
	The Guidelines provide details as to the local government's review of the valuer's work papers throughout sections within Part B.

Local government tasks regarding the **scope of works** are as follows:

Local government tasks
<p>Local governments must agree with the valuer in writing:</p> <ul style="list-style-type: none"> • the scope of the fair value measurement of non-financial assets • any subsequent changes to the scope of the work • compliance with AAS in the fair value measurement of non-financial assets • compliance with jurisdictional legislation; and • provision of a complete set of working papers (or alternatively sufficient access to the valuer's working papers for review by both the local government and their auditors) and the provision of valuation reports to the local government.
Local governments must keep proper records of all interactions with the appointed valuer.

Unit rates or cost of construction

Unit rates and cost of construction incurred by the local government are not market sourced data. This means there is uncertainty regarding the appropriateness of this data source and increased risk that using this data may not result in a fair value measurement of the asset being valued.

Evidence to support the application of unit rates or cost of construction can vary significantly from asset-to-asset and from local government-to-local government. Evidence to support unit rates should be based on the following with most reliance to be placed on the highest ranked source:

- recent projects completed by the local government
- recent projects completed by comparable local governments
- benchmark unit rates from comparable local governments
- valuer databases of projects extrapolated for indexation and size; and
- local government specific rates calculated using first principles (i.e. based on raw materials and adjusted for installation, project management and other costs).

Actual recent project costs provide the highest level of evidence but are often limited by the volume of transactions and variability across projects. Ideally, the local government will have been able to supply the valuer with actual project costs of some recently constructed

assets. However, there is unlikely to be recent construction costs for every type of asset. Furthermore, the project costs will also cover a range of assets, rather than a single asset, and the overall average unit rate will probably vary significantly depending upon the size and location of specific projects.

Most valuers will undertake detailed analysis of recent project costs and incorporate this data into their own databases. These databases may be used a source for unit rates/cost of construction applied in a valuation performed for a local government. The valuer's working papers must provide sufficient information to allow the review of the formulation and application of unit rates/cost of construction.

However, sometimes the only available evidence to support the unit rate for assets is the unit rates adopted by other local governments or referencing industry cost guides such as Rawlinsons or Cordells.

Where there is no observable evidence available, the valuer must determine a replacement cost based on first principles. This involves estimating the cost of raw materials, volumes, installation costs, project management costs, etc. This approach uses many assumptions and does not use market sourced data.

The valuation of a portfolio of assets requires the local government to develop an asset hierarchy that enables the stratification of the overall portfolio into sub-populations so that the appropriate assumptions can be developed and applied. The number of assets can be in the tens of thousands, with hundreds of different levels within the hierarchy.

Local government tasks regarding the use of **unit rates or cost of construction** are as follows:

Local government tasks
<p>The local government must review the reasonableness of the valuer's assessment of unit rates/cost of construction by:</p> <ul style="list-style-type: none"> • testing a sample of assumptions used by the valuer • assessing the explanations provided to support the valuer's assumptions • cross-referencing observable data with the valuer's workpapers and assess the reasonableness of such data given the source relied upon by the valuer; and • assessing the reliance to be placed on the extent and quality of the valuers workpapers. <p>The local government may on review consider that little or no reliance can be placed on the valuer's use of unit rates/cost of construction as a valuation method. The local government must be satisfied there is sufficient appropriate evidence to support the use of this valuation method to measure the asset's value. Consequently, the local government should request the valuer to validate the unit rates/cost of construction method used by providing adequate and proper proof.</p>

Local government tasks
The local government must keep proper records regarding its review of the reasonableness of the valuer's assessment of unit rates/cost of construction.

Condition or consumption scores

For most local government assets, it is expected the existing assets will continue to be maintained and renewed, making the condition of an asset a critical input to the determination of its value.

For asset valuation purposes, the condition of the asset is typically, a key characteristic relevant to market participants, although not always. For example, if an asset has been marked for retiring, its physical condition may bear little or no impact on the assessment of the remaining economic value. In such cases, the key driver of value will be an assessment of technical, functional and economic obsolescence [AASB13 Fair Value Measurement (2022)].

However, for most local government assets, it is expected the existing assets will continue to be maintained and renewed, making the condition of an asset a critical input to the determination of its value.

Asset condition is not the only key characteristic. Consideration must also be given to location and restrictions on sale or use, as well as technical, functional, economic and physical obsolescence [AASB13 Fair Value Measurement (2022)]. This is why valuations are sometimes determined using 'consumption scores', which consider both condition and obsolescence, rather than 'condition scores'. There is no standardised 'condition scoring' scale with different scales and measures used for different types of assets.

The valuation should be supported by evidence of the physical condition of the assets. For example, it is standard practice to physically inspect buildings and make condition assessments against each component. Exceptions may be made for very low value buildings that are essentially the same, such as bus shelters. For these very low value assets, it may be more appropriate to undertake a sample inspection and extrapolate the results across the remainder of the portfolio. The physical inspection would normally be evidenced by photographs, scores and GPS co-ordinates.

Where there are many homogenous assets, such as road surfaces, pavements, footpaths, kerbs and pipes, the cost of undertaking a 100% inspection during each revaluation may be prohibitive. It is essential that all such assets (100%) are covered by physical inspection on a rolling basis to verify both their existence and physical condition. These inspections should be performed with sufficient regularity to ensure the reasonableness of recorded asset conditions (e.g. every 3 to 5 years). However, asset impairment may have been caused by an unforeseen event which damaged asset condition, such as a cyclone.

Under AASB 136 Impairment of Assets (2022) an annual assessment should be performed at the reporting date to determine asset impairment.

The data for these homogenous assets is normally maintained in an asset management system and updated following renewal work, impairment events, scheduled inspections or large condition assessment projects which are often performed by external specialists. Proper maintenance of this data source helps ensure data provided to the valuer is complete and accurate.

Asset condition assessments can be performed internally by the local government, external specialist or the valuer. In all these instances, the local government should ensure the accuracy and completeness of the asset condition assessments. If asset condition assessments are performed by the local government or external specialists, the local government should provide the condition assessment data to the valuer. The valuer should undertake a physical inspection of a sample of the asset condition assessments to provide assurance that the local government provided data can be relied upon.

Valuer validation may not be necessary if the condition was recently validated as part of an asset management inventory and condition assessment project.

Some assets, such as underground pipes and pits, may not have up-to-date condition assessments due to their location or risk factors. For these assets, there may be no observable evidence of their condition. In this case, the valuer may estimate a condition based on key attributes such as material type, estimated age, estimated total useful life, local government experiences and the local government's own assumptions.

Local government tasks regarding condition or consumption scores are as follows:

Local government tasks
<p>Inspections:</p> <p>The local government should:</p> <ul style="list-style-type: none"> • physically inspect assets to verify both their existence and physical condition (on a rolling basis if preferred). These inspections should be performed with sufficient regularity to ensure the reasonableness or recorded asset conditions (e.g. once every 3 to 5 years) Asset condition assessments may be performed by external parties i.e. external specialists or valuer. In such cases, the local government should check the completeness of such assessments. • compile proper records for physical inspections performed • match physical inspection records with asset records; and • update asset records appropriately.

Local government tasks
<p>Valuation:</p> <p>The local government should review the valuer’s assessment of condition/ consumption scores by:</p> <ul style="list-style-type: none"> • if asset inspections were performed – validating asset condition by reviewing the photographs of a sample of assets and reviewing the assigned condition score to ensure the assessment is reasonable • if no photographs have been taken – discussing the approach with the valuer and reviewing workpapers to ensure that validation of the condition scores was assessed as reliable or whether full reliance was placed on a recent inventory and condition assessment project. If reliance was placed on an inventory and condition assessment project - reviewing the relevant reports to confirm the results are reasonable; and • if no observable physical condition assessment of assets is available – gaining an understanding of the methodology used to estimate asset condition and assessing its reasonableness by considering the reliability of that data used by local government for their day-to-day management decisions. If local government uses and relies on such data to make daily operational and asset management decisions, it likely to be more reliable than data not used to make decisions. <p>The valuer’s assessment of asset condition may differ significantly from the local government’s knowledge/expectations. In such case, detailed investigation is required to confirm the valuer’s assessment of asset condition.</p> <p>The local government must keep proper records regarding its review of the valuer’s assessment of condition/consumption scores.</p>

Relationship between condition and remaining value

One of the most challenging aspects of valuation is determining the relationship between score (condition or consumption) and the level of remaining value. A newly acquired asset would have a score representing 100% remaining value and an asset at the end of its economic life would have a score representing 0% remaining service potential.

The scale setting out the relationship between scores and the level of remaining service potential is a matter of professional judgement and is a level 3 input. The scoring scale should be supported by a decision matrix that provides information about how the valuer or assessor determines the score. The matrix should be included in the valuer’s methodology report and provides a method for the systematic and consistent scoring.

Some parts of the asset, such as the long-life parts, are not subject to regular renewal and therefore, in normal circumstances, their physical condition will have no impact on determining the level of remaining service potential of that part. However, even long-life

parts of an asset may have a limited useful life. Consequently, its physical condition would also have an impact on its remaining service potential and value.

As the scoring scale and associated assessment approach are a matter of professional judgement, different valuers are likely to have different scales and criteria.

Some scores are provided by engineering systems (such as road surface and pavement tools) using detailed algorithms taking-into-account a range of physical measures. The use of such systems and interpreting the scores it calculates requires exercising professional judgement. Such judgement is based on the experience, expertise and methodology of the assessor or designer of the algorithms.

Given the level of professional judgement involved, it is not possible to obtain direct observable evidence that verifies a particular score exactly measures the level of remaining service potential.

Asset managers may argue that the reduction in economic value of an asset occurs in a non-linear manner and will typically design a curve to represent the degradation of the asset. However, for depreciation purposes, most have traditionally applied the straight-line method to calculate depreciation expense.

The risk exists that different asset profiles may be used for valuation and depreciation purposes. Therefore, over time material differences between the carrying amounts of assets and the fair values of assets may arise. To mitigate this risk, it is recommended that if a:

- non-linear valuation profile is used (which is expected to be rare): the same profile is used for the calculation of depreciation, but only if it can be justified that using this method matches the expected consumption pattern of an asset's future economic benefits, or
- linear valuation profile is used: a straight-line profile is used for depreciation.

Local government tasks regarding the **relationship between condition and remaining value** are as follows:

Local government tasks
<p>The local government's review of the valuer's assessment of the relationship between condition and remaining value:</p> <ul style="list-style-type: none">• must consider whether the scale used and resulting score is consistent with local government's own understanding of how the economic value of the asset is consumed; and• could consider the results of other comparable local governments or the sector generally.

Local government tasks
The local government may on review consider that little or no reliance can be placed on the valuer's interpretation of the relationship between condition and remaining value. The local government must be satisfied there is sufficient appropriate evidence to support this valuation input used to measure the asset's value. Consequently, the local government should request the valuer to validate their interpretation of the relationship between condition and remaining value by providing enough and proper proof.
The local government must keep proper records regarding its review of the valuer's assessment of the relationship between condition and remaining value.

Assessment of the impact of obsolescence on value

The impact of obsolescence takes-into-account functional, economic, technical and physical obsolescence and is an exercise in professional judgement. As noted in the section above, the consumption pattern of an asset's economic value may differ from the consumption pattern used for depreciation. Consequently, there is a risk that a material difference between the resulting carrying amount and fair value may accumulate over time. This may require performing a revaluation in the reporting period when the difference becomes material.

It is likely that different valuers will have different processes and criteria to determine the level of impact of obsolescence on value. Some valuers may have a systematic process to determine the level of obsolescence, while others will rely on professional judgement based on experience and expertise.

If there is no direct observable evidence to support the input, it should be assessed as a level 3 input.

Local government tasks regarding the **assessment of the impact of obsolescence on value** are as follows:

Local government tasks
<p>The local government's review of the valuer's assessment of the impact of obsolescence on value:</p> <ul style="list-style-type: none"> • must consider whether the process is based on sound logic, is systematic and is consistent with the local government's understanding of the impact of obsolescence on the valuation; and • could consider comparing the overall fair value expressed as a percentage of the gross replacement cost to the results of other local government (reasonableness test).

Local government tasks
The local government may on review consider that little or no reliance can be placed on the valuer's assessment of the impact of obsolescence on value. The local government must be satisfied there is sufficient appropriate evidence to support this valuation input used to measure the asset's value. Consequently, the local government should request the valuer to validate their assessment of the impact of obsolescence on value by providing adequate proof.
The local government must keep proper records regarding its review of the valuer's assessment of the impact of obsolescence on value.

Residual value

Other than for assets regularly traded in the open market, such as motor vehicles, the residual value of assets is normally considered insignificant or nil.

For assets valued using the market approach, consideration should be given to whether those assets are usually traded in or sold and, if so, whether an appropriate residual value has been determined.

For other assets, a zero residual value would normally be assessed.

The term 'residual value' is used for asset management planning and the calculation of depreciation expense.

Local government tasks regarding **residual value** are as follows:

Local government tasks
The local government must keep proper records to substantiate residual values for assets.

Useful life and remaining useful life

There may be instances where useful life and remaining useful life are used as inputs to the valuation. In such cases, the local governments should assess the reasonableness of the useful life assumptions for each asset and determine the appropriateness of the calculation or estimate of the remaining useful life for each asset.

The useful life assumptions should be reflective of the local government's experience, proposed asset management treatments and expected outcomes from those asset management treatments and strategies. A change in asset management treatment or maintenance regime will have a direct impact on an asset's remaining useful life; however, such experience, whilst helpful, may not necessarily reflect future expectations.

The useful life of specific assets may also need to be extended well beyond the typical useful life of other assets within the same hierarchy due to the assets existing age and estimated remaining useful life based on condition. For example, while the estimated total

useful life of an asset might be 80 years, if the age-to-date is already 100, and based on condition the remaining useful life is 30, the total useful life for that specific asset should be 130 and not 80.

The estimate of remaining useful life of the asset would normally be based on the condition of the asset. However, if the asset is earmarked for decommissioning, the remaining useful life should be based on the decommission date rather than condition. For example, if the estimated useful life is 80 years, and the age-to-date of the existing asset is 40 but a decision has been made to decommission the asset in 5 years, the total useful life should be 45 and not 80.

If useful life or remaining useful life is one of the valuation inputs, calculations based on the estimated useful life less age-to-date run the risk of being a DRC approach rather than CRC approach. Care needs to be taken to ensure the valuation is based on the key characteristics relevant to market participants (i.e. all forms of obsolescence) and not depreciation only.

Obtaining sufficient and appropriate evidence over the useful life and remaining useful life assumptions has traditionally been a challenge.

Estimating the total useful life is extremely challenging, partly due to the long-life of many assets and an expectation that it may change from year-to-year due to changes in technology, demand and minimum service levels.

Ultimately the estimate of useful life and remaining useful life is a professional judgement based on a range of assumptions and therefore, if used in the calculation of the fair value, should be classified as a level 3 input. The only exception would be if both the date of acquisition and date of decommissioning were known (observable evidence = level 2).

Local government tasks regarding useful life and remaining useful life are as follows:

Local government tasks
<p>Valuation commencement:</p> <p>The local government must provide the valuer with information regarding as asset's useful life and remaining useful life if this data will be used as valuation inputs.</p> <p>Valuation review:</p> <p>The local government should review the valuer's assessment of useful life and remaining useful life by:</p> <ul style="list-style-type: none"> • considering the valuer's assessment of useful life and remaining useful life with reference to its own interpretation of these items • comparing the useful life assumptions adopted for assets to those used as the basis of local government's asset management plans

Local government tasks
<ul style="list-style-type: none"> • comparing useful life assumptions with useful life assumptions adopted by comparable local governments (if available) • ensuring remaining useful life is determined by condition or assessment of obsolescence rather than age-to-date; and • ensuring the useful life calculation for specific assets is not less than actual age-to-date plus remaining useful life.
<p>The local government must keep proper records of its review the valuer's assessment of useful life and remaining useful life.</p>

Indices

Indices may assist an entity to assess the fair value of an asset on an annual basis. The most relevant indices are calculated for different types of assets via analysis of comparable local government-specific projects. However, the local government may have limited projects and the cost of undertaking detailed analysis may exceed the cost of sourcing an index from either Australian Bureau of Statistics (ABS) or cost guides such as Rawlinsons.

The ABS produces a variety of statistics including the consumer price index (CPI) and the producer price indexes (PPI). Both these indexes are published on a quarterly basis. Consequently, local governments can track price movements across the financial year which may assist in financial year end assessments of asset values.

However, some published indices are usually issued months after the end of financial year. Therefore, such indices may not be available when needed or are extremely generalised covering public and private sector assets. Consequently, it may not represent the nuances of public sector assets or specific locations.

Local government tasks regarding **indices** are as follows:

Local government tasks
<p>Responsibility:</p> <p>The local government must take responsibility to assess asset values using indexes. However, in rare circumstances an external valuer may have to be employed for this purpose.</p>
<p>Review:</p> <p>Asset values measured internally by a local government must be reviewed by an independent internal assessor by:</p> <ul style="list-style-type: none"> • considering the source of the index applied for validity (is it trustworthy- good reputation?)

Local government tasks
<ul style="list-style-type: none"> • determining the appropriateness of the index (does the characteristics of the asset being valued match the characteristics of items disclosed in the index?) • considering the time functionality of the index being used (is the time difference between the index publication date and the entity’s financial year end significant?); and • tracing a sample of asset values disclosed in the valuation work papers to the index used.
<p>The local government must keep proper records regarding its review of the internal use of indices.</p>

Valuer’s report

The valuer’s report will quantify asset values and will result in updating the accounting records of the local government. Consequently, it contributes to the fair presentation of the annual financial report. The valuer’s report should include, as a minimum, the following items:

- identity of the valuer
- identity of the client
- objective of the valuation
- agreed scope of works
- approach taken
- statement regarding compliance with AAS (specifically the valuation approaches/ techniques used)
- statement regarding compliance with jurisdictional legislation
- the assets valued and the source documents used to identify such assets
- date(s) of the valuation and valuer’s reporting date (if different)
- assumptions and inputs used and the sources for all valuation inputs; and
- values of assets.

Local government tasks regarding the **valuer’s report** are as follows:

Local government tasks
<p>The local government must examine the valuer’s report by:</p> <ul style="list-style-type: none"> • comparing the agreed scope of works with the valuation report to determine the completeness of the valuer’s report

Local government tasks

- comparing the valuer’s report with the valuer’s work papers by tracing valuation amounts disclosed in the valuation report to the valuer’s work papers
- examining the valuer’s finalised work papers by:
 - reperformance of calculations (sample basis); and
 - scrutiny for unusual results, zero values, negative results, etc.
- comparing the valuer’s reported asset values for asset categories with the local government’s own records. Material differences identified between the valuer’s report and the local government’s records may be indicative of substantial movements in asset values from the previous revaluation. These material differences must be:
 - documented and verifiable (supported by source documents); and
 - considered to determine the application of AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (2021) regarding changes in accounting estimates and errors.

The Guidelines provide details as to the local government’s reviews of the valuer’s work papers throughout sections within Part B.

The local government must keep proper records regarding its examination of the valuer’s report.

Documentation

Local governments must keep comprehensive documentation to support the valuation of non-financial assets.

Specifically, local governments should record and keep documentary evidence which includes:

- an overview of the local government’s valuer procurement process including details and weightings applied to the assessment criteria and confirmation that the valuer selected possesses the necessary qualification, skills and experience
- proper records of its review of the valuer’s work
- details of meetings with valuer and all electronic communications with the valuer; and
- actions taken because of the valuer’s report.

Local government tasks regarding **documentation** are as follows:

Local government tasks
It is recommended that local governments create a valuation working file and populate it with relevant workpapers as noted in Part B of the Guidelines.

Insurance valuations

Local governments may have a range of assets that they also insure. Typically, local governments take out insurance over buildings and associated structures and some forms of infrastructure assets. While roads and similar assets are not often insured, water treatment and processing facilities are sometimes covered under insurance policies.

The valuation of assets for insurance purposes may differ from the valuation of assets for financial reporting purposes. Insurance valuations focus on the replacement cost of assets. Fair value valuations are a 'market-based measurement' of the selling price of an asset (AASB 13 Fair Value Measurement (2022:6, paragraph 2).

Even with assets valued at fair value using the cost approach, the insurance valuation may be significantly different because of a range of additional costs required to reinstate the asset. The replacement cost is adjusted downwards for financial reporting but upwards for insurance.

To provide efficiencies and to minimise the cost of additional valuation work, it is recommended that local governments consider undertaking relevant insurance valuations in conjunction with the financial reporting valuation process. Both valuation processes require consideration of the same factors, measurement of dimensions and an understanding of potential replacement costs. The extra effort for a valuer to determine the insurance valuation once they have calculated fair value using the cost approach is minimal.

Essentially it requires adjusting the current replacement cost (used to calculate fair value) for a range of allowances, such as:

- cost increases during the rebuilding period
- cost of demolition and removal of debris; and
- the following costs if not already included:
 - cost of all relevant professional fees including, but not limited to, architects, engineers, solicitors, surveyors and planning consultants
 - any foreseeable associated or incidental costs; and
 - any additional costs due to planning restrictions or due to changes in regulations relating to fire, flood and occupational health and safety legislation.

Some insurance companies may offer to provide their own valuations for the assets they are insuring. However, consideration needs to be given to whether this represents a conflict of interest by the insurance company as the level of cover provided by them and the associated premiums are linked directly to their own valuations. The use of a valuation provided by a valuer independent of the insurance company will provide a higher level of confidence that the values are not overstated (to achieve a higher premium) or understated (to ensure payouts are minimised). It is critical that entities ensure their insurance policies provide for the appropriate level of cover.

Similarly, the insurance companies may offer to provide the financial reporting valuations as part of the insurance valuation process. As with any financial reporting valuation, due consideration should also be given to the ability, qualifications and experience of the insurance valuer to undertake such valuations in accordance with the accounting standards. If they do not possess an expert understanding of the various accounting standards and concepts, they are unlikely to have the necessary skills and experience to undertake such valuations.

Attachment A: Valuation under the accounting standards

Attachment A provides guidance regarding the interpretation of AAS.

Attachment A applies across all Australian jurisdictions. However, Attachment A does not consider jurisdictional legislation which may override the guidance it provides. Consequently, if a conflict arises between jurisdictional legislation and the guidance provided in Attachment A, the jurisdictional legislation may take precedence.

Attachment A is applicable to WA, except as specifically excluded.

Introduction

The objective of Attachment A is to provide guidance for compliance with AAS, exclusively from the perspective of the valuation of non-financial assets. It is not intended, nor should it be interpreted, as a complete guide regarding compliance with AAS. It should be noted that jurisdictional legislation may override the application of Attachment A.

Accounting records are the exclusive domain of each specific entity. Consequently, each local government must ensure their accounting records comply with both AAS and any jurisdictional legislation. Local governments control a diverse range of asset types, ranging from land and buildings through to infrastructure and community assets.

The Guidelines address the following AAS:

AASB Title
AASB 13 Fair Value Measurement (2022)
AASB 116 Property, Plant and Equipment (2022)
AASB 136 Impairment of Assets (2022)
AASB 140 Investment Property (2022)
AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (2021)
AASB 5 Non-current Assets Held for Sale and Discontinued Operations (2022)
AASB 137 Provisions, Contingent Liabilities and Contingent Assets (2022)
AASB 16 Leases (2022)
AASB 1051 Land Under Roads (2020)

AASB 13 Fair Value Measurement (2022)

Definition of fair value

AASB 13 Fair Value Measurement (2022) defines fair value as follows:

(AASB 2022:7)
‘9 This Standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.’

AASB 13 Fair Value Measurement (2022) defines a ‘market participant’ and an ‘orderly transaction’ used in the definition of fair value as follows:

(AASB 2022:21-22)
<p>‘Market participant: Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:</p> <ul style="list-style-type: none"> (a) They are independent of each other, i.e. they are not related parties as defined in AASB 124, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms. (b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary. (c) They are able to enter into a transaction for the asset or liability. (d) They are willing to enter into a transaction for the asset or liability, i.e. they are motivated but not forced or otherwise compelled to do so.’ <p>‘Orderly transaction: A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g. a forced liquidation or distress sale).’</p>
Interpretation (AASB 2022:21-22)
Fair value measurement is about establishing an objective and proper value for an asset (selling price). In other words, fair value measurement excludes bias.

‘Highest and best use’ of non-financial assets

AASB 13 Fair Value Measurement (2022) states regarding the ‘highest and best use’ for non-financial assets:

(AASB 2022: 8)
‘27 A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.’
Interpretation (AASB 2022: 8)
A fair value measurement of a non-financial asset focuses on maximising the asset’s value by valuing the ‘highest and best use’ of the asset. Consequently, if an entity does not maximise the value of the non-financial asset in its own operational activities, it can sell it to another market participant who would apply the asset for its ‘highest and best use’. Therefore, it means a non-financial asset’s fair value measurement must consider alternative uses of the asset which may maximise its value.

Criteria for ‘highest and best use’

AASB 13 Fair Value Measurement (2022) states regarding ‘highest and best use’ criteria:

(AASB 2022:8)
‘28 The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows: <ul style="list-style-type: none"> (a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (eg the location or size of a property). (b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (eg the zoning regulations applicable to a property). (c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.’

Interpretation (AASB 2022: 8)

Paragraph 28:

‘Highest and best use’ is based on 3 criteria, being a market participant’s consideration as to an asset’s:

- physically possible use
- legally permissible use; and
- financially feasible (i.e. adequate income or cash flow to produce a required investment return).

Current use of a non-financial asset is presumed to be the ‘highest and best use’

AASB 13 Fair Value Measurement (2022) links current use to ‘highest and best use’:

(AASB 2022:9)

‘29 Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity’s current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.’

Interpretation (AASB 2022:9)

Paragraph 29:

- confirms having a market perspective to the non-financial asset’s ‘highest and best use’
- explicitly states the rebuttable presumption that a non-financial asset’s current use is its ‘highest and best use’; and
- confirms a non-financial asset’s fair value measurement must consider alternative uses of the asset which may maximise its value. However, paragraphs Aus29.1 and Aus29.2 limit consideration of alternative uses for non-financial assets by not-for-profit public sector entities to only two specific occasions.

December 2022 changes to AASB 13 Fair Value Measurement (2022)

December 2022: 'asset's service capacity'

The December 2022 changes to AASB 13 Fair Value Measurement (2022) added paragraph Aus28.1 to the guidance given in paragraph 28 in relation to financial feasibility:

(AASB 2022:8)

'Aus28.1 Notwithstanding paragraph 28(c), for a non-financial asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows, an asset's use is financially feasible if market participants (including, but not limited to, other not-for-profit public sector entities) would be willing to invest in the asset's service capacity, considering both the capability of the asset to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services.'

Interpretation (AASB 2022: 8)

Net cash inflows mean more money is coming into a local government than money is going out from using an asset. However, a local government's objective is service delivery and not profit. Consequently, even though a local government may levy charges for using an asset for service delivery, it may not result in net cash inflows. Therefore, a fair value measurement of a non-financial asset of a local government must consider the service capacity of the asset and not limit the asset's value to its directly attributable '*net cash inflows*'.

December 2022 changes: rules regarding 'highest and best use' measurement

The December 2022 changes to AASB 13 Fair Value Measurement (2022) added paragraphs Aus29.1 and Aus29.2 to the guidance given in paragraph 29 in relation to 'highest and best use':

(AASB 2022: 9)

'Aus29.1 Notwithstanding paragraph 29, a not-for-profit public sector entity is required to consider whether, for a non-financial asset not held primarily for its ability to generate net cash inflows, the asset's highest and best use differs from its current use only when, at the measurement date, it is:

- (a) classified as held for sale or held for distribution to owners in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations; or
- (b) highly probable that the asset will be used for an alternative purpose to its current use, in accordance with paragraph Aus29.2.'

(AASB 2022: 9)

‘Aus29.2 For the purposes of paragraph Aus29.1(b), it is highly probable that the asset will be used for an alternative purpose to its current use when, at the measurement date, all the following conditions are met:

- (a) the alternative purpose for the asset is physically possible, legally permissible and financially feasible in accordance with paragraphs 28 and Aus28.1;
- (b) the appropriate level of management is committed to a plan to change the use of the asset to that alternative purpose, and an active programme to complete the plan has been initiated;
- (c) any approvals required to change the asset’s use have been obtained; and
- (d) based on reasonably available information, it is highly probable that the current use of the asset will cease under the plan within one year.’

Interpretation: (AASB 2022: 9)

Aus29.1:

If a local government currently uses a non-financial asset (for example, land) not to generate net cash inflows [but for a public sector community use (PSCU)], value the land applying the market approach considering the current PSCU as being the land’s ‘highest and best use’ (AASB2022:9) except if one of the two exceptions applies.

This paragraph reinforces the rebuttable presumption that a non-financial asset’s current use is its ‘highest and best use’ except for the 2 listed circumstances. Consequently, except for the 2 listed exceptions, a not-for-profit public sector entity does not need to consider whether ‘a different use by market participants would maximise the value of the asset’. Therefore, it reduces undue cost and effort for not-for-profit public sector entities.

Paragraph Aus29.1 identifies 2 sets of circumstances where a local government must consider whether an asset’s ‘highest and best use’ differs from its current use:

Aus29.1(a)

A fair value measurement of the asset must appraise the ‘highest and best use’ thereof. Consequently, whether holding the asset for sale or holding the asset for distribution to shareholders is its ‘highest and best use’. If so, a fair value measurement of the asset must be determined in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations (2022).

Aus 29.1 (b)

A fair value measurement of the asset must appraise the ‘highest and best use’ thereof. Consequently, whether the highly probable alternative use for the asset is its ‘highest and best use’. If so, a fair value measurement of the asset must be determined based on the highly probable alternative use for the asset.

December 2022 changes: disclosure rules

The December 2022 changes to AASB 13 Fair Value Measurement (2022) added paragraph Aus93.2 to the guidance given in paragraph 93(i) in relation to disclosure requirements:

(AASB 2022: 17-18)
<p>‘93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Standard) in the statement of financial position after initial recognition:</p> <p>...(i) for recurring and non-recurring fair value measurements, if the highest and best use of a nonfinancial asset differs from its current use, an entity shall disclose that fact and why the nonfinancial asset is being used in a manner that differs from its highest and best use.’</p>
(AASB 2022: 19)
<p>‘Aus93.2 For a non-financial asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows, the information in paragraph 93(i) is required to be disclosed only if the entity has determined that the asset’s highest and best use differs from its current use. Such an entity is required to consider whether this difference exists only when, in accordance with paragraphs Aus29.1 and Aus29.2, at the measurement date, the asset is classified as held for sale or held for distribution to owners in accordance with AASB 5 or it is highly probable that the asset will be used for an alternative purpose to its current use.’</p>
Interpretation:(AASB 2022: 19)
<p>A ‘not for-profit public-sector entity’ with non-financial assets not held primarily ‘to generate net cash inflows’ are only required to comply with AASB 13 paragraph 93(i) (AASB 2022) if the two exceptions in AASB 13 paragraphs Aus29.1 and Aus29.2 apply. In other words, if the two above-mentioned exceptions do not apply, the local government does not have any disclosure requirements in terms of AASB 13 paragraph 93(i) (AASB 2022).</p>

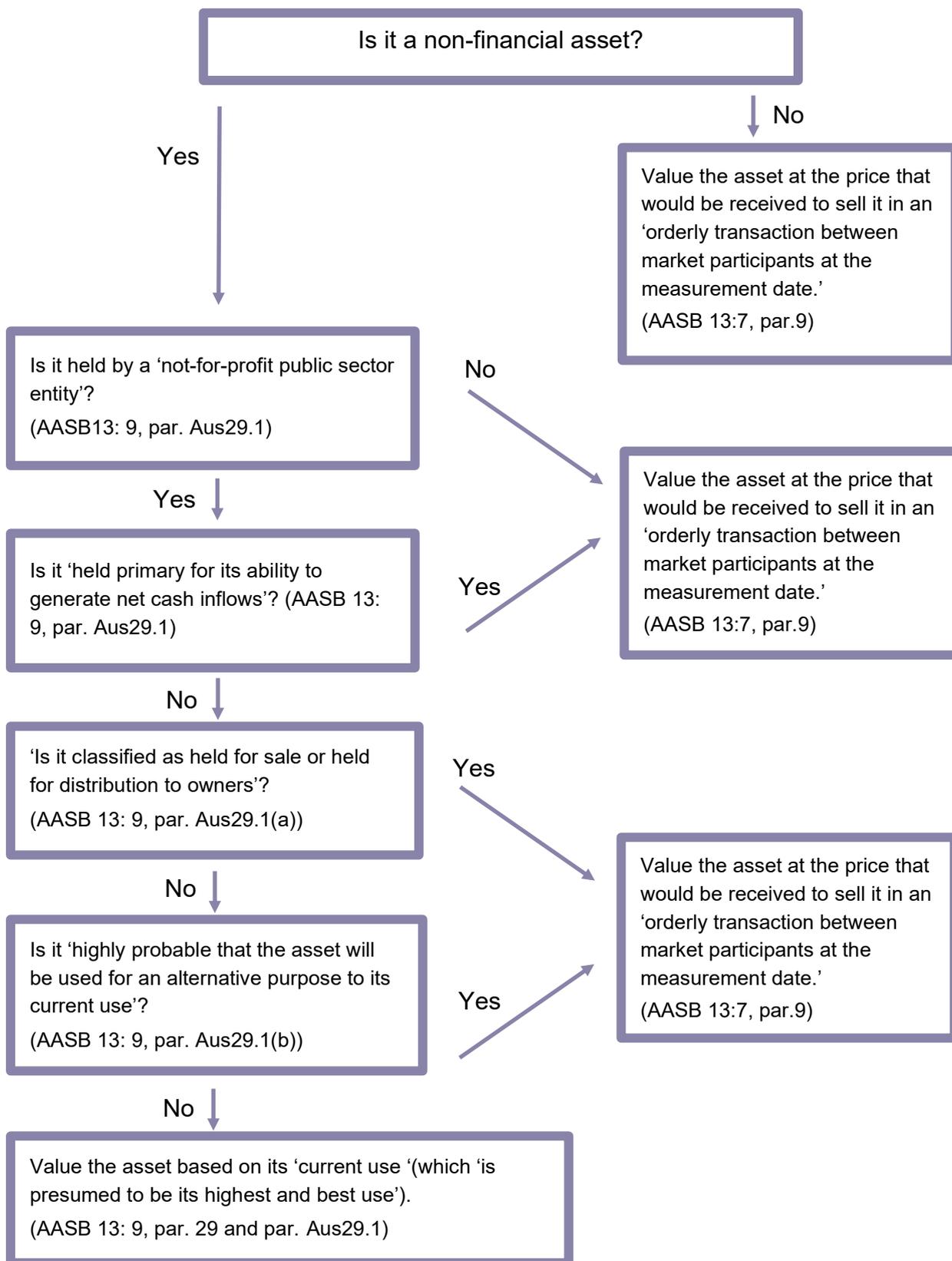
December 2022 changes: implementation date'

The December 2022 changes to AASB 13 Fair Value Measurement (2022) added paragraph AusC6.1 to Appendix C:

(AASB 2022: 33)
<p>'AusC6.1 AASB 2022-10 Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities amended AASB 13 for application by not-for-profit public sector entities.....</p> <p>A not-for-profit public sector entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2024....'</p>
Interpretation:(AASB 2022: 33)
<p>The implementation date is clear.</p> <p>Local governments must apply the amendments prospectively for annual periods beginning on or after 1 January 2024 (AASB 2022:33). As local governments have a 30 June financial year end date, their first financial year beginning on or after 1 January 2024 is the 2024-2025 financial year.</p> <p>However, in Western Australia, LG (FM) Regs overrule Australian Accounting Standards. In terms of the LG (FM) Regs, regulation 17A(4A)(b), a local government only needs to value land and buildings, infrastructure and vested improvement every 5 years. Consequently, if a local government last valued the land used as a park in the 2022-23 financial year, it only needs to revalue that land in the 2027-28 financial year.</p> <p>When the local government valued the land in the 2022-23 financial year, it would have valued it based on its 'highest and best use'(AASB 2022:8). In other words, it would not have discounted the land's value to acknowledge its use as a park. The local government can retain the measurement based on the revaluation methodology used in the 2022-23 financial year until it revalues the land, with the latest being in the 2027-28 financial year (LG(FM) Regs, regulations17A(2)(a), 17A(4), 17A(4A)(b) and 17A(4B)(b)). In other words, the local government can delay its compliance with AASB 2022-10 from the 2024-25 financial year to the 2027-28 financial year.</p>

Flowchart: Fair value measurement of non-financial assets

Application of AASB 13 Fair Value Measurement (2022: 8-9)



Valuation techniques

AASB 13 Fair Value Measurement (2022) states regarding ‘valuation techniques’:

(AASB 2022:13)
<p>‘61 An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.’</p>
<p>‘62 Three widely used valuation techniques are the market approach, the <i>cost approach</i> and the income approach.</p> <p>63 In some cases a single valuation technique will be appropriate (eg when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (eg that might be the case when valuing a cash-generating unit).’</p>
Interpretation (AASB 2022:13)
<p>Paragraph 61: Fair value measurements require adequate data and the use of a proper valuation technique.</p> <p>Paragraph 62: A local government has discretion in choosing a specific valuation technique. The chosen technique should be agreed with the valuer at the commencement of the valuation process.</p> <p>Paragraph 63: A local government also has discretion in choosing to use a combination of valuation techniques if deemed appropriate. This valuation approach should be agreed with the valuer at the commencement of the valuation process.</p>

Three widely used ‘valuation techniques’:

AASB 13 Fair Value Measurement (2022) provides explanations for the three widely used ‘valuation techniques’:

(AASB 2022: 24)
<p>‘B5 The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.’</p>

(AASB 2022: 24)

‘B8 The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

B9 From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.’

AASB (2022:25)

‘B10 The income approach converts future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.’

Application of the cost approach

The amended AASB 13 Fair Value Measurement (2022) provides further guidance to not-for-profit public sector entities regarding the cost approach:

(AASB 2022: 35)

‘Appendix F - Australian implementation guidance for not-for-profit public sector entities’

(AASB 2022:36)

‘F9 Accordingly, when measuring the fair value of a non-financial asset of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows (the subject asset) using the cost approach, an entity shall:

- (a) estimate the cost currently required for a market participant buyer to acquire or construct a reference asset (i.e. the replacement cost of a reference asset) in accordance with paragraphs F11– F15; and

(AASB 2022:36)

b) adjust the estimate in (a) for any:

- (i) differences between the current service capacity of the reference asset and the subject asset (for example, where the modern equivalent asset is engineered to a higher standard than the subject asset, such as where the subject asset is a building and the modern equivalent building has superior fire safety features and a greater number of lifts than the subject building); and
- (ii) obsolescence (physical deterioration, functional obsolescence and economic obsolescence).

F10 A reference asset is a suitable alternative to the subject asset that the market participant buyer would consider in developing its pricing assumptions about the subject asset. Identifying the most appropriate reference asset involves the application of judgement and, on occasion, detailed valuation assessments in the circumstances of the subject asset. A reference asset could be a modern equivalent asset or a replica asset (where the utility offered by the subject asset could be provided only, or more cheaply, by a replica rather than a modern equivalent asset). A modern equivalent asset is an asset that provides similar function and equivalent utility to the subject asset, but is of a current design and constructed or made using current cost-effective materials and techniques.'

Interpretation (AASB 2022: 36)

Paragraphs F9 and F10 assist a not-for-profit public sector entity in measuring the fair value of a non-financial asset 'not held primarily for its ability to generate net cash inflows' by using the cost approach. In these circumstances, using the cost approach for a fair value measurement entails choosing a reference asset and determining its current replacement cost.

Inputs to valuation techniques

AASB 13 Fair Value Measurement (2022) defines the term 'input' as follows:

(AASB 2022:21)

'Inputs The assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:

- (a) the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and
- (b) the risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable.'

Interpretation (AASB 2022:21)

Risk is inherent to fair value measurement of an asset. Two specific risks attached to fair value measurement of an asset are:

- risk attached to the valuation technique used; and
- risk attached to the ‘inputs to the valuation technique’.

Valuation technique:

A fair value measurement of an asset requires the use of discretion in choosing a particular valuation technique. However, there is a risk that the valuation technique chosen may not be the most appropriate valuation technique for valuing the asset.

‘Inputs to the valuation technique’:

Prices for an asset may be available as an input as:

- ‘quoted prices (unadjusted) in active markets for identical assets’ (AASB 13 2022: 15, par. 78), or
- ‘quoted prices for similar assets...in active markets’ (AASB 13 2022:16, par. 82(a)).

However, there may be uncertainty regarding the available quoted prices due to a significant decline in market activity. In such instance, there is a risk that the quoted price may be too high to reflect current market conditions. Consequently, the risk is that using a quoted price for a fair value measurement may not be the most appropriate input to use.

AASB 13 Fair Value Measurement (2022) guides the choice of which inputs to use and states:

(AASB 2022:14)

‘67 Valuation techniques used to measure fair value shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs.’

Interpretation (AASB 2022:14)

Risk is inherent to the use of valuation inputs. It is an ever-present risk irrespective of whether ‘observable inputs’ or ‘unobservable inputs’ are used. However, the risk attached to ‘observable inputs’ is smaller than the risk attached to ‘unobservable inputs’.

Consequently, a fair value measurement should make the most of ‘observable inputs’.

Three levels of input

AASB 13 Fair Value Measurement (2022) identifies three levels of inputs:

(AASB 2022:15)
<p>'72 To increase consistency and comparability in fair value measurements and related disclosures, this Standard establishes a fair value hierarchy that categorises into three levels (see paragraphs 76–90) the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (<i>Level 3 inputs</i>).'</p>

AASB 13 Fair Value Measurement (2022) explains the three levels of inputs as follows:

(AASB 2022: 15)
<p>'76 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.</p> <p>77 A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph 79.'</p>

AASB 2022: 16)
<p>'81 Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.</p> <p>82 If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability....'</p>

AASB 2022: 16)
<p>'86 Level 3 inputs are unobservable inputs for the asset or liability.</p> <p>87 Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, ie an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.'</p>

Interpretation (AASB 2022:16)

Paragraph 86:

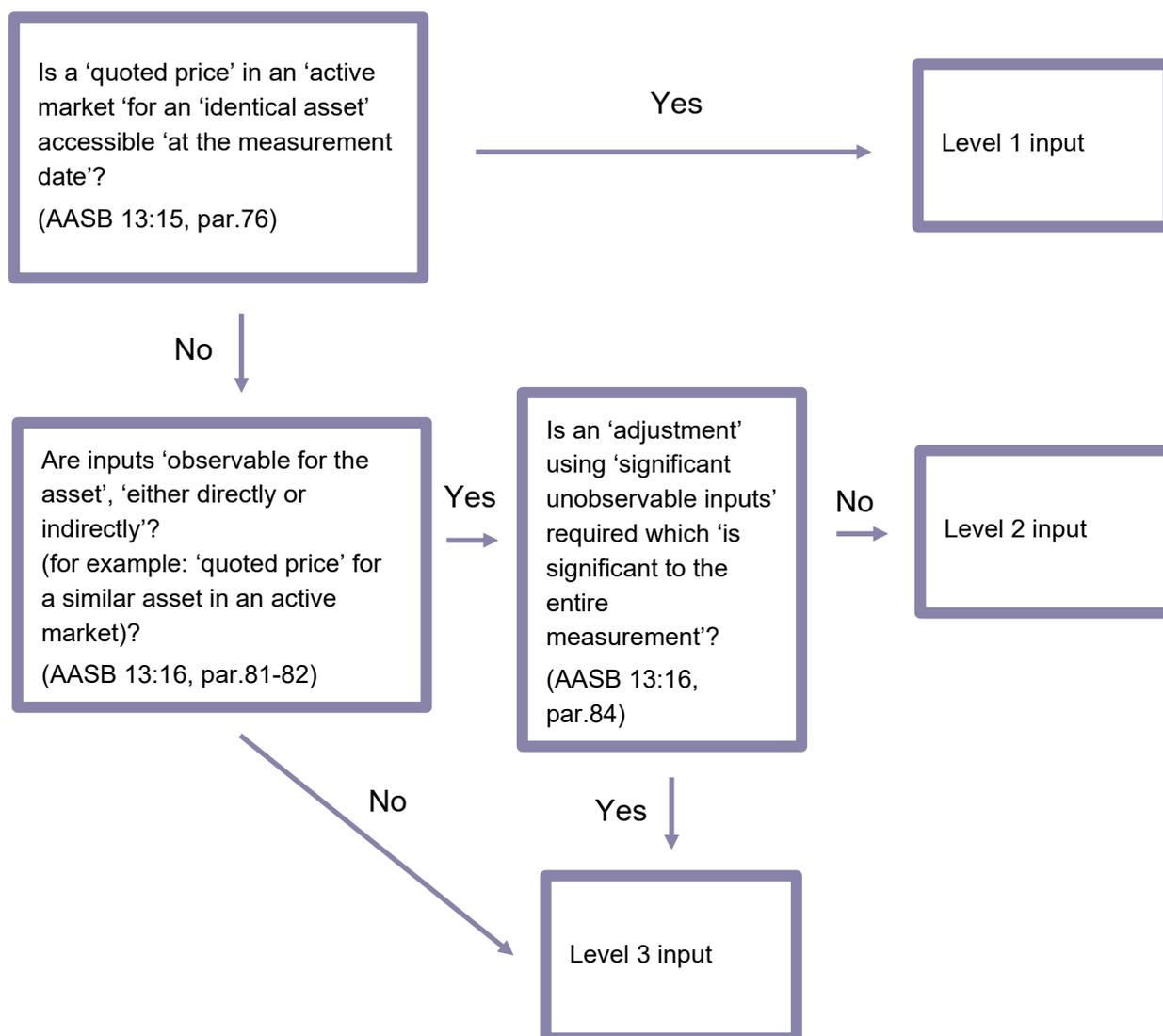
There are several instances where 'unobservable inputs' may be used in a fair value measurement. 'Unobservable inputs' mean those inputs are not available in the public domain.

For example:

There may be uncertainty regarding the available quoted prices for an asset due to a significant decline in market activity. In such instance, there is a risk that the quoted price may be too high to reflect current market conditions. Consequently, the risk is that using a quoted price for a fair value measurement may not be the most appropriate input to use. A fair value measurement of the asset will **discount the quoted price** to acknowledge the risk attached to the quoted price. The discount rate used to discount the quoted price is an 'unobservable input'.

Flowchart: Identifying the appropriate input

Application of AASB 13 Value Measurement (2022:15-16)



Note:

Level 1 and level 2 inputs are available in the public domain (while ‘unobservable inputs’ are not).

Level 3 inputs are based on assumptions regarding future values and patterns of consumption utilising current information. If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

AASB 116 Property, Plant and Equipment (2022)

Definition

AASB 116 Property, Plant and Equipment (2022) defines property, plant and equipment as follows:

(AASB 2022: 6)
<p>‘6 The following terms are used in this Standard with the meanings specified:</p> <p>...<i>Property, plant and equipment</i> are tangible items that:</p> <p>(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and</p> <p>(b) are expected to be used during more than one period.’</p>
Interpretation (AASB 2022: 6)
<p>Items of property, plant and equipment are non-financial assets as such items are:</p> <ul style="list-style-type: none"> • physical in nature • used to achieve the entity’s objective – not to generate net cash inflows • at recognition, ‘expected to be used during more than one period’; and • not traded in financial markets. <p>AASB 116 Property, Plant and Equipment (2022) interfaces with several other AAS, including:</p> <ul style="list-style-type: none"> • AASB 140 Investment Property (2022); ‘owner-occupied property’ is an item of property, and should not be accounted for in terms of AASB140 (AASB 140 2022: 6, par. 9(c)); and • AASB 1051 Land Under Roads (2020); ‘land under roads acquired ‘after the end of the first reporting period ending on or after 31 December 2007’ is an item of property (AASB 1051 2020:6, par.15).

Recognition

AASB 116 Property, Plant and Equipment (2022) states regarding recognition of such items:

(AASB 2022: 6)
<p>‘7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:</p> <p>(a) it is probable that future economic benefits associated with the item will flow to the entity; and</p> <p>(b) the cost of the item can be measured reliably.’</p>

Interpretation (AASB 2022: 6)

For not-for-profit entities, the term ‘future economic benefits’ is about using assets ‘to provide goods and services in accordance with the entities’ objectives’ (AASB Framework for the Preparation and Presentation of Financial Statements 2020: 8, par. 54.1)

In other words, ‘future economic benefits’ is a wider concept than net cash inflows generated by assets utilised.

Asset measurement at recognition

AASB 116 Property, Plant and Equipment (2022) states regarding the measurement of such items at recognition:

(AASB 2022: 7)

‘15 An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

Aus15.1 Notwithstanding paragraph 15, *not-for-profit entities* shall initially measure the cost of an item of property, plant and equipment at fair value in accordance with AASB 13 *Fair Value Measurement* where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives. AASB 1058 *Income of Not-for-Profit Entities* addresses the recognition of related amounts.’

Interpretation (AASB 2022: 7)

Paragraph 15:

The cost of an asset comprises several distinct elements.

Paragraph Aus15.1:

If a not-for-profit entity:

- obtains an item ‘to further its objectives’
- as a gift or at a nominal cost (significantly less than its fair value)

it shall initially ‘measure the cost of the asset at fair value in accordance with AASB 13 *Fair Value Measurement*.’

Sometimes, community land is placed under local government management free-of-charge. Consequently, a local government must on recognition initially measure the cost of the community land at fair value.

AASB 116 Property, Plant and Equipment (2022) states further regarding not-for-profit entities:

(AASB 2022: 8)
‘Aus15.3 In respect of not-for-profit entities, for the purposes of this Standard, the initial recognition and measurement at fair value of an item of property, plant and equipment in accordance with paragraph Aus15.1 does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 31, and the supporting commentary in paragraphs 34 and 35, only apply where an entity elects to revalue an item of property, plant and equipment after its recognition.’
Interpretation (AASB 2022:8)
Not-for profit entities may choose the ‘cost model’ (AASB 2022:10) after the initial recognition of assets at fair value, in circumstances where such assets were acquired at no cost or at a nominal cost.

AASB 116 Property, Plant and Equipment (2022) states regarding ‘elements of cost’:

(AASB 2022: 8)
‘16 The cost of an item of property, plant and equipment comprises: <ul style="list-style-type: none"> (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.’
Interpretation (AASB 2022: 8)
Directly attributable costs will include items like professional fees and project costs.

Asset measurement after recognition

AASB116 Property, Plant and Equipment (2022) enables local governments to choose one of two measurement models for a class of property, plant and equipment after recognition:

(AASB 2022: 10)
‘29 An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.’
Interpretation (AASB 2022: 10)
<p>Three issues are important:</p> <ul style="list-style-type: none"> • a local government has discretion as to its choice of measurement model (subject to any regulatory requirement(s)) • the chosen model represents an accounting policy; and • the chosen model must be applied ‘to an entire class of property plant and equipment’.

Cost model

AASB116 Property, Plant and Equipment (2022) states regarding applying the ‘cost model’:

(AASB 2022: 10)
‘30 After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.’
Interpretation (AASB 2022: 10)
If a local government chooses the cost model for a specific asset class, the valuation guidance provided in these Guidelines DOES NOT apply to that asset class.

Revaluation model

AASB116 Property, Plant and Equipment (2022) states regarding the revaluation model:

(AASB 2022: 10)
‘31 After recognition as an asset, 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. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.’

Interpretation (AASB 2022: 10)

If the revaluation model has been chosen for an asset class, the local government should, on an annual basis, assess whether that asset class's carrying amount differs materially from its fair value at the reporting date. If such an assessment suggests a material difference exists, an actual revaluation of the asset class must be performed.

AASB116 Property, Plant and Equipment (2022) states regarding the frequency of revaluations:

(AASB 2022: 10)

'34 The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.'

Interpretation (AASB 2022: 10)

Asset classes subject to the revaluation model, require an annual assessment as to whether its carrying amount differs materially from its fair value at the reporting date. This annual assessment is not dependent on the nature/characteristics of the asset class. However, an asset class's nature/characteristics may make it more susceptible to material differences between its carrying amount and its fair value. Consequently, the annual assessment may trigger more frequent actual revaluations for such assets.

AASB116 Property, Plant and Equipment (2022) states regarding having a class perspective to revaluations:

(AASB 2022: 10)

'36 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.'

Interpretation (AASB 2022: 10)

The revaluation model, if chosen as an accounting policy, must be applied across 'an entire class of property, plant and equipment' (AASB 116 2022:10, par.29). Consequently, revaluation of a single asset in a class to which the revaluation model applies will necessitate the revaluation of all assets in that class.

An asset's carrying amount at the reporting date is known (recorded in the accounting records). Consequently, the asset's fair value at the reporting date must be assessed to determine whether it differs materially from the carrying amount. The question is, which factors affect the fair value of an asset and will have to be considered in the annual assessment of an asset's fair value? These factors include:

- market factors
- asset condition
- functional (technological) obsolescence; and
- economic obsolescence.

The fair value assessment should consider:

- changes in the above-mentioned factors since the last official valuation, which
- are not reflected in the carrying amount of the asset.

Only if the annual assessment determines that an asset class's carrying amount at the reporting date differs materially from its fair value should an actual revaluation of the asset class be performed.

- The failure to assess the need for revaluations as required under AASB116 Property, Plant and Equipment (2022) creates uncertainty, specifically whether: the financial statements have been prepared in accordance with the accounting standards, and
- assets are disclosed at a fair value in the Statement of Financial Position.

If assets are not accounted for at fair value, depreciation of those assets will be inaccurate (as disclosed in the Statement of Comprehensive Income).

AASB 116 Property, Plant and Equipment (2022) states the following regarding accounting for an increase or a decrease on revaluation of an asset:

(AASB 2022: 11)
<p>'Aus39.1 Notwithstanding paragraph 39, in respect of not-for-profit entities, if the carrying amount of a class of assets is <u>increased</u> 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 recognised in profit or loss.'</p>
<p>'Aus40.1 Notwithstanding paragraph 40, in respect of not-for-profit entities, if the carrying amount of a class of assets <u>decreased</u> 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</p>

(AASB 2022: 11)

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.

Aus40.2 Notwithstanding paragraph 40, in respect of not-for-profit entities, revaluation increases and revaluation decreases relating to individual assets within a class of property, plant and equipment shall be offset against one another within that class but shall not be offset in respect of assets in different classes.'

Interpretation (AASB 2022: 11)

Scenario one:

No prior financial year asset revaluation increases or decreases carried forward:

- carrying amount of a class of assets increases – recognise the net revaluation increase in other comprehensive income and equity (revaluation surplus), or
- carrying amount of a class of assets decreases – recognise the net revaluation decrease in profit or loss.

Scenario two

Prior financial year asset revaluation increases or decreases carried forward:

- carrying amount of a class of assets increases – recognise the net revaluation increase in profit or loss ('to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in profit or loss'), or
- carrying amount of assets decreases – recognise the net revaluation decrease in other comprehensive income and equity (revaluation surplus) ('to the extent of any credit balance existing in any revaluation surplus in respect of that same class of asset').

AASB 136 Impairment of Assets (2022)

Annual assessment

AASB 136 Impairment of Assets (2022) places an annual obligation on local governments:

(AASB 2022: 7)
<p>‘6 The following terms are used in this Standard with the meanings specified:</p> <p style="padding-left: 40px;">An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.</p> <p style="padding-left: 40px;">...The <i>recoverable amount</i> of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.’</p>
(AASB 2022:8)
<p>‘9 An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.’</p>
Interpretation AASB 2022:8)
<p>Paragraph 9:</p> <p>The local government should:</p> <ul style="list-style-type: none"> • annually assess assets for an impairment indicator • if an impairment indicator exists, ‘estimate the recoverable amount of the asset’; and • account for impairment. In other words, reduce the carrying amount of the asset to its recoverable amount.

Not-for-profit entities

AASB 136 Impairment of Assets (2022) was amended by AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities which was issued in June 2016. The amended AASB 136 Impairment of Assets (2022) states:

(AASB 2022: 7)
<p>‘Aus5.1 Many assets of not-for-profit entities that are not held primarily for their ability to generate net cash inflows are typically specialised assets held for continuing use of their service capacity. Given that these assets are rarely sold, their cost of disposal is typically negligible. The recoverable amount of such assets is expected to be materially the same as fair value, determined under AASB 13 Fair Value Measurement, with the consequence that this Standard:</p>

(AASB 2022: 7)
<p>(a) does not apply to such assets that are regularly revalued to fair value under the revaluation model in AASB 116 and AASB 138; and</p> <p>(b) applies to such assets accounted for under the cost model in AASB 116 and AASB 138.'</p>
Interpretation (AASB 2022: 7)
<p>Assets accounted under the revaluation model:</p> <p>It should be noted that, if an asset is revalued, the process will (automatically) consider and account for any impairment of the asset.</p> <p>AASB 136 Impairment of Assets (2022) is not applicable if assets are comprehensively revalued on an annual basis. However, if comprehensive revaluations are not performed annually, AASB 136 Impairment of Assets (2022) is applicable, and the local government should:</p> <ul style="list-style-type: none"> • annually assess assets for impairment indicators • if an impairment indicator exists: <ul style="list-style-type: none"> ○ 'estimate the recoverable amount of the asset' (AASB 136 2022: 8, par. 9) ○ if 'the recoverable amount of an asset is less than its carrying amount', reduce the carrying amount of the asset to its 'recoverable amount' (AASB 136 2022:14, par.59). <p>Assets accounted under the cost model:</p> <p>In compliance with AASB 136 Impairment of Assets (2022) paragraph 9, an annual impairment assessment must be performed to identify any impairment indicator(s).</p>

Impairment indicators

AASB 136 Impairment of Assets (2022) states:

(AASB 2022: 8)
<p>'12 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:</p> <p>External sources of information</p> <p>(a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.</p> <p>(b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.</p>

(AASB 2022: 8)

(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(d) the carrying amount of the net assets of the entity is more than its market capitalisation.

Internal sources of information

(e) evidence is available of obsolescence or physical damage of an asset.

(f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.²

(g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.'

Recognition of an impairment loss

AASB 136 Impairment of Assets (2022) states:

(AASB 2022: 14)

'59 If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

60 An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.'

Interpretation (AASB 2022: 14)

Paragraph 59:

Impairment loss amount equals carrying amount of the asset minus its recoverable amount.

Paragraph 60:

Impairment losses of asset recorded under the revaluation model must be treated in accordance with AASB116 Property, Plant and Equipment (2022), paragraph Aus40.1 and 2.

AASB 140 Investment Property (2022)

Definitions

AASB 140 Investment Property (2022) provides the following definitions:

(AASB 2022: 5-6)
<p>‘5 The following terms are used in this Standard with the meanings specified:</p> <p><i>Investment property</i> is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:</p> <p>(a) use in the production or supply of goods or services or for administrative purposes; or</p> <p>(b) sale in the ordinary course of business.</p> <p><i>Owner-occupied property</i> is property held (by the owner or by the lessee as a right-of-use asset) for use in the production or supply of goods or services or for administrative purposes.’</p>
Interpretation (AASB 2022: 5-6)
<p>Due care must be taken not to confuse ‘investment property’ with ‘owner-occupied property’.</p>

Property Classification

AASB 140 Investment Property (2022) provides examples of the above-mentioned property classes:

(AASB 2022: 6)
<p>‘8 The following are examples of investment property:</p> <p>(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business....</p> <p>(c) a building owned by the entity (or a right-of-use asset relating to a building held by the entity) and leased out under one or more operating leases.</p> <p>9 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:</p> <p>(c) owner-occupied property (see AASB 116 and AASB 16), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.</p>

(AASB 2022: 6)
<p>Aus9.1 In respect of not-for-profit entities, property may be held to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property and will be accounted for under AASB 116, for example:</p> <ul style="list-style-type: none"> (a) property held for strategic purposes; and (b) 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.'
Interpretation (AASB 2022: 6)
<p>Due care must be taken to correctly classify property for compliance with AAS. Local governments must account for:</p> <ul style="list-style-type: none"> • 'investment property' in terms of AASB 140 Investment Property (2022) • 'owner-occupied property' in terms of AASB 116 Property, Plant and Equipment (2022) or AASB 16 Leases (2022). <p>Not-for-profit entities holding property 'to meet service delivery objectives' must account for such property in accordance with AASB 116 Property, Plant and Equipment (2022).</p>

Recognition of investment property

AASB 140 Investment Property (2022) states regarding the recognition of investment property:

(AASB 2022: 7)
<p>'16 An owned investment property shall be recognised as an asset when, and only when:</p> <ul style="list-style-type: none"> (a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and (b) the cost of the investment property can be measured reliably.'
Interpretation (AASB 2022: 7)
<p>The term 'future economic benefits' refer to capital appreciation and/or rental income.</p>

Measurement at recognition

AASB 140 Investment Property (2022) states regarding ‘*measurement at recognition*’:

(AASB 2022: 7-8)
<p>‘20 An owned investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.</p> <p>Aus20.1 Notwithstanding paragraph 20, not-for-profit entities shall initially measure the cost of the asset at fair value in accordance with AASB 13 ‘<i>Fair Value Measurement</i>’ where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives. AASB 1058 ‘<i>Income of Not-for-Profit Entities</i>’ addresses the recognition of related amounts.’</p>
Interpretation (AASB 2022: 8)
<p>A not-for-profit entity may obtain an investment property as a gift or at a nominal cost (for significantly less than its fair value) ‘to enable the entity to further its objectives’. In such an instance, the entity must initially measure the cost of the property at fair value as per AASB 13 Fair Value Measurement (2022).</p>

Measurement after recognition

AASB 140 Investment Property (2022) states regarding ‘*measurement after recognition*’:

(AASB 2022: 8)
<p>‘30 With the exception noted in paragraph 32A, an entity shall choose as its accounting policy either the fair value model in paragraphs 33–55 or the cost model in paragraph 56 and shall apply that policy to all of its investment property.’</p>
Interpretation (AASB 2022: 8)
<p>Three issues are important:</p> <ul style="list-style-type: none"> • a local government has discretion as to its choice of measurement model, • the chosen model represents an accounting policy; and • the chosen model must be applied ‘to all investment property’ (AASB 140 Investment Property (2022: 8)).

Fair value model

AASB 140 Investment Property (2022) states regarding the 'fair value model'

(AASB 2022: 9)
'33 After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value, except in the cases described in paragraph 53.'
'35 A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.'
Interpretation (AASB 2022: 9)
<p>Paragraph 33: A decision to use the fair value model must be applied to all investment properties (except as indicated in AASB 140 Investment Property (2022), paragraph 53).</p> <p>Paragraph 35: Fair value gains or losses are recognised in profit or loss in the period it arises. This practice must be distinguished from the recognition of fair value movements in the case of property plant and equipment which follows more complex rules. AASB 116 Property, Plant and Equipment (2022) in Attachment A specifically addresses the accounting treatment for an increase or a decrease on revaluation of an asset.</p>

AASB 140 Investment Property (2022) states regarding an 'inability to measure fair value reliably':

(AASB 2022: 10)
'53 There is a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably measurable on a continuing basis. This arises when, and only when, the market for comparable properties is inactive (eg there are few recent transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) and alternative reliable measurements of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity shall measure

(AASB 2022: 10)
that investment property using the cost model in AASB 116 for owned investment property or in accordance with AASB 16 for investment property held by a lessee as a right-of-use asset. The residual value of the investment property shall be assumed to be zero. The entity shall continue to apply AASB 116 or AASB 16 until disposal of the investment property.'
Interpretation (AASB 2022: 10)
<p>If on acquisition of an investment property (not thereafter), there is 'clear evidence' 'that the fair value of the investment property is not reliably measurable on a continuing basis',</p> <ul style="list-style-type: none"> • in case of 'an investment property under construction' - measure the property 'at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier)'; and • in case of an already constructed investment property: <ul style="list-style-type: none"> ○ measure the property 'using the cost model in AASB 116 for owned investment property' or ○ measure the property '<i>in accordance with AASB 16 for investment property held by a lessee as a right-of-use asset.</i>'

AASB 140 Investment Property (2022) states regarding reliable measurement at a later stage:

(AASB 2022: 10)
'53A Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value...'

AASB 140 Investment Property (2022) states regarding continued use of the fair value model:

(AASB 2022: 11)

‘55 If an entity has previously measured an investment property at fair value, it shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.’

Interpretation (AASB 2022: 11)

If an investment property has been measured at fair value, continue using the fair value model until disposal irrespective of diminished market activity.

Cost model

AASB 140 Investment Property (2022) states regarding using the ‘cost model’:

(AASB 2022: 11)

‘56 After initial recognition, an entity that chooses the cost model shall measure investment property:

- (a) in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* if it meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale);
- (b) in accordance with AASB 16 if it is held by a lessee as a right-of-use asset and is not held for sale in accordance with AASB 5; and
- (c) in accordance with the requirements in AASB 116 for the cost model in all other cases.’

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (2021)

Definitions

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (2021) states regarding accounting estimates:

(AASB 2021: 5)

'5 The following terms are used in this Standard with the meanings specified:

Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty....

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.'

AASB 2021: 10)

'32 An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Examples of accounting estimates include:

...(c) *the fair value of an asset or liability, applying AASB 13 Fair Value Measurement*'

'33 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.'

Interpretation (AASB 2021: 10)

Paragraph 32:

The fair value measurement of an asset is an accounting estimate. Risk is inherent to fair value measurement of an asset. Two specific risks attached to fair value measurement of an asset are:

Interpretation (AASB 2021: 10)

- risk attached to the valuation technique used; and
- risk attached to the inputs to the valuation technique’.

Risk creates uncertainty. In other words, ‘measurement uncertainty’ is an inherent characteristic of the fair value measurement of assets.

To prevent ‘prior period errors’ (AASB 2022: 5), local governments should review all fair value measurements of assets for, amongst others, oversights and misinterpretation of facts.

Paragraph 33:

Local governments should review all fair value measurements of assets to ensure its reasonableness.

Changes in accounting estimates

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (2021) states regarding ‘changes in accounting estimates’:

(AASB 2021: 10)

‘34 An entity may need to change an accounting estimate if changes occur in the circumstances on which the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting estimate does not relate to prior periods and is not the correction of an error.

34A The effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates unless they result from the correction of prior period errors.’

Interpretation (AASB 2021: 10)

Paragraph 34:

Changes in accounting estimates:

- must **not** be applied retrospectively . In other words, a local government does not need to restate prior year figures because an accounting estimate has changed, and
- is **not** an error.

Paragraph 34A:

If a local government changes its valuation technique (for example: from the income approach to the market approach, it is a change in an accounting estimate). Consequently, it should not be applied retrospectively, and it is not an error.

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (2021) states regarding 'applying changes in accounting estimates':

(AASB 2021: 10-11)
<p>'36 The effect of a change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:</p> <p>(a) the period of the change, if the change affects that period only; or</p> <p>(b) the period of the change and future periods, if the change affects both.</p> <p>37 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.'</p>

Interpretation (AASB 2021: 10-11)
<p>Paragraph 36:</p> <p>Changes in accounting estimates must be applied 'prospectively' not retrospectively. In other words, prior year figures must not be restated due to a change in an accounting estimate.</p> <p>Paragraph 37:</p> <p>Changes in accounting estimates may result in changes (either a decrease or an increase) which must be accounted for by adjusting the carrying amount of :</p> <ul style="list-style-type: none"> • assets or liabilities; and • equity (e.g. revaluation surplus).

Errors

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (2021) states regarding 'errors':

(AASB 2021: 11)
<p>'41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Australian Accounting Standards if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period...'</p>

(AASB 2021: 11)

42 Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.'

Interpretation (AASB 2021: 11)

Care must be taken to distinguish changes in accounting estimates from errors. Determining the fair value of an asset is an example of an accounting estimate. Consequently, changing an accounting estimate should not be accounted for as an error. However, if an accounting estimate is incorrect due to a mathematical error which is only discovered after publication of a set of financial statements, this does qualify as an error which should be treated in terms of paragraph 41.

AASB 5 Non-current Assets Held for Sale and Discontinued Operations (2022)

Classification of non-current assets held for sale

AASB 5 Non-current Assets Held for Sale and Discontinued Operations (2022) states regarding the 'classification of non-current assets as held for sale':

(AASB 2022): 6-7

- '6 An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
- 7 For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.
- 8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.'

Interpretation (AASB 2022): 6-7

Paragraph 6.

The entity must have the intention to sell the asset (not to continue using it).

Paragraphs 7 and 8:

These paragraphs set the criteria which must be complied with for the non-current asset to be classified as held for sale.

Classification of non-current assets held for distribution

AASB 5 Non-current Assets Held for Sale and Discontinued Operations (2022) states regarding the 'classification of non-current assets as held for distribution to owners':

(AASB 2022:7)

- '12A A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in

(AASB 2022:7)
<p>their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable.'</p>
Interpretation (AASB 2022:7)
<p>This paragraph sets the criteria which must be complied with for the non-current asset to be classified as held for sale.</p>

Measurement of non-current assets classified as held for sale

AASB 5 Non-current Assets Held for Sale and Discontinued Operations (2022) does address the measurement of non-current assets classified as held for sale:

(AASB 2022: 7-8)
<p>'15 An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.</p> <p>15A An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.'</p>
Interpretation (AASB 2022: 7-8)
<p>The methodology is as follows:</p> <ul style="list-style-type: none"> • make a fair value measurement of the non-current asset classified as held for sale • deduct the cost to sell the asset from its fair value • compare the calculated fair value less cost to sell with the asset's carrying amount; and • if the asset's carrying amount is greater than its fair value less cost to sell, reduce the asset's carrying amount to its fair value less costs to sell.

Presentation of non-current assets classified as held for sale

AASB 5 Non-current Assets Held for Sale and Discontinued Operations (2022) does address the presentation of such assets:

(AASB 2022: 11)
'38 An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position....'
Interpretation (AASB 2022: 11)
Such assets are disclosed separately in the Statement of Financial position under the heading: 'Current Assets'. The notes to the financial statements should provide further disclose as specified in AASB 5 Non-current Assets Held for Sale and Discontinued Operations (2022: 11, par. 41)

AASB 137 Provisions, Contingent Liabilities and Contingent Assets (2022)

Definitions

AASB 137 Provisions, Contingent Liabilities and Contingent Assets (2022) defines relevant terms as follows:

(AASB 2022: 7)

'10 The following terms are used in this Standard with the meanings specified:

A *provision* is a liability of uncertain timing or amount.

A *liability* is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

An *obligating event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A *legal obligation* is an obligation that derives from:

- (a) a contract (through its explicit or implicit terms);
- (b) legislation; or
- (c) other operation of law.

A *constructive obligation* is an obligation that derives from an entity's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.'

Interpretation (AASB 2022: 7)

These definitions explain the characteristics of terms used.

Recognition of provisions

AASB 137 Provisions, Contingent Liabilities and Contingent Assets (2022) states regarding recognition of provisions:

(AASB 2022: 8-9)

'14 A *provision* shall be recognised when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(AASB 2022: 8-9)

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

15 In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period.'

Interpretation (AASB 2022: 8-9)

This can be best explained by means of an example:

The Environmental Protection Authority (EPA) may have granted a licence to a local government to operate a landfill. Such a licence will obligate the local government to rehabilitate the landfill site at the end of its operations (when the landfill is full).

Consequently, it is a 'present obligation' (legally enforceable) which results from a 'past event'.

The local government will incur costs to rehabilitate the site at the end of its operations which will result in an 'outflow of resources embodying economic benefits'.

Rehabilitation of the landfill site will only commence when the landfill is full. In other words, an estimate will have to be made of the future expenditure that the local government will incur. In other words, it is an 'accounting estimate' (AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors 2021: 5, par. 5).

AASB 108 further states:

'33 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.'

(AASB 2021:10)

Measurement of a provision

AASB 137 Provisions, Contingent Liabilities and Contingent Assets (2022 states regarding measurement of a provision:

(AASB 2022: 11)

'36 The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.'

Interpretation (AASB 2022: 11)
<p>As stated above, regarding the landfill example:</p> <ul style="list-style-type: none"> • the local government has a present obligation (legally enforceable obligation to rehabilitate the landfill site); and • rehabilitation of the landfill site will only commence when the landfill is full. In other words, an estimate will have to be made of the future expenditure that the local government will incur. <p>AASB 137 (2022) provides guidance to help ensure the provision is the ‘best estimate’ of the future costs to rehabilitate the landfill site.</p>

Risk and uncertainties

AASB 137 Provisions, Contingent Liabilities and Contingent Assets (2022) states regarding ‘risks and uncertainties’ attached to quantification of a provision:

(AASB 2022:12)
<p>‘42 The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.</p> <p>43 Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that income or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities....’</p>

Interpretation (AASB 2022:12)
<p>The provision entails an estimate of future expenditure to be incurred to rehabilitate the landfill site. A balanced approach must be taken to help ensure the ‘best estimate’ of the provision is made (AASB 137 2022:12)</p>

Present value

AASB 137 Provisions, Contingent Liabilities and Contingent Assets (2022) states regarding ‘present value’:

(AASB 2022: 12)
<p>‘45 Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.’</p> <p>47 The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability.</p>

(AASB 2022: 12)
The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.'
Interpretation (AASB 2022: 12)
<p>Time value of money is a financial concept based on the fact that receiving \$100 today is better than receiving \$100 a year from now. If I receive \$100 today and invest it at a 5 % interest rate, I will have \$105 a year from now (which is better than receiving \$100 one year from now).</p> <p>A 'discount rate' in the context used above refers to a rate of return applied to future cash flows from an investment to calculate its present value. (For example, if I discount the future cash flow from my investment, which will pay me \$105 one year from now at a discount rate of 5%, I will calculate a present value of \$100.</p> <p>The same principles can be applied to calculate a 'present value' of the future expenditure to be incurred to rehabilitate the landfill site. There are two steps to calculating a present value:</p> <ul style="list-style-type: none"> • Step 1: calculate the expected future expenditure. • Step two: calculate the present value of the expected future expenditure. <p>A 'discount rate' is applied to the calculated future expenditure to calculate the present value thereof.</p>

Changes in provisions

AASB 137 Provisions, Contingent Liabilities and Contingent Assets (2022) states regarding 'changes in provisions':

(AASB 2022: 12)
'48 Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.'
Interpretation (AASB 2022: 12)
The goal is to make a 'best estimate of the provision' (AASB 137 2022;12). Consequently, future events which may change future costs must be accounted for in the provision if 'sufficient objective evidence' is available.

AASB 16 Leases (2022)

WA local governments must show in each financial report the carrying amount of right-of-use assets using the cost model in accordance with the AAS (as per the LG (FM) Regs, regulation 17A(2)(c).

Identification as a lease

AASB 16 Leases (2022) states regarding ‘identifying a lease’:

(AASB 2022: 7)

‘9 At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Paragraphs B9–B31 set out guidance on the assessment of whether a contract is, or contains, a lease.’

(AASB 2022: 23-24)

B9 To assess whether a contract conveys the right to control the use of an identified asset (see paragraphs B13– B20) for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset (as described in paragraphs B21–B23); and
- (b) the right to direct the use of the identified asset (as described in paragraphs B24–B30).’

Interpretation (AASB 2022: 23-24)

AASB 16 (2022) paragraphs B1 to B30 provide specific rules regarding the identification of leases. However, a detailed discussion regarding the identification of leases falls outside the scope of these Guidelines.

Recognition of a lease by a lessee

AASB 16 Leases (2022) states regarding recognition of a lease by a lessee:

(AASB 2022: 8)

‘22 At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.’

Initial measurement of a right-of-use asset by a lessee

AASB 16 Leases (2022) states regarding the ‘initial recognition of a right-of-use asset’:

(AASB 2022: 8)
‘23 At the commencement date, a lessee shall measure the right-of-use asset at cost.’
(AASB 2022: 8)
‘Aus25.1 Notwithstanding paragraphs 23–25, where the lessee is a not-for-profit entity, the lessee may elect to measure right-of-use assets on a class-by-class basis at initial recognition at fair value in accordance with AASB 13 Fair Value Measurement for leases that have significantly below market terms and conditions principally to enable the entity to further its objectives. AASB 1058 Income of Not-for-Profit Entities addresses the recognition of related amounts.’
Interpretation (AASB 2022: 8)
A not-for-profit entity has discretion, at initial recognition to measure a class of right-of-use assets at fair value in accordance with AASB Fair Value Measurement (2022) if it meets the criteria in paragraph Aus25.1.

Subsequent measurement of a right-of-use asset by a lessee

AASB 16 Leases (2022) states regarding ‘subsequent measurement of a right-of-use asset’:

(AASB 2022: 9)
‘29 After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models described in paragraphs 34 and 35.’
(AASB 2022: 10)
‘34 If a lessee applies the fair value model in AASB 140 Investment Property to its investment property, the lessee shall also apply that fair value model to right-of-use assets that meet the definition of investment property in AASB 140.
35 If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in AASB 116, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.’

(AASB 2022:10)

‘Aus35.1 Notwithstanding paragraph 35, a not-for-profit public sector entity may elect to measure a class of right-of-use assets at cost or at fair value if the entity applies the revaluation model in AASB 116 to the related class of property, plant and equipment.’

Interpretation (AASB 2022: 10)

Paragraph 34:

Compliance with paragraph 34 will result in a consistent approach being applied across all investment properties (being investment properties owned and ‘right of-use assets which meet the definition of an investment property in AASB 140’).

Paragraph Aus35.1

Compliance with paragraph Aus35.1 may result in an inconsistent measurement approach being applied to a class of right-of-use assets which relate to a class of property, plant or equipment.

AASB 1051 Land Under Roads (2020)

'Land under roads acquired before the end of the first reporting period ending on or after 31 December 2007'

AASB 1051 Land Under Roads (2020) states:

(AASB 2020: 5-6)

- '7 Other Australian Accounting Standards (including AASB 116 Property, Plant and Equipment) apply to land under roads, except to the extent that this Standard requires or permits otherwise. This Standard does not apply to land under roads that are service concession assets in accordance with AASB 1059 Service Concession Arrangements: Grantors.
- 8 An entity may elect to recognise (including continue to recognise or to recognise for the first time), subject to satisfaction of the asset recognition criteria, or not to recognise (including continue not to recognise or to derecognise) as an asset, land under roads acquired before the end of the first reporting period ending on or after 31 December 2007.
- 9 An entity shall make a final election under paragraph 8 effective as at the first day of the next reporting period following the end of the first reporting period ending on or after 31 December 2007. Any adjustments that arise from a final election that is made effective as at that first day shall be made against the opening balance of accumulated surplus (deficiency) of that next reporting period.'

Interpretation (AASB 2020: 5-6)

A local government has discretion to recognise land under roads acquired before the end of the first reporting period ending on or after 31 December 2007 as an asset if it meets the asset recognition criteria.

'Land under roads acquired after the end of the first reporting period ending on or after 31 December 2007'

(AASB 2020: 6)

'15 Land under roads acquired after the end of the first reporting period ending on or after 31 December 2007 is accounted for in accordance with AASB 116.'

(AASB 2020: 12)

'Basis for Conclusions' (BC numbering)

'This Basis for Conclusions accompanies, but is not part of, AASB 1051'

(AASB 2020: 14)

‘BC16 The Board concluded that, in principle, land under roads is property and therefore falls within the scope of AASB 116. Accordingly, it is appropriate that land under roads acquired after the end of the first reporting period ending on or after 31 December 2007 is accounted for in accordance with AASB 116. In making this decision, the Board noted that AASB 116, including paragraph Aus15.1, requires:

- (a) assets acquired at no cost, or for a nominal cost, to be initially measured at fair value as at the date of acquisition where fair value can be measured reliably; and
- (b) requires assets acquired at a cost to be initially measured at cost, but does not require adoption of the revaluation model. The Board also noted that issues relating to reliable measurement of fair value are not unique to land under roads and therefore could be dealt with in the same manner in which issues for other classes of assets are dealt with under AASB 116.’

Interpretation (AASB 2020: 6, 12 and 14)

A local government must account for land under roads acquired after the end of the first reporting period ending on or after 31 December 2007 in accordance with AASB 116 Property, Plant and Equipment (2022).

Jurisdictional legislation may override AASB 1051 (2020). Specifically, in WA , land under roads is treated as a right-of-use asset in terms of LG (FM) Regs, regulation 17A(2)(c) and is measured at zero cost.

Attachment B: Guidance on specific asset types

Attachment B is not applicable to WA except as otherwise indicated.

Attachment B provides guidance regarding the application of AAS to specific asset types.

Attachment B applies across all Australian jurisdictions. However, Attachment B does not consider jurisdictional legislation which may overrule the guidance it provides. Consequently, if a conflict arises between jurisdictional legislation and the guidance provided in Attachment B, the jurisdictional legislation may take precedence.

The information included below is provided with an aim of promoting consistency of methodology and approaches for specific asset types. However, it is recognised that different valuers, whether internal or external consultants, may adopt different methodologies or local governments may be limited due to the existing structure of their asset registers.

Guidance is included for:

- land
- buildings
- infrastructure: transport, water and wastewater
- landfills
- crossovers.

Jurisdictional rules

Basic concept

AASB 13 Fair Value Measurement (2022) addresses the concept of jurisdictional rules:

(AASB 2022: 49)
<p>‘Basis for Conclusions on AASB 2022-10’ (BC numbering) <i>‘This Basis for Conclusions accompanies, but is not part of, AASB 13.’</i></p>
(AASB 2022: 84)
<p>‘BC234 Further, the Board observed that most public sector entities do not determine their own accounting policies for applying the requirements of Australian Accounting Standards, particularly in relation to policies for transactions that are common across the public sector – those policies are determined by the Treasury or Finance Department (or other authority) or the Office of Local Government in each jurisdiction. In relation to the Board’s conclusion not to develop guidance beyond the scope of that in this Standard, if the Treasury or Finance Department (or other authority) and/or the Office of Local Government in a jurisdiction desires greater consistency in the valuation approach(es) used to measure the fair value of particular types or classes of non-financial assets in a jurisdiction, it may choose to designate a valuation approach for application to those assets held by public sector entities in its jurisdiction. In effect, where AASB 13 requires the exercise of judgement regarding the appropriate valuation approach, the Treasury or Finance Department (or other authority) and/or the Office of Local Government may apply judgement on behalf of entities in its jurisdiction.’</p>
(AASB 2022: 87)
<p>‘BC255 As noted in paragraph BC234, in deciding not to develop guidance specific to fair value measurement of land subject to public-sector-specific legal restrictions, the Board observed that if the Treasury or Finance Department (or other authority) and/or the Office of Local Government in a jurisdiction desires greater consistency in the valuation approach(es) used to measure the fair value of particular types or classes of non-financial assets in a jurisdiction, it may choose to designate a valuation approach for application to those assets held by public sector entities in its jurisdiction.’</p>
Interpretation (AASB 2022: 84 and 87)
<p>Standardisation of valuation practices will help ensure consistency and comparability of valuations approaches across local governments. It is preferable that such standardisation occur on a national level. However, jurisdictional mandates to stipulate valuation approaches must be respected.</p>

Interpretation (AASB 2022: 84 and 87)
It is recommended that each jurisdiction decides which valuation approach should be used to value different classes of assets in its jurisdiction. However, care must be taken to ensure that valuation approaches stipulated are legally enforceable.

Restrictions in general

Restrictions may affect the fair value measurement of a non-financial asset. Basically, there are two types of restrictions to consider:

Nature of restriction	Explanation and application
Transferable restrictions	<p>Explanation</p> <p>Inherent characteristic of the asset. Such restrictions will always limit the use of the asset, irrespective of who uses the asset. Consequently, use of the asset in compliance with such restrictions will be the ‘highest and best use’ thereof (AASB 13 Fair Value Measurement 2022: 8, par.27). These restrictions will be transferred on a change of ownership of the asset.</p>
	<p>Application</p> <p>Consider the restrictions in the fair value measurement of the asset.</p>
	<p>Example:</p> <p>Land zoned as agricultural land should be valued as agricultural land.</p>
Non-transferable restrictions	<p>Explanation</p> <p>Restrictions specific to the holder of the asset. Such restriction is limited to the current user of the asset. Consequently, such restrictions do not limit the ‘highest and best use’ of the asset (AASB 13 Fair Value Measurement 2022: 8, par. 27). These restrictions will not be transferred on a change of ownership of the asset.</p>
	<p>Application</p> <p>Do not consider restrictions specific to the holder of the asset in the fair value measurement of the asset.</p>

	<p>Example:</p> <p>AASB 13 Fair Value Measurement (2022: 64-65)states:</p> <p>‘BC103 Paragraph IE29 of the IASB’s Illustrative Examples accompanying IFRS 13 (which can be accessed via the AASB’s website) provides the following example of legally permissible uses of a non-financial asset:</p> <p>A donor contributes land in an otherwise developed residential area to a not-for-profit neighbourhood association. The land is currently used as a playground. The donor specifies that the land must continue to be used by the association as a playground in perpetuity. Upon review of relevant documentation (eg legal and other), the association determines that the fiduciary responsibility to meet the donor’s restriction would not be transferred to market participants if the association sold the asset, ie the donor restriction on the use of the land is specific to the association. Furthermore, the association is not restricted from selling the land. Without the restriction on the use of the land by the association, the land could be used as a site for residential development. In addition, the land is subject to an easement (ie a legal right that enables a utility to run power lines across the land).’</p> <p>‘BC104 Consistent with the IASB’s analysis in the illustrative example quoted in paragraph BC103, the Board noted that the fair value measurement of an asset:</p> <ul style="list-style-type: none"> (a) would not take into account a restriction that is specific to the entity holding the asset, ie would not transfer to market participants in a hypothetical sale transaction (eg the restriction on the use of land in the IASB’s example); but (b) would take into account the effect of restrictions that would transfer to market participants in a hypothetical sale transaction (eg the easement restriction in the IASB’s example).’
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Restrictions specific to not-for-profit public sector entities

AASB 13 Fair Value Measurement (2022:9, par Aus29.1) applies specifically to:

- ‘not-for-profit public sector entities’ regarding
- ‘non-financial assets’
- ‘not held primarily for its ability to generate net cash inflows’
- not subject to the two exceptions in paragraph Aus29.1 of AASB 13 Fair Value Measurement (2022)

(see Attachment A to these Guidelines) In such cases, **if the two exceptions do not apply**, the current public sector community use of the non-financial asset is regarded as being the asset’s ‘highest and best use’ (AASB 13 Fair Value Measurement 2022: 8, par. 27). This means the nature of restrictions on the use of the asset (being transferable or not transferable) does not affect the fair value measurement of the asset.

Nature of restriction	Application
Transferable restriction	If the asset is used in accordance with the restrictions the nature of the restrictions is irrelevant.
Non-transferable restrictions	

Land

Generally accepted valuation approach

It is not the intention of the Guidelines to prescribe whether to use the market approach, cost approach or the income approach to value land. Local governments should use discretion in choosing and consistently applying a valuation technique. However, AASB 13 Fair Value Measurement (2022) provides guidance as to the preferred valuation approach used in practice to value land:

(AASB 2022: 49)
<p>'Basis for Conclusions on AASB 2022-10' (BC numbering) <i>'This Basis for Conclusions accompanies, but is not part of, AASB 13.'</i></p>
(AASB 2022: 85)
<p>BC241 After conducting wide-ranging outreach, including outreach on ITC 45, the Board noted feedback that there is not significant inconsistency in how the fair value of restricted land and improvements on restricted land not held primarily for their ability to generate net cash inflows are being measured. In this regard:</p> <ul style="list-style-type: none"> (a) most stakeholders commented that the market approach is used to measure the fair value of land, including land subject to public-sector-specific legal restrictions; whereas improvements on such restricted land are generally considered specialised assets, for which the cost approach is generally applied in measuring their fair value; but (b) a minority of stakeholders commented that, when a parcel of land of a not-for-profit public sector entity not held primarily for its ability to generate net cash inflows is subject to public-sector specific legal restrictions, but an equivalent parcel of land with the same public-sector-specific legal restrictions is not obtainable in the marketplace at the measurement date for a price supported by observable market evidence, the fair value of such land should be measured using the cost approach.'
(AASB 2022: 86-87)
<p>BC251 Despite the debate regarding fair value measurement of land subject to public-sector-specific legal restrictions, feedback from most stakeholders in targeted outreach and most feedback on ITC 45 indicated that, in practice, the fair value of each type or class of assets affected by this issue is being measured using a largely consistent approach – that is:</p>

(AASB 2022: 86-87)
<p>(a) for land subject to public-sector-specific legal restrictions, the market approach is used (although, as noted in paragraph BC253 below, at a more detailed level, different methods are being used to calculate the adjustments to reflect restrictions); and</p> <p>(b) for improvements on such restricted land, the cost approach is generally used, and an adjustment is not deducted to reflect the effect of public-sector-specific legal restrictions because the existence of a public-sector-specific legal restriction does not affect the price that the entity would need to incur to replace the asset at the measurement date.'</p>
Interpretation (AASB 2022: 86-87)
<p>Valuing land using the market approach is the most generally accepted accounting practice in Australia. Particularly, based on AASB 13 Fair Value Measurement (2022), the market approach is used for land subject to public sector specific legal restrictions'. However, it remains the exercise of a discretionary power provided in AASB 13 Fair Value Measurement (2022).</p>

Summary

The Local Government – Code of Accounting Practice and Financial Reporting 2024/25 (NSW Government – Office of Local Government (2025)) states regarding 'significant unobservable inputs used in deriving the various Level 3 asset class fair values':

Land	Valuation technique	Unobservable inputs
NSW Government – Office of Local Government (2025)		
'Operational land'	'Market approach'	'Price per square metre'
'Community land'	'Market approach'	'Land value, land area, level of restriction'
'Land under roads'	'Market-based direct comparison'	'Extent and impact of use, market cost of land per square metre, restrictions. The market value of land varies significantly depending on the location of the land and current market conditions.'

Buildings

The Local Government – Code of Accounting Practice and Financial Reporting 2024/25 (NSW Government – Office of Local Government (2025)) states regarding ‘significant unobservable inputs used in deriving the various Level 3 asset class fair values’:

Buildings	Valuation Technique	Unobservable Inputs
NSW Government – Office of Local Government (2025)		
‘Buildings (including swimming pools and other recreational buildings)’	‘Cost approach’	‘Current replacement cost of modern equivalent asset using componentisation, asset condition, remaining lives, residual value’

Buildings should be componentised into the different elements that are managed separately from the other elements.

Infrastructure

The Local Government – Code of Accounting Practice and Financial Reporting 2024/25 (NSW Government – Office of Local Government (2025)) states regarding ‘significant unobservable inputs used in deriving the various Level 3 asset class fair values’:

Infrastructure	Valuation Technique	Unobservable Inputs
NSW Government – Office of Local Government (2025)		
‘Roads (including bridges, footpaths, bulk earthworks) and other similar assets’	‘Cost approach’	‘Asset condition, remaining lives using componentisation’
‘Stormwater drainage’	‘Cost approach’	‘Asst condition, remaining lives’
‘Water supply and sewerage network infrastructure’	‘Cost approach’	‘Asset condition, remaining lives using componentisation’
‘Other infrastructure’	‘Cost approach’	‘Asset condition and remaining lives using componentisation’
‘Tips and quarry assets’	‘Cost approach’	‘Environmental legislation, timing of expected cash outflows, asset condition’

Transport infrastructure

As with buildings, the asset should be componentised into the different elements that are managed separately from the other elements. It is recommended that sealed roads be componentised into:

- surface
- pavement
- formation.

Unsealed roads should be componentised into:

- pavement
- formation.

If desired, bridges can be assessed at the whole-of-asset level or where relevant, for asset management purposes, componentised.

The other transport infrastructure, except where relevant for asset management purposes, should be assessed at the whole of asset level.

Plant and equipment

The Local Government – Code of Accounting Practice and Financial Reporting 2024/25 (NSW Government – Office of Local Government (2025)) states regarding ‘significant unobservable inputs used in deriving the various Level 3 asset class fair values:’

Plant and Equipment	Valuation Technique	Unobservable Inputs
NSW Government – Office of Local Government (2025)		
‘Plant, equipment, furniture, fittings and office equipment’	‘Cost approach’	‘Current replacement cost of modern equivalent asset, asset condition, useful life and residual value’

Landfills

This section is applicable to WA.

‘Key issues

Accounting for landfills gives rise to three specific accounting issues, namely:

- accounting for site improvements;
- accounting for rehabilitation costs; and
- accounting for landfill airspace (intangible asset).

While each of these issues are related, from an accounting perspective they each need to be considered separately.’

(Local Government Victoria in the Department of Environment, Land, Water and Planning 2017:2)

‘Professional guidance

The following accounting standards and interpretations have been issued, providing detailed guidance and direction on the accounting issues associated with landfills:

- AASB 116 – Property, Plant and Equipment
- AASB 136 - Impairment of Assets
- AASB 137 - Provisions, Contingent Liabilities and Contingent Assets
- AASB 138 - Intangible Assets
- Interpretation 1 - Changes in Existing Decommissioning, Restoration and Similar Liabilities.’

(Local Government Victoria in the Department of Environment, Land, Water and Planning 2017:2)

‘Accounting for site improvements

The establishment of a landfill facility will result in the acquisition/construction of a range of site improvements that are necessary for the appropriate functioning and control of the facility. Upon commencement of a landfill, these assets are to be recognised in accordance with council’s asset recognition policy. Assets are to be depreciated over the life of the asset to council, or the life of the landfill site, whichever is shorter.

It is important to note that some site improvements, such as fencing, will potentially have a life that extends beyond the operational life of the site and into its rehabilitation phase, whereas others are unlikely to have a life that could exceed the operational life of the site.

Typically, site improvements capitalised as part of the establishment of a landfill will include:

- roadways
- drainage
- leachate ponds
- fencing
- site huts/shedding
- weighbridge.

Other improvements could also be included as part of this asset. Site improvements do not necessarily need to be accounted for as one asset. Where it makes sense and is more practical to do so, the individual improvements can be accounted for within other (consistent) categories. However, regardless of the approach taken, the improvements should not be given a life greater than that of the overall landfill site.’

(Local Government Victoria in the Department of Environment, Land, Water and Planning 2017:4)

‘Accounting for cell construction

In addition to site improvements, there will be cost incurred directly relating to the construction of individual landfill cells. Costs incurred in the construction of the landfill cells should be capitalised as a tangible asset. This asset should then be depreciated over the life of the cell.

It is acknowledged that at times judgement will need to be exercised to determine if particular costs are to be included as part of the cell construction or broader land improvement categories.’

(Local Government Victoria in the Department of Environment, Land, Water and Planning 2017:4)

‘Accounting for rehabilitation, monitoring and aftercare costs

Most landfills are subject to Environment Protection Authority (EPA) requirements that result in landfill operators being obligated to rehabilitate the site and continue to monitor and provide aftercare for up to 30 years after the closure of the site. The costs associated with post closure monitoring and after care are to be included in the calculation of the

rehabilitation provision. These costs are to be included for the duration of any EPA requirements.

Post closure costs cannot be offset or reduced on the basis of potential future revenue streams (such as from the sale of gas generated by the site). While future revenues may occur, offsetting these against current obligations would be effectively recognising the revenue prior to councils meeting the service delivery requirements of the contract.'

(Local Government Victoria in the Department of Environment, Land, Water and Planning 2017:5)

'Accounting for landfill airspace (intangible asset)

Initial recognition of airspace assets (intangible) and landfill rehabilitation provisions:

A rehabilitation provision shall be accounted for in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets (AASB 137). Initially the provision shall be recognised on the same basis as the intangible airspace asset.

An airspace asset is an intangible asset that is measured based on the net present value of the future cash flows required to meet the rehabilitation requirements detailed in the landfill licencing agreement. As such its initial recognition is consistent with that required for the related provision.

The process for the initial measurement of the landfill rehabilitation provision (and airspace asset) requires council to:

- determine a best estimate of the current cost to rehabilitate the landfill site based on the existing licence conditions, including post closure monitoring and aftercare costs
- index that amount out to its future value based on a reasonable estimate of likely cost increases
- discount the future value back to its Net Present Value (NPV) by applying the long-term government bond rate applicable to the discount period.

The amount determined through this calculation is the provision that will require recognition in the balance sheet as a liability. It is also most likely to represent the initial value of the airspace intangible asset.

The basis for recognising the airspace asset is within AASB 116 Property, Plant and Equipment (AASB 116). This standard, at paragraph 16, requires preparers of financial statements to incorporate, as part of the cost of an asset, the costs of site restoration. Nevertheless, it will only require such inclusion where council is obligated to make such restoration at the point of acquisition or because of the asset's use. Within the local government context this is interpreted to be the point at which council is obligated to rehabilitate the site in accordance with EPA requirements. Typically this would be at the

commencement of operations or the construction of the cell. AASB 116 provides guidance on the recognition of the elements of an assets cost, including restoration costs. As an intangible asset, guidance on the accounting for the airspace asset is contained within AASB 138 Intangible Assets (AASB 138).

An intangible airspace asset is subject to impairment tests in accordance with the requirements of AASB 136 Impairment of Assets (AASB 136). If indicators of impairment exist, an impairment test will be required. Given the significant impact that minor changes in variables can have on the valuation of an airspace asset, it would be prudent to conduct an impairment test each year. An impairment test requires council to determine the future cash flows from the landfill (tipping fees) including notional amounts saved for council's own use of the facility. The tipping fees are to be indexed out to a future value, based on expected fee growth, and then discounted back to their NPV using the long-term government bond rate.'

(Local Government Victoria in the Department of Environment, Land, Water and Planning 2017:5-6)

'Ongoing monitoring of rehabilitation provisions and airspace assets

Ongoing monitoring of rehabilitation provisions and airspace assets Both the rehabilitation provision and airspace asset will need to be recalculated annually to ensure that the provision is measured at the NPV of the best estimate of future cash outflows and that the airspace asset meets an impairment test.

The accounting for changes in the rehabilitation provision (and related assets), subject to their initial recognition, is specifically dealt with in AASB Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities (Interpretation 1).

Interpretation 1 distinguishes between changes that reflect the passage of time (also referred to as the unwinding of the discount) and other changes. The interpretation states that

- the unwinding of the discount shall be recognised in the profit and loss as a finance cost as it is incurred
- other changes such as timing or amount of economic outflow or a change in the discount rate shall be accounted for as follows:
 - if the asset is measured at cost – changes in the provision shall be added to or deducted from the cost of the asset (airspace)
 - if the asset is measured using the revaluation model – changes in the provision shall alter the revaluation increase or decrease previously recognised.

In simple terms the interpretation requires that changes, other than those reflecting the unwinding of the discount, should be recognised by making an equivalent adjustment to

the airspace asset. This is always subject to the airspace asset not exceeding the NPV of the future cash flows associated with its ongoing operations.'

(Local Government Victoria in the Department of Environment, Land, Water and Planning 2017:6)

'Determination of future costs

Given the potential for significant impacts on assets and liabilities, the accurate and complete determination of future costs is critical to the integrity of the required calculations. Accordingly, it is expected that councils will utilise appropriate expertise from within (and at times external to) council to ensure the most accurate and complete estimates can be made. It is also expected that the accuracy and completeness of cost estimates will be an area of audit focus. As such councils will be required to document the basis for the determination of the costs to a reasonably high standard.'

(Local Government Victoria in the Department of Environment, Land, Water and Planning 2017:3)

Crossovers

This section is applicable to WA.

Definitions

Crossovers are constructed across street verges. Street verges can be defined as follows:

(City of Joondalup 2025: 3)

‘A street verge is the portion of a thoroughfare which lies between the boundary of a carriageway and the adjacent property line. Verges form part of the road reserve that is owned by the Crown and managed by the City of Joondalup (the City). The verge provides a safe pedestrian space and vehicular access to properties. The verge also accommodates street lighting, footpaths, bus stops, storm water drainage and street trees along with public service utilities such as power supply, water, gas, sewerage and telecommunications cables.’

Interpretation (City of Joondalup 2025: 3)

In WA, road reserves are Crown land. Different jurisdictions may have different provisions regarding the ownership of street verges. Consequently, it is not the intention of the Guidelines to provide a legal opinion regarding ownership of a street verge.

Crossovers can be defined as follows:

(City of Joondalup 2019: 4)

‘A crossover is the extension of a driveway from the edge of the property boundary to the edge of the road. Its primary function is to provide access for vehicles across the verge which forms part of the road reserve.’

Interpretation (City of Joondalup 2019: 4)

A crossover is separately identifiable from the street verge over which it is constructed.

Asset status

The Framework for the Preparation and Presentation of Financial Statements (2020) states regarding assets:

(AASB 2020: 8)
<p>‘57 Many assets, for example, receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the entity controls the benefits which are expected to flow from the property. Although the capacity of an entity to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control. For example, knowhow obtained from a development activity may meet the definition of an asset when, by keeping that knowhow secret, an entity controls the benefits that are expected to flow from it.’</p>
Interpretation (AASB 2020: 8)
<p>Holding an asset implies that a local government have control over it.</p> <p>A local government’s control over a street verge is evident from the requirements it issues for crossovers constructed by residential property owners on street verges. Such requirements include specifications which include:</p> <ul style="list-style-type: none"> • location of crossovers • dimensions of crossovers • allowed construction materials; and • the treatment of existing local government footpaths

Item of property, plant and equipment

AASB 116 Property, Plant and Equipment (2022) defines property, plant and equipment as follows:

(AASB 2022: 6)
<p>‘6 The following terms are used in this Standard with the meanings specified:</p> <p><i>Property, plant and equipment</i> are tangible items that:</p> <p>(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and</p> <p>(b) are expected to be used during more than one period.’</p>

Interpretation (AASB 2022: 6)

A crossover can be considered as an item of property, plant and equipment as:

- it is physical in nature
- held by the local government for use in the supply of services; and
- 'expected to be used during more than one period'.

A crossover is 'held' by a local government. A local government is not required to own a crossover. It can be argued that local governments hold crossovers for use in the supply of a service being the right of community members to access a crossover (even if it is just to continue walking down a local government constructed footpath on a street verge).

Recognition

AASB 116 Property, Plant and Equipment (2022) states regarding recognition of such items:

(AASB 2022: 6)

'7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if: (

- a) it is probable that future economic benefits associated with the item will flow to the entity; and
- (b) the cost of the item can be measured reliably.'

The question must be asked: will 'future economic benefits' (AASB 2022:6) associated with crossovers (constructed by residential landowners) flow to a local government?

The Framework for the Preparation and Presentation of Financial Statements (2020) states regarding the 'future economic benefits' of assets:

(AASB 2020: 7)

'Aus49.1 In respect of not-for-profit entities in the public or private sector, in pursuing their objectives, goods and services are provided that have the capacity to satisfy human wants and needs. Assets provide a means for entities to achieve their objectives. Future economic benefits or service potential is the essence of assets. Future economic benefits is synonymous with the notion of service potential, and is used in this Framework as a reference also to service potential. Future economic benefits can be described as the scarce capacity to provide benefits to the entities that use them, and is common to all assets irrespective of their physical or other form.'

(AASB 2020: 8)

‘Aus54.1 In respect of not-for-profit entities, whether in the public or private sector, the future economic benefits are also used to provide goods and services in accordance with the entities’ objectives. However, since the entities do not have the generation of profit as a principal objective, the provision of goods and services may not result in net cash inflows to the entities as the recipients of the goods and services may not transfer cash or other benefits to the entities in exchange.

Aus54.2 In respect of not-for-profit entities, the fact that they do not charge, or do not charge fully, their beneficiaries or customers for the goods and services they provide does not deprive those outputs of utility or value; nor does it preclude the entities from benefiting from the assets used to provide the goods and services. For example, assets such as monuments, museums, cathedrals and historical treasures provide needed or desired services to beneficiaries, typically at little or no direct cost to the beneficiaries. These assets benefit the entities by enabling them to meet their objectives of providing needed services to beneficiaries.’

Interpretation (AASB 2020: 8)

Consequently, for local governments, the term ‘future economic benefits’ is about using assets to achieve its objectives – not only about net cash inflows generated by assets utilised.

The question must be asked: will crossovers help a local government to achieve its objectives? This question can be answered as follows:

(City of Joondalup 2019: 4)

‘These guidelines have been developed by the City to ensure that each crossover:

- Is of a uniform standard;
- Ensures a safe entrance and exit to the property;
- Reduces stormwater entering private property; Provides a safe and even surface for pedestrians;
- Reduces any negative impact on other infrastructure in the road reserve or surrounding area;
- Maintains and/or improves the streetscape.’

Interpretation (City of Joondalup 2019: 4)

The City of Joondalup's guidelines help ensure that crossovers are safe and create an attractive urban environment. In other words, crossovers contribute to community service which is a prime local government objective.

Fair value of resident constructed crossovers

AASB 116 Property, Plant and Equipment (2022) states regarding measuring an asset's value at recognition:

(AASB 2022: 7)

'15 An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

Aus15.1 Notwithstanding paragraph 15, not-for-profit entities shall initially measure the cost of an item of property, plant and equipment at fair value in accordance with AASB 13 Fair Value Measurement where the consideration for the asset is significantly less than fair value principally to enable the entity to further its objectives. AASB 1058 Income of Not-for-Profit Entities addresses the recognition of related amounts.'

Interpretation (AASB 2022: 7)

Local governments may contribute towards the cost of a crossover. However, residential landowners incur most of the cost for crossovers. Consequently, the local government's contribution to the crossover's value is significantly less than its fair value. Therefore, at recognition of a crossover asset, it should be valued at fair value in accordance with AASB 13 Fair Value Measurement (2022). It is suggested that the cost approach be used – current replacement cost.

Crossovers should be classified as infrastructure assets.

Attachment C: Pro-forma RFQ specifications

Attachment C provides guidance for the appointment of external valuers.

Attachment C applies across all Australian jurisdictions but. does not consider jurisdictional legislation which may overrule the guidance it provides. If a conflict arises between jurisdictional legislation and the guidance provided in Attachment C, the jurisdictional legislation may take precedence.

This attachment includes two alternative pro-forma tender specifications.

They include:

- Option 1: Valuation delivered by external valuers.
- Option 2: Collaborative approach to build the local government's internal capability to undertake their own valuations in the future.

Before selecting an appropriate approach, consideration should be given to a local government's own internal capability, needs and strategic desires.

Option 1: Valuation delivered by external valuers

Insert local government logo

Request for quotation

[Name of entity]

for

Provision of asset valuation services

Name of quote/tender	[Provision of asset valuation services]
Closing time	[Time and date of closing]
Number	[Tender reference]

1 Quotation/tender details

Item	Title of project
Project manager	[Name and contact numbers of project manager]
Due date and time	[Time and date of closing]
Delivery address	[Address of tender delivery and any special requirements, such as electronic lodgement only or marked tender box, and the number of copies required]

2 Services to be provided

[Name of local government] is seeking expressions of interest for the provision of valuation services for an x-year period. Local governments are required to capture and value its assets and account for them according with the Australian Accounting Standards (AAS) and other prescribed requirements to ensure good asset management practices and accurate and reliable accounting treatment.

The project involves the valuation of the following asset classes as at [date] as follows at fair value (FV). A comprehensive (Comp) valuation will involve physical inspection (although a sampling approach may be utilised as appropriate or reliance placed on a recent physical inspection).

Some asset classes will, in addition to fair value (FV), also require the provision of insurance values (IV):

Asset class	Basis	Revaluation threshold	2024	2025	2026
Land	[FV]	[\$1]	[Value]		
Buildings	[FV & IV]	[\$10,000]	[Value]		
Other structures	[FV & IV]	[\$2,000]	[Value]		
Road infrastructure	[FV]	[\$1]		[Value]	
Water and sewerage infrastructure	[FV]	[\$1]			[Value]
Parks and recreational assets	[FV]	[\$2,000]			[Value]
Other assets	[FV]				

Valuation outputs

The valuation outputs are to include:

Valuation data

The key valuation data to be produced in spreadsheet or database format.

at the asset class level –

- gross value (either MV or GRC)
- accumulated depreciation; and
- fair value.

at the 'Asset' level –

- gross value (either MV or GRC)
- accumulated depreciation; and
- fair value.

at the 'Component' level

- gross value (either market value or gross replacement cost), accumulated depreciation and future value; and
- condition or consumption score.

In relation to the determination of fair value under the market approach, cost approach or income approach:

- for market value – prices for market transactions of identical or similar assets
- for cost approach
 - dimensions and associated unit rate applied
 - indices applied (where relevant)
 - income approach – future cash flows and discount rate; and
 - assumptions applied in calculating the above-mentioned values.

Financial Statement Disclosure Information

Information relevant to disclosures required under AASB13 Fair Value Measurement (2022). This should include information about:

- level of valuation input
- valuation techniques; and
- the source of key inputs.

Timing

- Draft report to be provided by [*date for draft report*]; and
- Final report to be provided by [*date for final report*].

Valuation report and certificate

Signed original report setting out the process, results, limitations, qualification of the valuer, valuation certificate and summary data.

Electronic valuation report

To be provided in either Microsoft Excel or an electronic database listing each asset and component, underlying assumptions and results with hyperlinked photographs, and GIS coordinates (where appropriate).

The ability for the entity to access the electronic data and use it to upload to other systems is critical.

Valuation methodology

The valuation is required to be supported by appropriate Valuation Methodology document setting out the underlying methodology, assumptions, processes and evidence used to produce the valuation.

This needs to refer to the underlying accounting standards and demonstrate full compliance with all aspects of the accounting standards and other prescribed requirements.

3 Background information

To assist the valuer to gain an understanding of the project, the following information is provided regarding [name of entity].

Type of information	Contents
Nature of entity	[Local government]
Key contact	[Name and details of key contact]
Location (head office)	[Address and contact details]
Location of assets	[Provide overview of: <ul style="list-style-type: none"> • types of assets held • geographical spread of the assets; and • special instructions regarding access and inspections].
Linkage to other systems or processes	[Provide details of other systems or processes that may impact on the delivery of the data and conduct of the valuation. For example: <ul style="list-style-type: none"> • financial asset register asset management system; and • integration into asset management plan existing sources of data condition information].

A detailed listing of assets will be provided to potential suppliers by contacting [contact officer] direct via email on:

[contact office email address].

Or

Detailed listings of the assets to be valued are included in the attached Excel spreadsheets.

The following information is provided for quick analysis:

Asset class	Number of assets	Valuation basis	Last valuation year	Fair value
Land	[3,000]	[Market value]	[2022]	[\$56 million]
Buildings	[600]	[Market value and Current replacement cost]	[2022]	[\$67 million]
Other structures	[350]	[Current replacement cost]	[2023]	[\$45 million]
Road infrastructure	[25,400]	[Current replacement cost]	[2023]	[\$470 million]
Water and sewerage infrastructure	[32,300]	[Current replacement cost]	[2020]	[\$370 million]
Parks and recreational assets	[890]	[Current replacement cost]	[2020]	[\$8 million]
Other				

The local government must stipulate the valuation basis.

4 Definition and prescribed requirements

The valuation must comply with all Australian Accounting Standards and jurisdictional legislation. AAS include but are not limited to:

AASB Title
AASB 13 Fair Value Measurement (2022)
AASB 116 Property, Plant and Equipment (2022)
AASB 136 Impairment of Assets (2022)
AASB 140 Investment Property (2022)

AASB Title
AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (2021)
AASB 5 Non-current Assets Held for Sale and Discontinued Operations (2022)
AASB 16 Leases (2022)
AASB 1051 Land Under Roads (2020)

5 Specific requirements of the contract

Comprehensive valuations

- All assets are to be revalued at fair value in full compliance with the prescribed requirements and relevant guides as listed in the section ‘Services to be provided’.
- This includes valuing each asset as appropriate using the market, income or cost approach. With respect to the cost approach, this includes:
 - identifying all relevant costs
 - determining replacement cost for each component
 - adjusting for the differences in service potential between subject asset and modern equivalent or reference asset; and
 - determining remaining service potential based on condition and obsolescence consistent with the entity’s asset management strategies and other relevant factors.
- The valuation is to be supported by a valuation report which incorporates a valuation certificate, detailed description of the methodology employed, and all relevant information required to enable the entity to comply with AASB 13 Fair Value Measurement (2022) disclosure requirements.
- ‘Fair value’ means ‘the price that would be received to sell an asset or settle a liability in an orderly transaction between market participants at the measurement date’ [AASB 13 Fair Value Measurement (2022:7, par.9)].

Determining the fair value measurement requires an entity in conjunction with the valuer to determine all the following:

- The particular asset that is the subject of the measurement (consistently with its unit of account).
- For a non-financial asset, the valuation premise that is appropriate for the measurement [consistently with its ‘highest and best use’ (AASB 13 Fair Value Measurement (2022:8, par. 27))].
- The principal (or most advantageous) market for the asset or liability.

- The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.
- Fair value will be determined as follows:
 - where there is a quoted or an active and open market, using the market approach (designated approach for land)
 - where the value of the asset is primarily driven by its income/profit-generating capability, using the income approach; and
 - where appropriate, using the cost approach.
- All assets above the revaluation threshold, and irrespective of valuation technique, are to be disaggregated in accordance with the requirements of the accounting standards at a level that enables determination of depreciation expense for each part as well as integration into the entity's asset management framework.
- All valuations are to be completed with an effective date of [dd mmm year].
- All valuations are to be supported by sufficient and appropriate evidence to enable the local government to satisfy its legal obligations.
- Access to a copy of the complete set of the valuer's working papers (or alternatively sufficient access to the valuer's working papers for review).
- Where indicated, insurance valuations are also to be provided for each asset. In determining the insurance valuation, adequate allowances will be made for:
 - cost increases during the rebuilding period
 - cost of demolition and removal of debris
 - cost of all relevant professional fees including, but not limited to, architect's, engineer's, solicitor's, surveyor's and planning consultant's
 - any foreseeable associated or incidental costs; and
 - any additional costs due to planning restrictions or changes in regulations relating to fire, flood and occupational health and safety legislation.

6 Evaluation criteria

The evaluation criteria includes a range of mandatory and qualitative criteria.

The criteria and their respective weightings are as follows. Please ensure your proposal specifically addresses each criterion.

Criteria	Type	Weight
i	Meets timelines	[Yes/no]
ii	Insurance coverage	[Yes/no]
iii	Value for money	[20%]
iv	Methodology (including full compliance and timeframe)	[40%]
v	Relevant skills	[20%]
vi	Relevant experience	[15%]
vii	Quality assurance	[5%]
		100%

The non-price criteria are described as follows:

i. Meets timelines

The specification requires the draft to be delivered by [date for draft report] with the final report to be delivered by [date for final report].

The response for this criterion is either Yes or No.

ii. Insurance coverage

The following insurance coverage information is required. Please provide the following information and indicate whether you satisfy the minimum requirements with a Yes or No. Insurance coverage amounts should be in line with the local government's risk profile and appropriate policies.

Insurance coverage must include:

- public liability
- professional indemnity; and
- workers' compensation.

For each policy please advise:

- amount of coverage held
- name of insurer

- policy number
- expiry date
- excess; and
- whether you satisfy the minimum requirements (Yes or No).

iii. Value for money (20%)

Cost is a major consideration in valuations performed by external consultants. Consequently, quotations should be obtained from several external consultants and compared.

iv. Methodology (including full compliance and timeframe (40%)).

Proposals should include a discussion of:

- the valuation methodology to be used
- explanation of how methodology complies with AAS requirements
- the proposed process to be followed; and
- outputs that will be provided by the valuation process.

Details of all outputs should be tendered as part of your proposal.

Examples of the proposed reporting format or links to appropriate files should be included as part of the fee proposal.

It is critical that this section addresses the items identified in services to be provided and specific requirements of the contract sections.

v. Relevant skills (20%)

Proposals should include details of the relevant qualifications and expertise for all team members including subcontractors. Where subcontractors are used, your quotation should clearly identify that part of the project to be undertaken by the subcontractors.

vi. Relevant experience (15%)

Proposals should outline your experience and reputation with respect to:

- valuation of these types of assets
- valuation experience and performance with the sector; and
- provision of advice, consulting and training with respect to asset valuation.

The proposal should also outline details of any other experience or expertise that may be relevant or provide the potential to add extra value to [name of entity] because of being awarded this contract.

vii. Quality assurance (5%)

Proposals should indicate the processes they have in place to ensure a high level of quality assurance. Entities with independent third-party ISO:9001 quality management will be afforded full marks. Entities without ISO:9001 quality management certification will be limited to a maximum score of 50% of the weighting.

7 Pricing schedule

All costs are to be quoted as a fixed price (inclusive of travel, ancillary costs, and tax) using the following schedule:

Activity	Rate	Price (Inclusive of travel, ancillary costs and tax)
Valuation of assets	Total	
Provision of ad hoc advice (email and phone support)	x	

Date issued: [date of issue]

A local government may have its own evaluation process: These templates are merely examples which may be used.

Option 1: RFQ evaluation template

Names of assessors:

Position:

Date:

Ref: Provision of asset valuation services

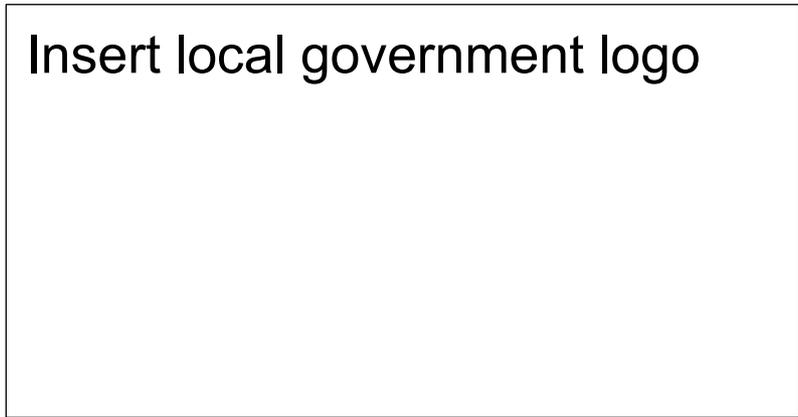
#	Criteria	Okay	Comments	Score
1	Meet timelines			[Yes/no]
2	Insurance coverage			[Yes/no]
3	Value for money			[x/20%]
4	Methodology (including full compliance and timeframe)			[x/40%]
	<ul style="list-style-type: none"> satisfies all requirements of services to be provided 			
	<ul style="list-style-type: none"> where required: market approach - is compliant with AASB 13 Fair Value Measurement (2022) 			
	<ul style="list-style-type: none"> where required: cost approach – is compliant with AASB13 Fair Value Measurement (2022) 			
	<ul style="list-style-type: none"> cost approach is based on assessment of condition, obsolescence, the entity’s asset management strategies and other relevant factors 			

#	Criteria	Okay	Comments	Score
	<ul style="list-style-type: none"> where required: income approach - is compliant with AASB13 Fair Value Measurement (2022) 			
	<ul style="list-style-type: none"> disaggregation is appropriately applied for all assets above the revaluation threshold irrespective of valuation technique 			
	<ul style="list-style-type: none"> the valuation will be supported by sufficient and appropriate evidence to enable the calculations and conclusions to be repeated 			
	<ul style="list-style-type: none"> the output includes appropriate information to enable satisfaction of the disclosure requirements of AASB 13 Fair Value Measurement (2022) and 			
	<ul style="list-style-type: none"> where relevant the insurance valuations will be established on an appropriate basis. 			
5	Relevant skills Appropriate qualifications.			[x/20%]
6	Relevant experience <ul style="list-style-type: none"> these types of assets this sector provision of advice, consulting and training and potential to add value. 			[x/15%]

#	Criteria	Okay	Comments	Score
7	Quality assurance (max 50% if not ISO:9001 certification) <ul style="list-style-type: none"> • ISO:9001 Quality Management and • feedback from customers under ISO:9001 framework. 			[x/5%]
Total score (out of 100)				

Overall comments

Option 2: Collaborative approach to build internal capability



Request for quotation

[Name of entity]

for

Development of internal asset valuation capability

Name of quote/tender	[Development of internal asset valuation capability]
Closing time	[Time and date of closing]
Number	[Tender reference]

1 Quotation/tender details

Item	Title of project
Project manager	[Name and contact numbers of project manager]
Due date and time	[Time and date of closing]

2 Objective and scope of work

Local government has traditionally outsourced the valuation of its assets. However, in conjunction with the desire to improve asset management capability, local government also wishes to develop its own internal asset valuation capability.

It is critical that the asset valuation methodology is fully compliant with AAS and enables close integration with local government’s asset management planning framework. In terms of valuation methodology, it must provide for:

- valuing assets appropriately on either market, income or cost approaches
- splitting assets into components; and
- determining a valuation based on consideration of condition, location, restrictions and general obsolescence.

The types of assets to be valued and included in the financial statements will include:

- buildings (both specialised and general purpose)
- road infrastructure
- water and wastewater infrastructure
- marine infrastructure (including wharves and jetties)
- drainage Infrastructure
- major plant
- open space and recreational assets; and
- miscellaneous infrastructure.

Data for most assets is currently available from our finance and asset management systems with some data also held in GIS.

It is expected that the project will involve:

- on-site workshops and training regarding compliance with AAS and valuation methodology
- provision of relevant valuation tools and software
- in-the-field training and mentoring of staff

- overall quality review and provision of expert advice regarding valuation under AAS
- delivery of outputs including valuations, financial reporting and outputs to support the asset management framework; and
- provision of a peer review for both valuations delivered as part of this project.

As the project’s primary objective is to develop in-house capability, it is expected that the total project will initially involve the valuation of transport assets with follow up training in the following year involving the valuation of buildings.

3 Criteria

In addition to overall fixed price, the selection process will include consideration of the following qualitative criteria:

- experience in delivering similar projects (25%)
- expertise in and experience with the provision of training regarding valuation and asset management (15%)
- project methodology include process, tools, software and timetable (10%)
- consultants proposed valuation methodology and outputs and its alignment to the overall project objectives (40%); and
- customer feedback and quality management system (10%).

The overall budget is to be provided as a fixed price including all travel, accommodation and provision of relevant tools.

4 Pricing schedule

All costs are to be quoted as a fixed price (inclusive of travel, ancillary costs, and tax) using the following schedule.

Activity	Rate	Price (Inclusive of travel, ancillary costs and tax)
Year 1 – Transport assets	Total	
Year 2 - Buildings	Total	
Software	Total	

References

Legislation

Local Government Act 1995 (WA).

Local Government (Financial Management) Regulations 1996 (WA).

Other

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AASB (2022) [Provisions, Contingent Liabilities and Contingent Assets](#) (AASB 137), AASB, accessed 29 July 2025.

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City of Joondalup (2019) [Crossover Guidelines - Residential and Non-Residential](#) (Version 2.0), City of Joondalup, accessed 30 July 2025.

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