Valuation of Assets Policy		
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PURPOSE

This non-current asset policy describes the framework and principles underlying the valuation of non-current assets for the purpose of financial reporting and preparing long-term financial forecasts.

OBJECTIVE

The objectives of this policy are:

- Ensure Longreach Regional Council (Council) complies with all relevant legislation and is closely aligned with Queensland Treasury's Non-Current Asset Policies.
- Manages its assets in a sustainable manner and for the purpose of delivering services.
- Prepares financial statements that present a fair and true representation of Council's financial position.

LEGISLATION

Local Government Act 2009 (Act)

Local Government Regulation 2012 (Regulation)

Australian Accounting Standards

REFERENCES

Queensland Treasury Non-Current Asset Policies (NCAP).[1]

Australian Accounting Standards

Council's Strategic Asset Management Plan

DEFINITIONS AND CONCEPTS

Asset	• A resource ***controlled*** by Council as a result of ***past events*** and from which ***future economic benefits*** are expected to flow to the entity.
Fair Value	• 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.

[1] This policy has been derived from this document and amended to suit Council's circumstances.

INTRODUCTION

Asset valuations play an important part in financial reporting and financial management. Financial statements must be prepared to present a fair and accurate view of Council's financial position and the updated data included in the valuations are used to estimate the replacement timing and cost of assets for the purpose of preparing the long-term financial forecast.

RECORDING ASSETS AT COST

AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* allow Council to record classes of assets at cost in lieu of fair value.

It is Council's policy that the assets to be **carried at cost** include:

• intangible assets for which there is no active market;

• work in progress; and

• the asset class plant and equipment.

While all property, plant and equipment are generally to be recorded at fair value, assets belonging to the class plant and equipment will usually have relatively short useful lives to Council, and fair values will not differ significantly from its written down value (i.e. cost less accumulated depreciation). On this basis Council will record at cost the asset class plant and equipment, in lieu of fair value.

Property, plant and equipment measured at cost are never to be revalued. The annual review of estimated useful life should ensure the assets are not fully depreciated while they retain some service potential. Even after being fully depreciated, assets carried at cost cannot be revalued.

APPLICATION OF FAIR VALUE BASIS

It is Council's policy to record **at fair value** all land, buildings, infrastructure, and open space assets.

An intangible asset is to be carried **at cost** except when there is an active market for that asset.

APPLICATION OF FAIR VALUE CONCEPTS

The term 'fair value' is defined in AASB 13 as being *"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."*

The 'fair value' concept in AASB 13, and the fair value guidance throughout the Non-Current Asset Policies, reflect an 'exit price' approach. Appendix 1 Determination of Fair Value Hierarchy Level sets out the process for identifying the fair value inputs and corresponding fair value hierarchy levels. To calculate a fair value pursuant to AASB 13, information must be obtained, and/or assumptions made, about a range of factors, including but not limited to:

• the characteristics e.g. the condition and location of the asset;

• which market a sale of that asset would take place in;

• who would buy the asset and what they would take into account;

• what is the highest and best use for the asset; and

• which costs are to be taken into account (e.g. transaction costs are not to be included, as per AASB 13).

The data used for the fair value calculation must reflect the information and assumptions that market participants would use when pricing the asset, not necessarily how Council currently uses, or intends to use, the asset.

Market and market participants

Fair value measurement assumes that the transactions are taking place in either the principal market or, in the absence of a principal market, the most advantageous market for the asset. Council must have access to the relevant (i.e. either the principal or the most advantageous) market at the measurement date. The concepts of principal market and most advantageous market are defined and explained in AASB 13.

There may be situations where specific markets and/or market participants are not readily apparent. In such circumstances, Council will approach this by considering:

• what the asset can be used for;

• who would use it for those purposes; and

• what would those parties take into account in determining a price to pay for the asset.

Valuers are generally in the best position to determine these, in consultation with Council. Council is responsible for assessing whether the valuer's assumptions are reasonable, relevant and complete. However, when such assumptions are used by management, they then become management's assumptions. As per the definition, fair value is not an entity specific value; it is based on a market participant's perspective, assuming they act in their economic best interest. The term "market participants" is defined in Appendix A of AASB 13.

Council will ensure they have given appropriate consideration to the existence of available observable inputs – refer to later in this section. Where there are insufficient relevant observable inputs, an agency will need to use unobservable data e.g. internal data on past construction costs incurred) to estimate the fair value of an asset.

Highest and best use

The fair value of a non-financial asset must be determined by reference to its "highest and best use". AASB 13 defines and explains this concept.

Council needs to be aware that the highest and best use of an asset should be determined from the perspective of market participants, regardless of how the asset is currently used or the agency's present intentions or preferences. There may be evidence suggesting that a different highest and best use would maximise the economic benefits of the asset and that use is legally permissible, financially feasible and physically possible.

Examples

1) A forestry reserve on Crown land is presently prohibited from alternative uses due to the existence of a Government regulation. In this instance, the land's current use is considered to be its highest and best use since any development opportunities are not presently legally permissible, and a market participant does not have rights to request an amendment to the regulation.

2) Vacant land controlled by an agency, and currently zoned by the local government as being for industrial purposes, is located within an outer suburb where the mix of use is progressively becoming more residential in nature. As a result, the agency's original plans to construct an area office on that land are being reconsidered. A residential development on that land would maximise the economic benefits associated with the land, and the prospects of success with that are very high. The agency is not prevented from selling that land, and it does not have a practice of seeking rezoning of land that it plans to sell. However, a property developer could lodge with the local government a rezoning request for residential development.

In this situation, the land's highest and best use is considered to be for residential development since a rezoning request is possible. In valuing the land, the valuer assesses the probability of a market participant seeking and obtaining local government approval for a rezoning request for residential purposes. The valuer also takes into account any potential costs to convert the land for residential use (that a market participant would take into account when pricing the land).

Fair value hierarchy

Regardless of which valuation technique is used, the data inputs used for the calculation (and the resulting fair value) must be categorised into one of the three levels of the fair value hierarchy described in AASB 13 – refer to paragraphs 72 – 90 of AASB 13. Appendix 1 depicts how this hierarchy applies in light of valuation inputs, and how Council will approach the valuation of assets.

The term "quoted" means there are publicly available prices for a particular item in a market. In contrast, the term "observable" is broader than "quoted" and encompasses other publicly available data which, in some cases, may only be accessible via a subscription service.

Examples of "observable" data would include prices for past property sales, advertised rental rates, reputable lists of recommended selling prices for particular items, published indices, published interest rates and yield curves etc. Examples of "unobservable" data would include past transaction prices between an entity and a supplier (where such prices are not advertised publicly), an entity's own historical data on costs incurred, and the subjective judgements applied in determining fair values.

The term "identical" is to be interpreted as meaning having exactly the same physical, financial and legal characteristics.

In measuring fair value, highest priority is given to quoted prices in active markets for identical assets and lowest priority is given to unobservable inputs. In light of this, determining fair value with reference to values of identical assets would be rare for non-current physical assets. Therefore, it is unlikely that any agency non-current physical assets would have level 1 fair values.

Valuation inputs that are observable are more reliable than inputs that are unobservable, as often unobservable inputs are derived by an entity rather than reflecting market evidence. Observable inputs used must be relevant, reliable, verifiable and appropriate to the asset's circumstances. In using observable data, Council will identify the recency of such data, to judge its relevance to fair value, and the extent to which any adjustment needs to be made in using it.

Where the use of level 2 inputs alone does not materially reflect the fair value of an asset, an adjustment to level 2 inputs may be required. An adjustment of a level 2 input using unobservable inputs that are significant to the entire fair value measurement may result in the entire fair value measurement being categorised as level 3.

In some instances, however, there will be no observable inputs available. This is expected to be the case for specialised assets such as infrastructure (e.g. roads, water treatment plants and weirs) and specialised buildings such as the civic centres. In those situations, Council must use unobservable inputs to the extent that relevant observable inputs are not available. Like the use of observable inputs, the unobservable inputs used must reflect the assumptions market participants would use when pricing the asset. An example of unobservable data is internal data on past construction costs for a particular asset.

Regardless of whether or not an external party has been engaged, Council must review and understand the inputs and other assumptions used in valuations to determine the appropriate categorisation of the overall fair value measurement in the fair value hierarchy.

Transfers between levels

From year to year, Council must review the fair value levels assigned to their assets in light of changed asset characteristics (e.g. age, condition etc.), changes in market conditions and/or valuation techniques and changes in the nature/quality and significance of data inputs used in determining fair value.

Transfers of asset values between fair value levels are expected to be rare. Any necessary transfers of asset values between fair value levels are to take effect in conjunction with the recognition of the associated revaluations.

VALUATION APPROACHES

Market approach

When observable data for similar assets is available, that data is likely to represent the best indicator of the asset's fair value. For that reason, some land and general non-specialised buildings are valued using a market approach.

Cost approach

Current replacement cost (CRC) is the valuation technique adopted by Council under the cost approach.

CRC reflects the cost to acquire the service potential embodied in an asset, adjusted to reflect the asset's present condition/physical deterioration, functionality (technological) obsolescence and economic obsolescence.

Where the remaining service potential from the asset is assessed as having changed, this is to be taken into account in the revaluation. Adjustments to useful life may also be required. Sufficient knowledge of the asset circumstances is required in order to properly assess the asset's remaining service potential and physical/economic/functional obsolescence.

CRC can be determined in one of two ways:

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

• as the cost of reproducing or replicating the future service potential of the asset itself.

Example

A bridge is constructed of wood. A replacement bridge would be constructed of concrete; therefore the replacement cost is adjusted for the difference in utility and also for the remaining useful life of the existing bridge.

The application of CRC should capture all of the costs (i.e. materials, labour, design etc) that would be incurred at the date of valuation by a market participant seeking to construct an asset with comparable service potential. Where Council has records of actual construction costs for a new asset, those costs are relevant to the asset being valued, and Council is confident there is no significant change in those costs between the date of completion and date of valuation, those actual cost of construction may be used as an appropriate starting point for CRC.

Indicators of Change in an Asset's Service Potential/Capacity

Indicators of a reduction in future service potential/capacity in the public sector include: physical deterioration, functional (technological) obsolescence and economic obsolescence.

As part of the annual revaluation process for such assets, Council will have a framework in place to ensure that any **changes in an asset's service capacity** are identified and reflected in an agency's annual valuation process.

Example

If an engineer in the field determined that pipes were cracked which reduced the service capacity and remaining useful life of the asset, the documented agency framework would outline processes to ensure that:

- the field assessment is recorded in the asset management system;
- an assessment of the reduction in service capacity/potential is made and the remaining useful life;
- the determination is notified to the staff responsible for maintaining the asset register and the agency's asset accounting;
- the specific change in circumstances are communicated when instructing the valuer responsible for determining the revalued amount of that asset;
- Any revaluation decrement is recorded in the appropriate revaluation surplus/Statement of Comprehensive Income and accumulated depreciation as appropriate.

Some examples of these indicators are outlined in the following table. Agencies will note that these indicators of change in service capacity/potential are similar to the indicators of impairment for assets within the public sector identified in Appendix 4.2 of NCAP 4 (which also contains several illustrative, practical examples).

Indicator of Change in Service Potential / Capacity	Potential Impact on Service Potential
1. Cessation of the demand or need for services provided by the asset	The asset still maintains the same service potential embodied within, but demand for that service has ceased. (In such circumstances, agencies should refer to NCAP 4).
2. Significant long-term changes in the technological environment with an adverse effect on the asset	The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service.
3. Significant long-term changes in the legal or government policy environment	An asset's service potential may be reduced as a result of a change in a law or regulation.
4. Evidence is available of physical damage or deterioration of an asset	Physical damage/deterioration would likely result in the asset being unable to provide the level of service that it once was able to provide.
5. Changes in environmental conditions	An asset's service potential may be reduced as a result of environmental changes.
6. Significant long-term changes in the extent to which an asset is used, or is expected to be used.	If an asset is not being used to the same degree as it was when originally put into service or the expected useful life of the asset is shorter than originally estimated, the service capacity of the asset may be reduced. A significant long-term decline in the demand for an asset's services may translate itself into a significant long-term change in the extent to which the asset is used.
7. Significant long-term changes in the manner in which an asset is used, or is expected to be used.	If the asset is not being used in the same way as it was when originally put into service, the asset's service capacity may require reassessment or reduction.
8. Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected	Internal reports may indicate that an asset is not performing as expected or its performance is deteriorating over time.

REVALUATION METHODS AND FREQUENCIES

It is necessary that regular revaluations be performed to ensure the carrying amount of the assets do not differ materially from their fair value at the end of each reporting period, as

required by AASB 116 *Property Plant and Equipment*. Therefore, Council must have reasonable, robust and supportable evidence that the resulting asset class values materially represent fair value at reporting date.

AASB 116 states that the frequency of revaluations will depend upon the changes in fair values of the items of property, plant and equipment being revalued. AASB 116 further states that for property, plant and equipment assets that experience significant and volatile changes in fair value, annual revaluation will be required.

Methods of Revaluation

To ensure the carrying amounts of Council's asset classes reflect their fair value at reporting date, subject to materiality, Council is to annually revalue its asset classes, except for plant and equipment.

Revaluation of an asset class incorporates either or both of the following methods:

• specific appraisals undertaken by an independent professional valuer (or other relevant professional) or internal expert (refer below sub-section); and

• use of appropriate and relevant indices.

Specific appraisals are required:

• to the extent that it has been more than five years since the individual asset has been subject to a specific appraisal; **OR**

• indicators exist that the asset class has experienced a significant and volatile change in value (refer above) since the last revaluation (regardless of how recent that was, and regardless of whether it was a specific appraisal or indexation), in which case all assets in that class must be revalued.

Indexation should be undertaken:

• to the extent that the individual asset has been subject to specific appraisal within the previous five years; **AND**

• where the cumulative percentage change (refer below examples) in the relevant index has been more than 5% since the last revaluation (either by specific appraisal or indexation); **AND**

• where indicators do not exist that the asset class has experienced a significant and volatile change in value (refer above) since the last revaluation (either by specific appraisal or indexation).

Materiality

For asset classes that are required to be carried at fair value, the concept of materiality should be considered by Council. On that basis:

• where the total value of Council's assets in a mandatory asset class is immaterial compared to the total balance of Property Plant and Equipment - Council has discretion about whether or not to revalue (by any method);

• where the change in the total value of an asset class, since the last revaluation, can be demonstrated to be immaterial, Council has discretion about whether or not to account for that change.

Significant and Volatile Change in Fair Value – Requirement for Specific Appraisal

In terms of AASB 116, it is Council's policy that a 'significant' change in value has occurred when there are indicators to suggest that the value of the asset class has changed by 20% or more. (In the absence of a definition of 'significant' in the accounting standards, this policy position is based on the concept of 'significant influence' in accordance with AASB 128 *Investment in Associates* which provides that if an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has 'significant influence', unless otherwise demonstrated not to be the case.)

Examples of indicators that the fair value of an asset class may have experienced a 'significant' change include (but are not limited to):

• increases in interest rates;

• rapidly deteriorating property markets;

• changes in prices of raw materials (if applicable) by more than 10%; or

• rapid wage growth in the construction industry (if applicable).

For the purposes of this policy, an asset class is deemed to be 'highly volatile' if the upward or downward movement in the value of that class is rapid over a short period of time. An asset class is perceived to have 'low volatility' if the value of the class changes steadily and slowly over the medium to long term.

Use of indices

For the purposes of audited financial statements, CPI is **not** an appropriate index for the revaluation of non-current physical assets.

The use of indices may be limited by the availability and timeliness of an index appropriate to a particular type of asset. As far as possible, indices used must maximise the use of observable data and minimise the use of unobservable data. Indices applied to asset values should ideally be consistent with the underlying data inputs used for the last specific appraisal.

For example:

• if the last specific appraisal was based on market selling prices for similar assets, subsequent indices should also reflect changes in market selling prices for similar assets.

• if the last specific appraisal used a current replacement cost technique, subsequent indices should also reflect changes in construction costs for similar assets. In this respect, specialised buildings may be indexed using a Building Price Index (BPI) based on recent tenders for typical specialised buildings. For residential buildings, the Cordell Housing Price index may be useful.

Council must ensure that the application of such indices would result in a valid estimation of the asset's fair value at reporting date. This requires that Council ensures there is sufficient evidence that the index used is robust, valid and appropriate to the assets to which it is being applied.

The process of ensuring there is evidence should include, but not necessarily be limited to:

• seeking assurances from an expert, e.g. an independent professional valuer or other relevant professional, with the skills and experience considered appropriate to provide such assurances to management that the index used is robust, valid and appropriate to the assets to which it is being applied;

• testing, and periodic reviews, of the appropriateness of the index to an asset (or sample of assets) for reasonableness, including (but not limited to) comparing the results to similar assets that have been valued by an independent professional valuer (or other relevant professional) or internal expert;

• ensuring any significant trends or short-term volatility are reflected in the determination of the index, and assessing whether any further procedures (e.g. a specific appraisal) are warranted; and

• documenting this process of assurance, the assumptions and findings from the assurance process.

Council has the option of choosing only to account for the impact of indexation if the cumulative change in the index results in a 5% or greater (either positive or negative) change in the reported asset balances.

Cumulative change refers to the movement in the relevant index compared to the base year, i.e. the year when the asset was last revalued. The following examples below illustrate how the cumulative change can be calculated using annual percentage changes in the relevant index.

Example 1 – Identification of 'cumulative' percentage change (annual changes in same direction)

Year 1 - the percentage change in the relevant index from Year 0 to Year 1 for a particular type of asset is an increase of 3%; therefore the change in the index was not accounted for.

Year 2 - the percentage change in the same index from Year 1 to Year 2 for that type of asset is a further increase of 3%. As these changes are expressed in percentage (i.e. relative) terms, the cumulative change from Year 0 to Year 2 would also include the effect of compounding – in this example that would amount to an overall increase of 6.09%*. Therefore, indexation of 6.09% should be accounted for in Year 2.

* 6.09% = Year 1 % change + Year 2 % change + compounding effect between Year 1 & 2

i.e. 3% + 3% + 3% x 3%

Example 2 – Identification of 'cumulative' percentage change (annual changes in different directions)

Year 1 - the percentage change in the relevant index from Year 0 to Year 1 for a particular type of asset is an increase of 3%; therefore the change in the index was not accounted for.

Year 2 - the percentage change in the same index from Year 1 to Year 2 for that type of asset is a decrease of 2%. As the cumulative change from Year 0 to Year 2 is 0.94%#, no indexation was accounted for in Year 2.

#0.94% = Year 1 % change + Year 2 % change + compounding effect between Year 1 & 2
i.e. 3% – 2% + 3% x-2%

Year 3 – the percentage change in the same index from Year 2 to Year 3 for that asset is a 2% increase. As the cumulative change from Year 0 to Year 3 is now 2.96%^, no indexation will be accounted for in Year 3.

^ 2.96% = Year 1 to Year 2 cumulative compounding change + Year 3 % change + compounding effect between Year 1 & 2 and Year 3
i.e. 0.94% + 2% + 0.94% x 2%

TIMELINESS AND TIMING OF REVALUATIONS

Council will plan to obtain and recognise asset revaluations prior to financial year end to allow early external audit review and to reduce work in finalising financial statements after year end.

As revaluations are likely to be recognised well before the end of the reporting period, Council will adhere to a process to identify subsequent changed circumstances that would cause the recognised fair values to differ materially from their fair values at the end of the reporting period. Asset values recognised still need to materially reflect fair value as at year end (refer to paragraph 31 of AASB 116). For this reason, Council will take reasonable steps

(possibly by subsequent liaison with valuers etc) to ensure fair values recognised earlier in the financial year remain reliable at year end.

ACCOUNTING FOR REVALUATIONS – GROSS VS NET METHOD

It is Council's policy that:

• the net method of revaluation be used for specific appraisals using a market approach, where the assets so valued comprise a material proportion of the relevant class;

• the gross method of revaluation be used for specific appraisals using a cost (e.g. current replacement cost) approach, where the assets so valued comprise a material proportion of the relevant class; and

• subsequent indexation should not cause a change in the method of revaluation used in the last specific appraisal.

It is important that valuers (or other relevant professionals) are instructed as to the method of revaluation that applies under the circumstances. For example, for assets valued using a current replacement cost approach, for the purpose of restating accumulated depreciation under the gross method Council should explicitly request both the gross replacement cost and new fair value (i.e. carrying amount).

Subsequent to initial application of the above policies, where an agency needs to change the broad valuation approach (e.g. from a market valuation to current replacement cost or vice versa) for an asset (which is expected to be rare), this will necessitate a change between the net and gross methods of revaluation. Such a change in revaluation method should be treated as a change in accounting estimate, as explained in paragraphs 65 - 66 of AASB 13. Therefore, such a change is to be applied prospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, but agencies should note the guidance in paragraph 66 of AASB 13 (regarding the disclosure requirements in AASB 108).

Depreciation subsequent to the revaluation continues to be accounted for in accordance with applicable requirements under AASB 116.

Authorised by resolution as at 12 December 2024:

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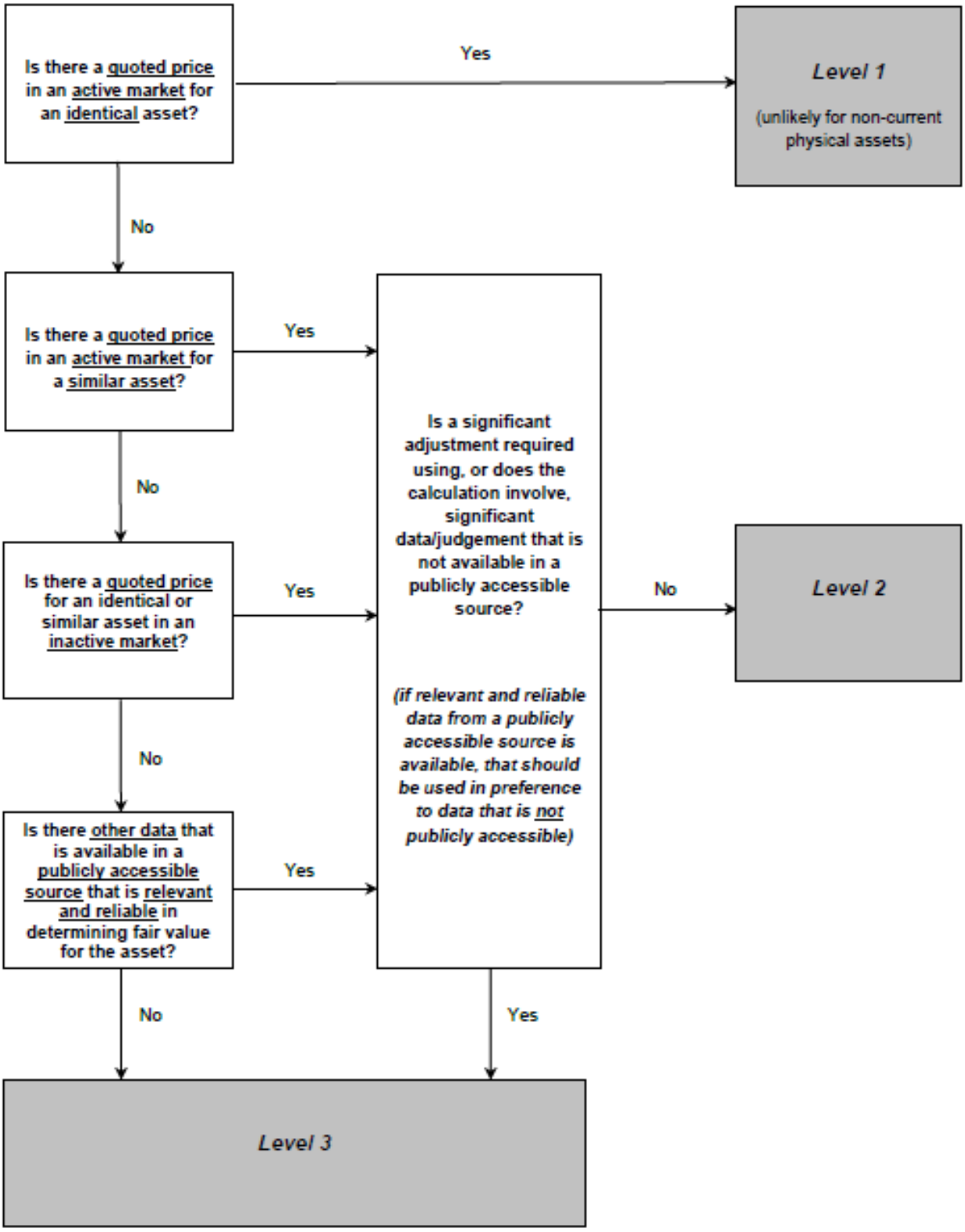
Chief Executive Officer

APPENDIX 1 – DETERMINATION OF FAIR VALUE HIERARCHY LEVEL



APPENDIX 2 – FAIR VALUE MEASUREMENT ADOPTION

Asset class	Examples of types of assets	Expected fair value level	Likely valuation approach	Net vs gross revaluation method
Land	Where there is an active market – vacant land or land not subject to restrictions as to use or sale	Level 2	Market	N/A as land is not depreciated
Buildings	Residential properties, general buildings	Level 2	Market	Net method
Buildings	Other buildings	Level 3	Cost approach	Gross method
Infrastructure	Roads, water, sewer, park equipment etc	Level 3	Cost approach	Gross method