



Government Asset Valuation Policy 7.101 Measurement of Asset Values

Background

There are many different ways in which real assets can be valued. Historical cost, replacement cost, net present value, current cost, deprival value, fair value and market value are all feasible alternatives which are appropriate for different situations and purposes. Some of the uses to which property valuations can be put include asset management, capital budgeting, financial reporting, cost calculation and performance assessment. Valuations made under the Valuer General's delegated authority are required to be consistent and in accordance with accepted standards.

Policy

Treasurer's Instruction TI954 "Revaluation of Current Physical Assets" requires agencies to measure land and buildings on the FAIR VALUE basis for 30 June 2005 reporting onwards. Accounting Standard AASB 1041 "Revaluation of Non Current Assets" contained transitional provisions expiring 30 June 2005 that allow agencies to progressively revalue a class of assets from cost to fair value.

AASB 116 which replaced AASB 1041, defines Fair Value as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction" (AASB 116 Definitions Para. 6. p10). It is in accordance with AASB 116 that the Valuer General will value land and buildings for financial reporting.

Fair Value is measured having regard to the highest and best use of an asset for which market participants would be prepared to pay. There is a going concern presumption and it is assumed that an asset is exchanged after an adequate period of marketing. The following guidance on fair value is provided in the Standard.

The fair value of an asset is measured at:

- The asset's quoted market price in an active and liquid market where such a price exists;

Or

- Where a quoted market price in an active and liquid market does not exist for the asset, fair value is estimated by reference to the best available market evidence of the price at which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, having regard to the highest and best use of the asset for which market participants would be prepared to pay.



Whilst real estate is held to trade in a market not considered to be active and liquid, it is still the case that for non-specialised property types, the replacement cost would normally be derived from direct comparison with sales evidence occurring around the date of valuation. Current market prices and the prices of the most recent transaction for the same

or similar assets can usually be observed for non-specialised assets such as land, non-specialised buildings, used motor vehicles and some forms of plant and equipment. Buying and selling prices are normally approximately equal.

For specialised assets, market buying and selling prices may substantially differ. In these circumstances fair value is the assets' market buying price, the best indicator of which is the cost of replacing the assets' remaining future economic benefits.

Highest and Best Use

Commentary in AASB 116 states that fair value is measured having regard to the highest and best use of an asset for which market participants would be prepared to pay. This may not be the existing use of an asset. However, as discussed below, assets in the public sector are not always available for their highest and best use. Highest and best use is to be interpreted as the feasible alternative use of an asset.

Where assets are non-specialised and have no legal, natural or socio-political restrictions on their potential use, the feasible alternate use of an asset equates to the highest and best use. Such assets are commonly referred to as market type assets and are valued at market value.

In assessing the feasible alternative use of an asset, an agency may take into account that the alternative use is feasible.

Existing Use

In the public sector many assets have restrictions or limitations placed on their use and disposal. Parks, gardens, other reserves and heritage buildings fall into this category. Assets held to deliver a specific community service, such as schools, police stations, hospitals, prisons and other specialised assets fall into this category (where they are not surplus to requirements). Such assets are held by agencies for their value in use and accordingly, fair value is measured having regard to the current or existing use of the asset. Such assets do not have a feasible alternative use and are commonly referred to as non-market type or current use assets.

For many of these assets the fair value cannot always be determined by direct reference to a market (as there is no market, or the market is not sufficiently well developed, for an asset in its current use). Where no market evidence of an assets' value is available, the cost of replacing the assets' remaining future economic benefit, i.e., the written-down current replacement cost (current cost less, where applicable, accumulated depreciation) is the fair value of the asset.



In addition to recording the asset value for each item of property on the Government Property Register a hypothetical market land value for the non-market (current use) properties is also to be determined and recorded on the register. This value may or may not equate to the fair value of the asset and will depend on the circumstances in each case. Both values are provided on the Government Property Register to increase the information resource and uses to which the register can be put. The disposal value will generally reflect their market value for the free holding of Crown or Reserve land based on its agreed potential use.

Surplus Assets

Surplus Assets should be valued at market value.

Heritage Assets

Mandated by Government to be replicated requiring a valuation of the reproduction cost and the value of land supporting the heritage asset.

SUMMARY

The value to the entity in most cases will be measured by the replacement cost of the services or benefits currently embodied in the asset. It will normally represent the cost avoided as a result of controlling the asset. Replacement cost represents the amount of cash necessary to obtain an equivalent or identical asset. For the class of real assets called land and buildings, the best indicator will be derived from sales of comparable property occurring at the date of valuation.

An advantage of the fair value approach is that the measurement and depreciation of assets provides relevant information about the current cost of providing goods and services and the current value of the resources deployed for the purpose.

Fair value provides data from which it can be determined as to whether the capacity of the entity to continue its present level of operations has been maintained. Consequently inadvertent erosion of the entity's operating capacity can be avoided. It also reflects price changes that are relevant to the particular classes of assets held by an entity, as opposed to those based on a general index of price changes.

Date on which this policy came into force

1 January 2005



Date of Most Recent Review

31 January 2006

Authorising Officer

A handwritten signature in black ink, appearing to read "G Fenner".

G Fenner, Valuer General