

Asset Valuation



Council Policy Number	136
Date adopted	23 June 2020
Scheduled for review	June 2023

Purpose

This policy covers the valuation of non-current assets throughout their lifecycle. This includes:

- Valuation on initial recognition
- Valuation for financial management
- Valuation for asset management
- Valuation of shared assets
- Valuations relating to sale of assets
- Insurance valuations

Application of this policy will drive consistent processes to produce comparable valuations.

Policy Statement

1. Valuations for Financial Management

Financial reporting obligations require valuations of non-current assets in accordance with relevant Australian Accounting Standards and other State Government requirements.

AASB 1049, Whole of Government and General Government Sector Financial Reporting, requires Campaspe Shire Council ('Council') to measure all non-current physical assets at fair value using the revaluation model under AASB 116 Property Plant and Equipment. The Revaluation Model states assets whose fair value can be measured reliably shall be carried at a re-valued amount, being its fair value. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The valuation methodology used will be documented within the valuation report (internal or external).

AASB 1041, Revaluation of Non-Current Assets, outlines the application of the fair value approach to valuation, prescribing the method of accounting for revaluation increments and decrements and specifies rules relating to the frequency of revaluation.

All non-current Asset Classes, subject to their initial recognition under the Capitalisation Policy, will be recognised at fair value using the revaluation model. Where assets have an available market price for their current type and condition, the market price is deemed to be the fair value.

For infrastructure assets and assets where there is no market-based evidence of fair value, fair value is based on the current value to replace the asset based on unit rates.

Local government refers to these current replacement cost unit rates as 'Greenfield' unit rates. Greenfield unit rates are based only on the costs that would be included on initial acquisition / construction of the asset at an undeveloped site. Costs that would be incurred upon subsequent replacement or renewal of an asset, such as demolition of the old asset or traffic management costs, are excluded from Greenfield unit rates.

The table below defines costs which will be included (X) for Greenfield unit rates.

	Greenfield
Strategic planning reports	X
Project scoping and investigation, valuation reports, planning approvals	X
Demolition Costs	
Disposal Costs	
Site Restoration	
Built up location costs (e.g. Traffic Management)	
Survey and design	X
Professional fees	X
Site preparation	X
Formation and Earthworks	X
Construction (excluding Formation and Earthworks)	X
Contract payments	X
Council direct costs, wages, salaries, plant hire, materials, on-costs	X
Overheads	X
Supervision	X
Transport, installation, assembly and testing	X
Project Management	X

Asset classes that have short lived or low value assets such as plant and equipment, office furniture and vehicles are not revalued as the initial cost is expected to provide a reasonable approximation of fair value for these short lived assets.

2. Valuations for Asset Management

Whereas financial reporting obligations require valuations of non-current assets in accordance with relevant Australian Accounting Standards and other State Government requirements, asset management requires valuations of non-current assets for renewal planning purposes.

For asset management, renewal planning requires a reasonable estimate of actual costs to replace an asset at the end of its useful life. The cost to actually rebuild or replace an asset includes the cost for demolition of the old asset and traffic management costs as they form part of the real cost to Council to renew its assets and these costs are referred to as 'Brownfield' unit rates.

The table below defines costs which will be included (X) Brownfield unit rates and contrasts this with those included in Greenfield unit rates.

	Greenfield	Brownfield
Strategic planning reports	X	X
Project scoping and investigation, valuation reports, planning approvals	X	X
Demolition Costs		X
Disposal Costs		X
Site Restoration		X
Built up location costs (e.g. Traffic Management)		X
Survey and design	X	X
Professional fees	X	X
Site preparation	X	X
Formation and Earthworks	X	X
Construction (excluding Formation and Earthworks)	X	X
Contract payments	X	X
Council direct costs, wages, salaries, plant hire, materials, on-costs	X	X
Overheads	X	X

Supervision	X	X
Transport, installation, assembly and testing	X	X
Project Management	X	X

Asset valuation information (using Brownfield rates) is required in Asset Management Plans in order to assist with decisions regarding the level of funding required for asset maintenance and asset renewal expenditures. Current asset valuation information assists in making decisions regarding the allocation of resources to those assets.

Under AASB 116, when a certain asset is due to be revalued, all assets within that asset class shall be revalued at the same time. The valuation methodology used will be documented within the valuation report (internal or external).

3. Greenfield v Brownfield valuations

Example of Greenfield v Brownfield – Kerb and Channel

Greenfield:

Costs involved include initial digging out of site and formation (no existing road pavement or services, drainage etc), and pouring kerb.

Brownfield:

Costs involved include digging out and removing existing kerb, digging out section of the adjoining road pavement, digging out area behind the kerb including footpath, driveways, trees, median strip. Site is now prepared and new Kerb can be poured in place. The surrounding areas will now have to be reinstated including rehabilitation of adjoining pavement, median strip etc.

In this case Brownfield unit rates will be much higher than Greenfield rates. In other circumstances where some of the existing material can be re-used and demolition & disposal costs are low, Brownfield unit rates will be lower.

As Greenfield rates vary from Brownfield rates, renewal requirements can be more accurately assessed based on brownfield valuations.

4. Useful Life

In accordance with AASB 116 the useful life of an asset should take into account the following:

- expected use of the asset
- expected physical wear and tear
- technical or commercial obsolescence
- legal or similar limits on the use of the asset

Useful life of each class of asset is documented within Appendix A of the Policy.

Condition assessments are required to be conducted regularly on assets by the responsible officer or manager to reassess the useful life and identify impairments. Results of condition assessments are documented on the asset management system and useful lives shall be updated on the asset register by the Strategic Assets Coordinator when required.

Assets shall be separately identified and depreciated into smaller assets (known as Componentised Assets) when applicable under AASB116. Componentised assets shall be assessed on useful life and impairment at asset component level.

5. Depreciation Method

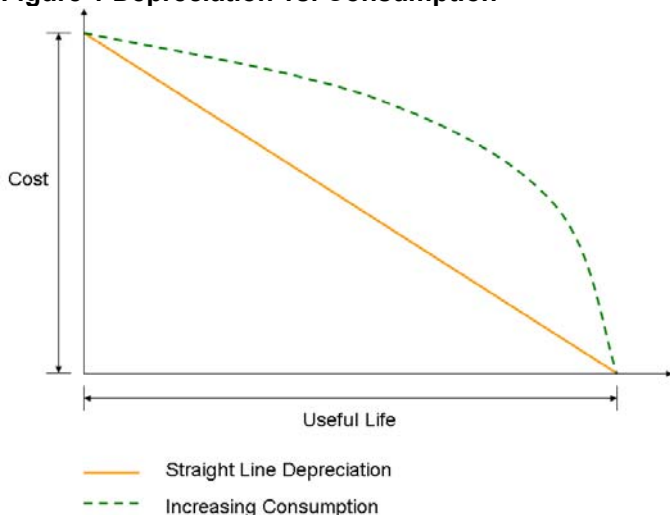
The consumption of assets for financial reporting purposes is calculated using the straight line depreciation approach. This assumes the asset will lose an equal amount of value each year and is based on a pre-determined asset useful life.

The consumption of assets for asset management purposes is referred to as Average Annual Asset Consumption. This is calculated based on asset degradation models relating to the physical condition of the

assets. In most cases this approach results in an asset losing less value in the early years of its use than in later years when it degrades at a quicker rate.

A conceptual comparison of straight line depreciation as a measure of consumption to an increasing consumption asset degradation model is provided in the figure below

Figure 1 Depreciation vs. Consumption



6. Valuation requirements

All assets require both a Greenfield and Brownfield valuation with the exception of assets held for sale.

To perform a revaluation the following is required:

- Assessment of asset condition
- Assessment of remaining asset life
- Affirmation of depreciation method
- Assessment of any asset impairment

Frequency of valuation and average useful life is determined as per Appendix A and are the responsibility of both the Finance Manager and Strategic Asset Coordinator.

7. Valuation of shared assets

Shared assets are recorded based on Council’s control of that asset determined by way of percentage. For infrastructure assets the % is applied to area as opposed to the unit rate (e.g. If a bridge is shared 50:50 for renewal purposes with another Council, note this and record 50% of the area in the financial asset register. In this manner, no variation to unit rates is required when performing revaluations).

Control of shared assets is to be confirmed in writing with the other party.

Annual valuations for shared assets should be confirmed by the Strategic Asset Coordinator with the other party and a Memorandum of Understanding should be put in place by the Strategic Asset Coordinator to confirm the process of agreeing valuations.

8. Valuations of assets held for sale

Financial Reporting

Assets held for sale are moved into the current assets section of Council’s balance sheet. They are no longer required to be re-valued and are held at their written down value at time of transfer. These are not modelled for renewal planning purposes.

Sale Valuations – Property Assets

Prior to sale of an asset Council will seek an independent valuation on a willing buyer/willing seller basis. As a minimum, Council are required to obtain one valuation from a licensed valuer but may consider up to 6

valuations of comparable sites in similar municipalities in order for Council to determine the price at which it wants to sell the asset.

Sale Valuations – Non-Property Assets

Non property assets include items such as vehicles, heavy plant, and minor equipment.

For sale of non-property assets, Council officers will seek benchmarking data in order to ascertain a reasonable price.

9. Insurance valuations

Valuations are required to allow Council to reduce the risk of financial loss through insurance in the event of loss or damage to its assets.

Insurance valuations are determined on complete replacement cost assuming an asset was completely destroyed. This includes the cost of demolition and design of the replacement asset. These valuations are outsourced and managed through the Risk department based on guidelines provided by Council's insurer. Council's current insurer requires valuations to be conducted every 4 years with a CPI increase applied in between. Where insurance valuations align with asset revaluation cycles they can be used as a cross check for replacement cost however asset revaluations also require condition and remaining life data which is not provided as part of insurance valuations.

10. Policy commitment

In implementing this policy Council will:

- a) Annually review financial and asset management valuations of Council owned or controlled non-current asset classes, including confirmation of remaining useful life through consideration of change in condition, depreciation method and impairment as well as maintaining supporting documentation.
- b) An out of cycle re-valuation within the asset class will be triggered where annual reviews identify a material change (5% - 10%) in the following factors relating to a single class:
 - i. Unit rates
 - ii. Condition change across a material number of assets.
- c) Not revalue assets in the plant and equipment class and instead hold them at initial cost.
- d) Notwithstanding a material change triggering a revaluation of an asset class and excluding assets held at initial cost, conduct asset revaluations for each asset class per adopted frequency as per Appendix A, including updating condition, remaining useful life and financial valuation.
- e) Ensure corporate systems record the current adopted asset values for reporting in audited financial statements within the Annual Report.
- f) Establish and maintain a register detailing the corporate system(s) in which each valuation type addressed in the policy recorded.

11. Responsibilities

Finance Manager

- Coordination of financial valuation process including determination and approval of Greenfield unit rates
- Reporting fair value in the financial statements in line with accounting standards (including any impairment)
- Assessment of asset impairments in conjunction with the Strategic Asset Coordinator

Strategic Asset Coordinator

- Coordination of renewal valuation process including determination and approval of Brownfield unit rates
- Approval and verification of condition assessments and review of asset lives
- Assessment of asset impairments in conjunction with the Finance Manager

Asset Analyst

- Coordination of condition assessments and data collection
- Keeping the Asset Management System up to date (including asset condition, asset characteristics and other related (non-financial valuation) data)
- Undertaking annual asset review, documenting findings and providing information to finance department
- Collecting data through the asset handover process on Brownfield rates and reviewing / updating Brownfield unit rates annually.
- Collecting data and reviewing / updating Greenfield unit rates annually.

Management Accountant

- Keeping the Asset Management System up to date through processing of all asset additions, renewals and disposals – including all data related to financial control of assets.
- Processing annual revaluations for financial reporting purposes including implementing changes to asset remaining useful lives, depreciation method and impairments

Risk Management Officer

- Coordination of insurance valuations

External Valuers

- Undertake regular valuation of asset classes with valuations assigned to an external valuer under Appendix A

Exclusions

Nil

Human Rights

This report has considered and complies with the Human Rights and Responsibilities contained in the Victorian Charter of *Human Rights and Responsibilities Act 2006*.

Definitions

Average Annual Asset Consumption	The amount of an organisation’s asset base consumed during a reporting period (generally a year).
Asset Class	A group of assets that are similar in nature or function.
Cost	The amount paid or the fair value of any other consideration given to acquire an asset at the time of its original acquisition or construction. Where an asset is acquired at no cost, or for a nominal cost (as the case with developer and other contributed assets), the cost is its fair value as at the date of acquisition.
Depreciable Amount	The cost of an asset, or other amount substituted for its cost, less its residual value.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
Fair Value	The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.
Impairment	The amount by which the carrying amount of an asset exceeds its recoverable amount.
Non-Current Asset	Any capitalised asset which is not expected to be fully consumed, realised, sold or otherwise disposed of within one financial year.
Revaluation	The act of reassessment of values, condition, remaining life and impairment of non-current assets at a particular date.

Shared Assets	Are generally assets that cross Council boundaries (such as bridges) and therefore are part owned by each party under agreement.
Remaining Useful Life	The time remaining until an asset ceases to provide the required service level or economic usefulness.
Useful Life	Age plus remaining useful life.

Related Legislation

Legislative requirements which Council must comply with include:

The Local Government Act 1989, Section 131 provides that Council must prepare Financial Statements in accordance with the Act.

Australian Accounting Standards Board (AASB) - This policy has been developed in accordance with the following AASB Standards

- AASB 116 Property Plant & Equipment
- AASB 1041 Revaluation of Non-current Assets
- AASB 136 Impairment of Assets
- AASB 1049 Whole of Government and General Government Sector Financial Reporting

Additional guidance material is available including:

- Australian Infrastructure Financial Management Guidelines (2009)
- Victorian Auditor-General’s Office – issues annual reports on the results of Local Government Audits, including comments and recommendations regarding aspects of asset valuation practice.
- Department of Treasury and Finance – issues financial reporting directions and financial reporting guidance notes, some of which are applicable to Local Government.
- Department of Planning and Community Development – issues guidelines on asset management and financial reporting.

Related Policies, Procedures and Strategies

Council Policy 091 - Sustainable Asset Management

Council Policy 144 - Asset Capitalisation

Asset Management Strategy

Attachments

Nil

Review Period

Three years

Responsible officer

Finance Manager

Administrative Updates

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter the policy, such a change may be made administratively. Examples include a change to the name of a Council department, a change to the name of a Federal or State Government department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be by resolution of Council.

Approval History

Adopted	18 September 2012	Minute Book Reference No 1259 (item 4.24)
Revised	18 August 2015	Minute Book Reference No 905 (item 6.2)
Revised	19 February 2019	Minute Book Reference No 404 (item 7.2)
Revised	23 June 2020	Minute Book Reference No 2221 (Item 9.6)
Revised	22 February 2021	Administrative update to apply consistent reference to Campaspe Shire Council ('Council')

Chief Executive Officer: *[Signature]*

Date: *24/2/2021*

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Asset Valuation Policy Appendix A

Revaluation Details

Asset Group	Asset Class	Asset Component	Valuation Method	Valuation Source	Condition Assessment Frequency (Years)	Revaluation Frequency (Years)	Adopted Asset Useful Life (years)	Depreciated Y/N
Roads	Sealed Roads (Inc. aerodrome runways, Taxiways, internal roads and Service roads and Car Parks)	Wearing Course-Asphalt	Depreciated replacement value	Unit Rates	4	4	20	Y
		Wearing Course-Spray Seal					15	
		Pavement (Incl. E/Works & Formation)					80	
	Gravel Roads (Inc. internal roads and Unsealed runways and Car Parks)	Shoulders	Depreciated replacement value	Unit Rates	2	4	15	Y
		Wearing Course - Gravel Roads						
	Earth Roads	Wearing Course - Earth Roads	N/A	N/A	N/A	N/A	N/A	Indefinite
Footpaths & Cycleways	Footpath (inc Shared Paths)	Asphalt	Depreciated replacement value	Unit Rates	5	5	50	Y
		Concrete						
		Gravel					40	
		Paving						
Kerb & Channel	Kerb & Channel	Depreciated replacement value	Unit Rates	5	5	50	Y	
Bridges	Bridges	Deck	Depreciated replacement value	External valuer	3	3	100	Y
		Sub-Structure						
		Abutments						
		Foundations						
	Major Culverts	Major Culvert						
	Boardwalks, Jetties, Moorings	Deck	Depreciated replacement value	Unit Rates	5	5	50	Y
		Sub-Structure						
		Abutments						
Foundations								

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Asset Group	Asset Class	Asset Component	Valuation Method	Valuation Source	Condition Assessment Frequency (Years)	Revaluation Frequency (Years)	Adopted Asset Useful Life (years)	Depreciated Y\N	
Stormwater & Flood Control	Pipes		Depreciated replacement value	Unit Rates	5	5	80	Y	
	Minor Culverts	Minor Culverts							
	Pits & Structures	Drainage Pits inc End Walls, GPT, Litter Traps, Inlets, Outlets and Headwalls							
									Channels & Open Stormwater Drains
		Unlined							
	Basins, Dams & Wetlands	Basins, Dams & Wetlands			N/A		40		
	Retaining Walls & Levee Banks	Retaining Wall							
		Levee Bank							
	Pump	Pump Motor							20
		Pump Well							
Pump Switchboard and Electrics									
Irrigation	Irrigation	Bores	Depreciated replacement value	Unit Rates	N/A	N/A	25	Y	
		Tanks							
		Irrigation Pumps							
		Switchboards							
		Sprinkler Systems							

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Asset Group	Asset Class	Asset Component	Valuation Method	Valuation Source	Condition Assessment Frequency (Years)	Revaluation Frequency (Years)	Adopted Asset Useful Life (years)	Depreciated Y/N
Buildings & Structures	Facility	Facility as a whole	Market Value	External valuer	3	3	75	Y
		Structure Sub Floor						
		Structure Floor						
		Structure Walls						
		Structure Roof						
		Structure Ceiling						
		Finish Internal Surface - Ceiling						
		Finish Internal Surface – Walls						
		Finish Internal Surface - Covering						
		Finish External Wall Finish						
		finish Roof - Cladding						
		Mechanical						
		Fit out						
Services other than Mechanical								
Open Space & Recreation Assets	Playing Surfaces	Ovals	Depreciated replacement value	External valuer	5	5	N/A	Y
		Golf Course Greens						
		Running Tracks						
		Skate Parks						
		Courts						
	Sports Lighting & Electrical	Poles						
		Lights						
		Switchboards /Controllers						
		Transformers						
		Electrical Scoreboards						
		Scoreboards						

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Asset Group	Asset Class	Asset Component	Valuation Method	Valuation Source	Condition Assessment Frequency (Years)	Revaluation Frequency (Years)	Adopted Asset Useful Life (years)	Depreciated Y/N
Swimming Pools	Pool Shell & Equipment	Pool Shell	Depreciated replacement value	External valuer	5	5	80	Y
		Chemical Treatment Tanks	Depreciated replacement value	External valuer	5	5	80	Y
		Reticulation Pumps						
		Boilers						
		Safety Showers						
		Solar Heating Systems						
		Water Reticulation Systems						
		Power Supply and Switchboards						
		Pool Lighting						
		Slides						
		Diving Boards						
		Pool Covers						
		Vacuums						
Playgrounds	Playgrounds	Swing	Depreciated replacement value	External valuer	1	5	20	Y
		Slides						
		Combination Unit						
		Softfall						
		Spring Rocker						
Fencing & Bollards	Fencing & Bollards	Fencing & Bollards	N/A	N/A	N/A	N/A	50	Y
Other Road Elements	Parking Meters	Parking Meter	N/A	N/A	N/A	N/A	N/A	N
	Signs	Signs						
	Street and Public Lighting	Street and Public Lighting						
	Traffic Control Lights	Traffic Control Lights						

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Asset Group	Asset Class	Asset Component	Valuation Method	Valuation Source	Condition Assessment Frequency (Years)	Revaluation Frequency (Years)	Adopted Asset Useful Life (years)	Depreciated Y/N
Marine Vessels	Marine Vessels	Superstructure	External Valuer	External Valuer	4	4	100	Y
		Decking						
		Paddle Boxes						
		Hull						
		Machinery and Equipment						
Artworks, Monuments, Artefacts and Exhibits	Artworks	Paintings	N/A	N/A	N/A	N/A	N/A	N
		Town Entrance Features						
		Sculptures						
	Monuments	Statues						
		Fountains						
		Memorials						
Land	Land	Land	External Valuer	External Valuer	N/A	3	100	N
	Land Under Roads	Land Under Roads	Impaired Market Value	Valuer General Annual Valuation	N/A	5	N/A	N
	Land Improvements	Land Improvements	N/A	N/A	N/A	N/A	N/A	N
Intangible Assets	Water rights	Water rights	Market Value	External data	N/A	1	NA	N

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