NCAP 3  Valuation of Assets

OVERVIEW

This Non-Current Asset Policy (NCAP) discusses the principles underlying the recognition of property, plant and equipment and intangible assets.

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3.1 INTRODUCTION

The Framework for the Preparation and Presentation of Financial Statements (the Framework) describes the fundamental characteristics that make the information provided in financial reports useful to users as relevance and faithful representation. Other important factors in the recording of assets are timeliness, materiality and cost versus benefit.

This policy takes the position that, for the most part, the characteristics of relevance and faithful representation will be met by valuing non-current physical assets at their fair value, as defined in AASB 13 Fair Value Measurement rather than at cost.

AASB 13 outlines how to measure fair value when fair value measurement is permitted or required by other Australian accounting standards, subject to Queensland Treasury policies for departments and statutory bodies. This chapter provides additional guidance and examples to help agencies apply such requirements. All such guidance and examples must be read in conjunction with AASB 13.

3.2 APPLICATION OF COST BASIS

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

It is Queensland Treasury policy that the assets to be carried at cost by agencies 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 the entity, and fair values will not differ significantly from its written down value (i.e. cost less accumulated depreciation). On this basis agencies are to 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.
3.3 APPLICATION OF FAIR VALUE BASIS

It is Queensland Treasury policy that all agencies (with the exception below) are to record at fair value all land, buildings, infrastructure, heritage and cultural assets, and major plant and equipment.

Investment property is to be recorded at fair value except where fair value cannot be measured reliably – refer to NCAP 3.10 under ‘Investment Property’.

An intangible asset is to be carried at cost except when there is an active market for that asset – refer to NCAP 3.10 under ‘Intangible Assets’.

Exception: For-profit statutory bodies and agencies not consolidated into the whole-of-Government financial statements have the discretion to measure property, plant and equipment and investment property at fair value or cost. A consequential change in policy must facilitate the financial statements providing more relevant and reliable information (as per AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors). If an agency changes its asset measurement policy, it must comply with AASB 108, including the requirement for retrospective application.

Where a for-profit statutory body consolidated into the whole-of-Government financial statements chooses the cost model, it must provide supplementary fair value information to Queensland Treasury to ensure the reported asset values materially reflect fair value in the whole-of-Government financial statements.

3.4 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 3.1 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 the agency 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. The agency 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, agencies should 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 agencies. Agencies are 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.

Agencies should 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.

Agencies need 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.
Valuers are probably best placed to determine highest and best use in consultation with agencies. Agencies and their valuers therefore need to have a shared understanding of the circumstances of the assets. Agencies should question a valuer’s assessment of highest and best use and the consequential valuation. An agency has to form its own view about a valuer’s determination, as the agency is ultimately responsible for what is presented in its audited financial statements. Independence and objectivity in the determination of the valuations is important as auditors are likely to identify whether the assumptions were developed internally or externally, and how rigorously they were developed.

AASB 13 states that an entity’s current use of an asset is presumed to be the highest and best use, unless market or other factors suggest that a different use would maximise the value of the asset. The current agency use of an asset may be considered to reflect its highest and best use if the asset’s present physical characteristics (without modification) would prevent its use for another purpose. This is a reasonable assumption for specialised assets, as well as some non-specialised assets (like general office buildings) where a market participant is likely to use the asset in the same way as the agency. However, some non-specialised assets (like land) may be highly adaptable for alternative purposes (in the absence of any applicable restrictions), so current agency use may not reflect highest and best use. Agency judgement is required on this matter, based on individual assets’ circumstances.

Fair value measurement is also affected by the unit of account used for the asset (i.e. whether the asset should be measured on a stand-alone basis or as part of a group of assets and/or liabilities). Professional judgement is required to determine the unit of account for measurement purpose based on each agency’s own circumstances, including the highest and best use of the asset, how the asset is traditionally managed and used and the availability and quality of relevant observable market data.

If an asset’s highest and best use is on a stand-alone basis (after taking into account any relevant costs to convert the asset to an alternate use), the valuation is to be on that basis. However, if highest and best use of an asset is as part of a group of complementary assets and/or liabilities (including a cash-generating unit), the valuation of the asset is to assume those circumstances exist. Agencies need to make this assessment, based on their particular business and surrounding circumstances (e.g. restrictions) of the asset concerned.

On that basis, agencies need to carefully consider what they want valued and how they should ‘frame’ valuation instructions, rather than simply supplying a list of individual assets to be valued. For example, if highest and best use would be achieved by “packaging” a group of individual assets (e.g. adjoining blocks of land) for sale, agencies should seek a valuation on that basis (instead of, or in addition to, individual valuations for each asset).

Judgements about highest and best use must take into account the characteristics of the assets concerned, including restrictions on the use and disposal of assets arising from the asset’s physical nature and any applicable legislative/contractual arrangements.
The source of the restriction and the way it is associated with the asset are important when determining the highest and best use. Agencies need to distinguish between restrictions that relate only to the entity that presently holds the asset, and restrictions that relate to (and transfer with) the asset (regardless of who controls the asset at a given time). An entity-specific restriction should not be taken into account in the fair value measurement. For example, a contractual restriction that only applies to the existing asset holder does not restrict, and therefore is not relevant to, other market participants.

Alternatively, where a restriction is effectively a characteristic of (and therefore transfers with) the asset, market participants would take the restriction into account when pricing the asset, and so it should be taken into account in determining fair value. For example, if an asset is subject to a legislative restriction that substantively prevents alternative uses of the asset, the highest and best use for the asset may be its current use.

In assessing the relevance of restrictions, agencies must understand the extent to which a restriction could be lifted or varied. If a market participant is able to - and is likely to - seek a lifting or variation of a restriction to broaden an asset’s potential uses, that should be taken into account in determining highest and best use (as well as any associated costs in doing so). Again, agencies must ensure their valuer (or other relevant professional) is fully informed about the circumstances of all restrictions that apply to assets being valued.

**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).
Some of the examples in NCAP Tool – Illustrative Examples for Fair Value Measurement may also be useful in illustrating the concept of highest and best use.

**Fair value hierarchy**

Regardless of which valuation technique is used (refer to the heading ‘Valuation approaches’ under NCAP 3.5 Valuation Approaches), 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 3.1 depicts how this hierarchy applies in light of valuation inputs, and how agencies should 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, agencies should 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.
The word “significant” is not defined in AASB 13, so agencies should use normal materiality guidance to judge significance. Also refer to NCAP 3.5 Valuation Approaches and NCAP 3.6 Revaluation Methods and Frequency.

Subject to that, agencies should have a documented accounting policy about how they determine the significance of adjustments to observable inputs using unobservable data, and apply that policy consistently. A reasonable starting point to determine the effect of any adjustments using unobservable data on the resulting fair value would be to:

- determine the overall fair value;
- attempt to determine a fair value based only on the observable inputs (if practicable); and
- identify the numerical difference between those two values.

Agencies should ensure they have given appropriate consideration to the existence of available observable inputs. Even in an inactive market, it should not automatically be presumed that the transactions do not represent fair value, or that the market is not orderly. Agencies will need to consider the relevant facts and circumstances in making their judgements.

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, harbours and dams) and specialised buildings such as hospitals and prisons. In those situations, agencies 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, agencies 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.

**Agencies should refer to Appendix 3.2 for the fair value level Queensland Treasury recommends for various types of assets, for consistency across agencies. Where an agency has an asset that it believes should be categorised differently to what is suggested in Appendix 3.2, that agency should consult with Queensland Treasury (via the Financial Management Help Desk).**

For assets that have not yet been revalued by specific appraisal (due to either purchase or construction), the fair value level should reflect the fair value level for similar assets within the same class, taking into account the recommendations in Appendix 3.2, and NCAP Tool - Illustrative Examples for Fair Value Measurement provides examples that demonstrate the application of the fair value hierarchy for different types of assets.
Transfers between levels

From year to year, agencies 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.

If, as an outcome of this review, an agency believes the fair value level for any assets should be different to what is recommended in Appendix 3.2 for the particular type of asset, they are to consult with Queensland Treasury (via the Financial Management Help Desk).

Transfers of asset values between fair value levels are otherwise expected by Queensland Treasury 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.

3.5 VALUATION APPROACHES

Appendix 3.1 demonstrates how agencies are to approach valuations under AASB 13. In the absence of quoted prices for an identical asset, fair values are to be determined using valuation techniques that are appropriate in the circumstances and for which sufficient data is available. Valuation techniques used to calculate fair value fall into either the market approach, the income approach or the cost approach.

Each of these approaches is defined in AASB 13, and further explained in paragraphs B5 – B30.

No matter which valuation technique is used, the aim is to determine a fair value that a market participant would place on the asset. This should be achieved by using a valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Agencies should therefore strive to use a valuation technique that is relevant and reflects the characteristics and assumptions about the asset and uses data inputs that are as observable as possible, provided sufficient reliable data can be obtained for that technique, and the data is relevant to the asset being valued. Even where fair values are determined by external parties, agencies must assess whether, and be satisfied that, the techniques and methodologies used are reasonable, relevant and complete.

Once a valuation technique has been selected, it should be applied consistently to assets within that class. For example, the fair value of buildings may be able to be derived from observable market-based information, in which case that approach would generally be appropriate for all assets in that class.

A change in valuation technique is only appropriate if the change would result in a measurement that is equally or more representative of fair value in the circumstances. Any such change would need to be accounted for as a change in accounting estimate in accordance with AASB 108 Accounting Policies, Changes in Accounting
Estimates and Errors. Appendix 3.2 provides guidance on the expected valuation approaches and expected fair value hierarchy categorisation for various types of non-current physical assets.

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 could be valued using a market approach.

Where an asset is rarely traded and reliable comparisons with similar assets do not exist, other valuation approaches such as the income approach (if the highest and best use of the asset is to generate net cash inflows) or cost approach may be more appropriate.

Income approach

Discounted cash flow technique

The income approach will generally be more relevant to assets where their highest and best use is primarily dependent on their ability to generate net cash inflows, such as commercial or general office buildings. The discounted cash flow (DCF) technique is a commonly used technique under the income approach. Paragraphs B12 – B30 of AASB 13 contain guidance on the application of present value techniques.

When using the DCF technique to determine fair value, agencies should develop a (post-valuation) quality assurance framework to ensure the validity and reliability of the asset values determined under this approach. Agencies should consider obtaining external, independent, expert advice in the development of this framework. The quality assurance framework should address such issues as (but not be limited to) the following:

- regular testing of the assumptions used in the cash flow model against actual outcomes in subsequent periods and;
- ensuring the cash flow model is based on reasonable and supportable assumptions which have been founded on objective evidence and rational judgement.

The DCF technique involves estimating the future cash inflows, outflows and appropriate terminal value to be derived from the asset(s) (or cash-generating unit), and applying an appropriate discount rate to those future cash flows.

In applying the DCF technique, agencies must have regard to the guidance contained in Appendix A of AASB 136 Impairment of Assets, subject to fair value principles, including the following key consideration points:
Subject to data availability for the asset(s) being measured, the timeframe for cash flows should be five years unless cash flows for a longer period can be reliably determined. Cash flows beyond five years should be extrapolated at a steady or declining growth rate.

Cash flows estimates should be consistent with the principle of highest and best use, reflecting market participants’ assumptions about future performance and potential of the asset. Regard should be had to past evidence of actual cash flows, to test the reasonableness of future cash flow estimates.

Estimates of future cash flows include projections: cash inflows from the continuing use of the asset(s); cash outflows that are necessarily incurred to generate cash inflows from continuing use of the asset(s); and net cash flows (if any) to be received/paid for the disposal of the asset(s) at the end of their useful life.

Estimated future cash flows arising from entity specific circumstances, such as future restructuring to which an entity is not yet committed, or improving or enhancing the assets' performance (as opposed to maintenance and planned capital expenditure), are not to be included in the estimates of future cash flows unless evidence suggests that a market participant would take these factors into account.

A disposal cash flow/terminal value for the asset(s) or cash generating unit (whether or not they have an indefinite useful life) should be included in the calculation i.e. the expected cash flows, adjusted for future price changes, that will be realised on scrapping or selling the asset(s) at the end of the discrete period for which the cash flow projections are prepared.

The discount rate should reflect characteristics of the asset being measured, the likely rate a market participant would use, and assumptions inherent in the cash flows (e.g. the risks specific to the asset for which the future cash flow estimates have not been adjusted, and the time value of money – AASB 136 para 55). The discount rate used must be reasonable and supportable. Where an agency does not have its own specialised financial expertise for this purpose, it is strongly encouraged to seek advice from an appropriately skilled external party, such as Queensland Treasury Corporation's Treasury Services Team.

The key assumptions and variables used in the DCF technique must be supportable based on objective evidence and reasoned judgement. If this cannot be achieved then fair value cannot be reliably estimated using the DCF technique.

If an agency adopts the income approach for an asset group, this total value is to be allocated across the individual assets in the group in a manner as determined and documented by the agency. Where the value of the individual assets cannot be reliably determined, the value attributable to the group is apportioned to the individual assets. The ratio of the value of an asset to the value of the group may be an appropriate basis for such an apportionment.
Agencies must disclose in the notes to the financial statements all significant assumptions underpinning the results of the DCF calculations in accordance with disclosure requirements contained in AASB 13 and AASB 101 *Presentation of Financial Statements*. Also refer to the heading 'Valuation of Asset Groups or Complex Assets' under NCAP 3.10 Specific Valuation Issues.

**Existence of a Regulated Asset Base**

A number of Queensland public sector agencies operate in a price-regulated industry, such as those operating in the water and electricity sectors. It is generally accepted that assets owned by these entities are held to generate cash inflows.

Where there is no market price for identical or similar assets, fair value may be determined using either a cost approach or an income approach.

In Queensland, it is generally accepted that little or no active market exists for price-regulated activities undertaken by public sector agencies. Indicators of a lack of an active market for price-regulated assets include situations where the assets are:

- complex in nature requiring specialist expertise to design and construct;
- unique to a particular market; and
- rarely sold.

In price-regulated industries, the regulator uses the value of the group of assets (known as the asset base) employed in the delivery of the services subject to regulatory requirements for determining prices for the services and products delivered and supplied by the agency. The value of the asset base is known as the Regulatory Asset Base (RAB) and is defined as "the ‘market value’ of the business based on its potential to earn revenue under existing Regulatory arrangements."

For financial reporting purposes, the value of the RAB, as assessed by the regulator, is **not to be assumed** by an agency to be the measure of fair value for the asset group. However, agencies should consider whether any of the inputs and assumptions used in determining RAB might be an appropriate basis for determining fair value using an income approach.

In Australia there is no consistent, or generally accepted, methodology to determine the value of the RAB across the different price-regulated industries. In some price-regulated industries, the ‘building-block approach’ has been adopted to determine the RAB value. This approach includes quantifying the cost components of service provision and a revenue target sufficient to meet those costs for each regulatory period, usually five years. The cost components include:

- quantification of the required rate of return (return on capital);
- allowance for return of capital (depreciation based on existing assets); and
- operating costs (both recurrent and capital).
In some instances, the regulator allows inclusion of costs in the RAB value that are not allowed for inclusion in the value of an asset under AASB 116, for example, indirect overheads.

When using a DCF technique for determining the fair value of regulated assets, management should consider the following points:

- the reliability of inputs and assumptions used to calculate the RAB i.e. are these the assumptions and inputs that a market participant is likely to use to value the asset?

- the appropriateness of RAB valuation inputs in relation to capitalisation requirements under AASB 116. Adjustments to the cash flows used by the regulator to determine RAB may be necessary where the estimated cash flows generated by the CGU/assets do not include the expenditure necessary to maintain the performance of the existing assets i.e. replacement of components of the CGU/assets assuming their replacement is required to maintain the performance of the CGU as a whole. The inclusions of such additional expenditure should be evidenced by the entity’s asset management plan and or capital expenditure budgets etc;

- the appropriate discount rate to use (assessed annually), for example the Weighted Average Cost of Capital (WACC) approach used by the regulator based on extensive industry participation consultation may be used with adjustments made for market participant assumptions regarding risk, gearing, imputation credits and cost of debt, if appropriate;

- whether the set regulatory period (e.g. five years) is the appropriate period for discounting cash flows;

- the relevance of using CPI to inflate cash flows - even though this is the factor generally used by the regulator;

- a terminal value (i.e. expected net cash flows that will be realised on scrapping or selling the CGU/assets at the end of their useful life) may need to be included in the DCF calculation due to the longevity of public sector infrastructure assets. It will be necessary to demonstrate that the value used is relevant and reliable for the assets being valued. In this instance, the RAB value may not always be appropriate. Inclusion of a terminal value for the asset, e.g. a terminal value based on the RAB, would be reasonable notwithstanding that the form of future regulation is uncertain given that a market participant is in the same position;

- use cash flows generated from the smallest identifiable group of assets that produce the cash inflows;

- a post-tax discount rate should be used as this reflects what market participants would use; and

- the cash flows should include modelling of cash flows arising from the Goods and Services Tax (GST).
Cost approach

Current replacement cost (CRC) is the most common valuation technique 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 an agency has records of actual construction costs for a new asset, those costs are relevant to the asset being valued, and the agency 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, agencies are to 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 (see also NCAP 3.5 on indicators of change in an asset’s service potential/capacity).
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).

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<th>Potential Impact on Service Potential</th>
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<tr>
<td>1. Cessation of the demand or need for services provided by the asset</td>
<td>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).</td>
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<tr>
<td>2. Significant long-term changes in the technological environment with an adverse effect on the asset</td>
<td>The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service.</td>
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<tr>
<td>3. Significant long-term changes in the legal or government policy environment</td>
<td>An asset’s service potential may be reduced as a result of a change in a law or regulation.</td>
</tr>
<tr>
<td>4. Evidence is available of physical damage or deterioration of an asset</td>
<td>Physical damage/deterioration would likely result in the asset being unable to provide the level of service that it once was able to provide.</td>
</tr>
<tr>
<td>5. Changes in environmental conditions</td>
<td>An asset’s service potential may be reduced as a result of environmental changes.</td>
</tr>
</tbody>
</table>
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.

### 3.6 REVALUATION METHODS AND FREQUENCY

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, in all circumstances, agencies 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 an agency’s asset classes reflect their fair value at reporting date, subject to materiality, it is Queensland Treasury policy that each agency is to annually revalue the relevant asset classes identified in Appendix 1.1 of NCAP 1 Recognition of Assets (subject to the exception for *for-profit* statutory bodies and agencies *not consolidated* into whole-of-Government financial statements).
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 as identified in Appendix 1.1, the concept of materiality should be considered by agencies. On that basis:

- where the total value of an agency’s assets in a mandatory asset class is immaterial compared to the total balance of Property Plant and Equipment - that agency 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 by the agency to be immaterial, that agency has discretion about whether or not to account for that change (agencies are expected to monitor for factors that would indicate potentially material valuation changes for their assets); and

- agencies can exercise their discretion in determining whether only those material assets within a class (rather than all assets in that class) should be revalued. In such situations, agencies must ensure they have an appropriately robust policy for identifying those assets to be included in or excluded from the revaluation process.
When assessing whether an asset or asset class is material, controlled assets should be compared to the total controlled PP&E balance while administered assets should be compared to the total administered PP&E balance. If an agency chooses to revalue assets despite their immateriality, the fair value and revaluation requirements in AASB 13, AASB 116 and the Non-Current Asset Policies still apply.

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

In terms of AASB 116, it is Queensland Treasury 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

Queensland government organisations available to provide advice on relevant and appropriate indices include (but are not limited to):-

- State Valuation Service (SVS);

However, agencies must assess the suitability of the indices recommended by these sources for the assets concerned. Reasons for adjustments made to observable/industry indices must be clearly documented and approved by management.

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. SVS can provide an ‘individual factor change’ per property, derived from the review of market transactions. Such market movements are determined having regard to the review of land values undertaken for each local government area as issued by the Valuer-General; and

- 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.

An agency 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 an agency ensure 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 (internal or external to the agency), 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.

An independent professional valuer (or other relevant professional) is not required to certify that the application of the index to the assets within the particular class results in the value of the class reflecting fair value.
An agency 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\% = \text{Year 1} \% \text{change} + \text{Year 2} \% \text{change} + \text{compounding effect between Year 1 \& 2}

\text{i.e. } 3\% + 3\% + 3\% \times 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\% = \text{Year 1} \% \text{change} + \text{Year 2} \% \text{change} + \text{compounding effect between Year 1 \& 2}

\text{i.e. } 3\% - 2\% + 3\% \times -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\% = \text{Year 1 to Year 2 cumulative compounding change} + \text{Year 3} \% \text{change} + \text{compounding effect between Year 1 \& 2 and Year 3}

\text{i.e. } 0.94\% + 2\% + 0.94\% \times 2\%
AASB 13 requires disclosures about any changes in valuation techniques during the reporting period and information about new valuation techniques. For the purpose of this disclosure, the application of indices between specific appraisals should not be regarded as a change of valuation technique.

To ensure consistency in fair value hierarchy categorisation between specific appraisals and indexation, it is Queensland Treasury policy that the application of indices not change the fair value level that applied as at the last specific appraisal (e.g. if a valuation at the last specific appraisal was categorised as level 2, subsequent indexation of that value would also be level 2). Where an agency does not believe this is appropriate, that agency should consult with Queensland Treasury (via the Financial Management Help Desk), stating their preferred categorisation and justification for that. Agencies will also need to negotiate this with their auditors.

### 3.7 TIMELINESS AND TIMING OF REVALUATIONS

Agencies are encouraged to obtain and recognise asset revaluations well prior to financial year end, to allow early external audit review and to reduce work in finalising financial statements after year end. Accordingly, it is acceptable for the date of recognition of revaluations to be earlier than year end.

As revaluations are likely to be recognised well before the end of the reporting period, agencies must 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, agencies are expected to 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.

<table>
<thead>
<tr>
<th>Example – Assets measured at fair value using market value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency B has a portfolio of social housing buildings (including the underlying land) that are held for continuing use of their service capacity in delivering accommodation services in accordance with government policy. These assets are fair valued using a market value approach.</td>
</tr>
</tbody>
</table>

Subsequent to Agency B completing its annual revaluation process in February 20X8, it is discovered in May 20X8 that several properties in the portfolio are located on land contaminated with toxic chemicals and heavy metals not previously identified. The level of contamination detected is assessed as major and the market value of properties in the contaminated and surrounding areas has consequently decreased.
Reassessment of service capacity at the end of the reporting period (for assets measured at CRC)

Where indicators exist at year end that the asset has experienced a material reduction in service capacity, a material change in remaining useful life, or other circumstances that would influence the asset’s valuation subsequent to the last CRC valuation completed, agencies must arrange for the fair values concerned to be reviewed and revised accordingly.

Example – Assets measured at fair value using current replacement cost

Following completion of Agency A’s annual revaluation process in January 20X8, a significant weather event combining destructive winds and severe flooding occurred in April 20X8 impacting coastal areas where the agency operates. As a result, a number of buildings and infrastructure assets within those regions were severely damaged or destroyed causing a reduction in the useful life and/or service capacity of those assets.

Relationship Between AASB 13 Fair Value Measurement and AASB 136 Impairment of Assets

Agencies are reminded that under AASB 136, the identification of impairment indicators and determining recoverable amount for property, plant, equipment and intangible assets measured at fair value is effectively incorporated into the fair value measurement (i.e. revaluation) process under AASB 13.

Not-for-profit agencies should refer to paragraph Aus5.1 of AASB 136 and sections 4.1 and 4.5 of NCAP 4 which specifically address the interaction between fair value measurement under AASB 13 and determining recoverable amount under AASB 136.

3.8 ENGAGEMENT AND APPOINTMENT OF VALUERS

Independent professional valuer (or other relevant professional) or internal expert

All non-current physical assets to be measured at fair value must be revalued by a suitably qualified person at least once every five years. Where indicators exist that the asset class has experienced a significant and volatile change in value since the last reporting period, all assets in that class should be considered for specific appraisal, if practicable. In the case of land valuations, valuers registered in Queensland are required. For other assets, depending on the valuation approach (refer to later in this section), quantity surveyors or engineers may have appropriate expertise.

An agency officer may be a suitably qualified person if they meet the following criteria:

- qualifications and experience - formal qualifications and/or significant practical experience in valuations; and
ability to exercise professional judgement in:
- applying all relevant fair value measurement principles in AASB 13 *Fair Value Measurement*;
- identifying the highest and best use of the assets;
- selecting an appropriate valuation technique; and
- determining reasonable and supportable assumptions based on objective evidence and rational judgement.

Agencies should have regard to the NCAP Tool - Better Practice Guidelines for Valuation Instructions. **For the purpose of issuing instructions for the conduct of valuations, agencies are to ensure their correspondence with the successful valuer (or other relevant professional), at a minimum, includes the content in Appendix 3.3 Content Required from Valuers (or Other Relevant Professionals).**

### 3.9 ACCOUNTING FOR REVALUATIONS – GROSS VS NET METHOD

Paragraph 35 of AASB 116 and paragraph 80 of AASB 138 describe two methods allowed for dealing with accumulated depreciation/amortisation at the time of accounting for revaluations (i.e. the ‘gross method’ and the ‘net method’). It is Queensland Treasury policy that:

- the net method of revaluation be used for specific appraisals using a market or income (e.g. discounted cash flow) 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 agencies 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. NCAP 5.6 Other Depreciation Issues provides guidance on the recognition of subsequent depreciation.

3.10 SPECIFIC VALUATION ISSUES

Asset Revaluation Thresholds

Neither the Non-Current Asset Policies nor the Financial and Performance Management Standard 2019 mandate a generic asset revaluation threshold.

Acquisition Other Than Fair Value

Transaction prices are generally presumed as the best evidence of fair value of an asset at initial recognition. However, there might be situations where this presumption can’t be supported, and such circumstances include where:

- the transaction was not entered into on commercial or arm’s length terms;
- no or nominal consideration was provided by the recipient;
- there is evidence that the transaction price does not materially reflect the underlying value of the asset;
  or
- the situations detailed in AASB 13 paragraph B4 exist.

Except for asset acquisitions subject to FRR 4F, Equity, Contributions by Owners and Distributions to Owners, assets acquired by way of a gift, bequest, subsidised purchase, compulsory acquisition etc. must be valued initially at their fair value, consistent with the fair value principles in AASB 13 and guidance earlier in this chapter. Usual AASB 13 principles should be applied for dealing with transaction costs and transportation costs for such asset acquisitions (refer to paragraphs 25 – 26 of AASB 13, as well as the AASB 13 definitions for those terms).

A material difference between the transaction price and the fair value of an asset at that time should be accounted for as revenue (contribution revenue) or an expense (grant expense), according to the circumstances.
Asset acquisitions that fall within the scope of FRR 4F should be accounted for according to that guideline.

No Reliable Value Available

There may be instances when it is impossible to obtain a reliable fair value for an asset because of its unique nature or because its future economic benefits cannot be measured reliably. In such a case, the agency must disclose details of that asset in the notes to its financial statements giving reasons why a reliable fair value is not available. Such assets are held at nil value until a reliable fair value can be ascertained. These instances should be rare and every effort should be made to obtain a realistic valuation.

Heritage, Artworks and Cultural Assets

Some agencies control assets of significant heritage and cultural “value”. These may be preserved solely for these attributes, or used in agency operations. It is important to distinguish between the heritage characteristics of such assets and their functional or operational value. The fact that an asset is not included on an official ‘heritage listing’ does not prevent it from having heritage characteristics.

The valuation of property with heritage or cultural attributes is essentially the same as for other non-current physical assets.

In cases where the values of heritage and cultural assets cannot be measured reliably, the assets are not to be recognised in the Statement of Financial Position but disclosed as a note to the financial statements. This disclosure should state the reason why the asset cannot be reliably valued and include the nature of the asset, the purposes for which it is held and, to the extent practicable, the annual costs of maintenance/preservation. Instances of this nature should be rare and agencies are required to make every effort to value heritage and cultural assets at their fair value.

*For-profit* statutory bodies and agencies *not consolidated* into the whole-of-Government financial statements have the discretion to choose the cost or revaluation model for heritage, artworks and cultural assets as explained in NCAP 3.3 Application of Fair Value Basis.

Intangible Assets

The revaluation model must be applied if the fair value of an intangible asset can be determined by reference to an active market. The fair value for such an asset is to be determined in accordance with AASB 13. Due to the limited circumstances when fair value can be used under AASB 138 *Intangible Assets*, only a market approach or income approach can be used for intangible assets.
If an intangible asset (that has never been revalued) in a class of revalued intangible assets cannot be revalued because there is no active market for the asset, the asset is to be carried at its original cost to the entity less any accumulated amortisation or impairment losses.

If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset is to be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent impairment losses. In such a situation, it is expected that an explanation be disclosed in the notes.

The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired and that it needs to be tested in accordance with AASB 136 Impairment of Assets.

If the fair value of the asset can be determined by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

**Investment Property**

Investment property is to be initially recognised at cost, including transaction costs as per AASB 140 Investment Property. After initial recognition, a not-for-profit agency consolidated into the whole-of-Government financial statements must measure all of its investment property, including investment property under construction, at fair value except where fair value cannot be measured reliably. Fair value is to be determined in accordance with the principles and requirements of AASB 13; although, AASB 140 does include some additional specific guidance for investment property.

However, for-profit statutory bodies and agencies not consolidated into the whole-of-Government financial statements are permitted to choose either the cost or revaluation model for investment property – refer to NCAP 3.3 Application of Fair Value Basis.

A gain or loss arising from a change in the fair value of an investment property is to be recognised in the agency’s operating result for the period in which it arises.

There may be exceptional circumstances when an agency first acquires an investment property (or when an existing property first becomes an investment property following the completion of construction or development or after a change in use) when the fair value of the investment property is not reliably determinable on a continuing basis. This only occurs when comparable market transactions are infrequent, and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available.

In such cases, the cost model under AASB 116 is to be applied to that property until the disposal of the investment property or a reliable fair value can be determined, whichever is the earliest. The requirements that apply where fair value cannot be determined reliably are contained in paragraphs 53 – 55 of AASB 140.
In all other circumstances, investment properties for which reliable fair values can be obtained must be measured at fair value.

Valuation of Asset Groups or Complex Assets

If an agency undertakes a valuation for a complex asset (refer to NCAP 2 Complex Assets) or an entire asset group, it may be difficult to identify a fair value for each individual asset/significant component. Where the value of individual assets/significant components cannot be reliably determined, the total value is to be allocated across the individual assets/components on a consistent and rational basis as determined and documented by the agency. The ratio of the original cost of an asset/significant component to the original cost of the whole may be an appropriate basis for such an apportionment.

Leased Assets

Agencies should refer to FRR 4B for Treasury’s lease accounting policies, which include the following requirements:

- Right-of-use assets from concessionary (peppercorn) leases must be measured initially at cost, agencies should not elect under AASB 16 paragraph Aus25.1 to measure these right-of-use assets at fair value.
- All remaining right-of-use assets shall be measured using the cost model.

Assets Withdrawn Permanently from Use

As idle assets have not been defined in Australian accounting standards, for the purposes of disclosure in the financial statements, an idle asset or a permanently retired asset exists where:

- a physical or intangible asset has not been employed and/or has been unoccupied for 12 months or more;
- the carrying amount of the idle/permanently retired physical or intangible asset(s) is/are material to the relevant asset class; and
- no plans exist to reinstate the asset to use.

In contrast, a temporarily idle physical or intangible asset is intended to be re-employed by the agency in future reporting periods.

Where an asset is to be withdrawn permanently from use, for example, because it has been replaced or because it is surplus to requirements, an agency must review the carrying value of that asset. Where the asset is to be withdrawn permanently from use, it is to be valued at selling price or scrap value. Where an asset is revalued at fair value, AASB 116 requires that asset’s entire class to be revalued (effectively preventing selective revaluation of assets). However, two situations need to be considered in relation to the permanent withdrawal of an asset:
1. Sale - where the asset is to be sold, the provisions of AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* may apply.

2. Abandonment - an *abandoned* asset is one which has been decommissioned or scrapped. Assets of this type are normally at the end of their useful life or are used until they are closed down. The write-off of the old asset is treated according to the provisions of AASB 116.

**Renewals Accounting**

The 'renewals accounting' approach, where all expenditure on an asset is recognised as an expense in the period in which it is incurred, without consideration of whether increases in future economic benefits have resulted, is not permitted under this policy.
APEPNIX 3.1 DETERMINATION OF FAIR VALUE

HIERARCHY LEVEL

Is there a quoted price in an active market for an identical asset?

Yes

Level 1
(unlikely for non-current physical assets)

No

Is there a quoted price in an active market for a similar asset?

Yes

Is a significant adjustment required using, or does the calculation involve, significant data/judgement that is not available in a publicly accessible source?

No

Level 2

Yes

Is there a quoted price for an identical or similar asset in an inactive market?

No

Is there other data that is available in a publicly accessible source that is relevant and reliable in determining fair value for the asset?

Yes

Level 3

No
## APPENDIX 3.2  FAIR VALUE MEASUREMENT

### EXPECTATIONS

<table>
<thead>
<tr>
<th>Asset class/category</th>
<th>Examples of types of assets</th>
<th>Expected fair value level *</th>
<th>Likely valuation approach</th>
<th>Net vs gross revaluation method *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>In areas where there is an active market – vacant land, land not subject to restrictions as to use or sale</td>
<td>Level 2</td>
<td>Market or income approach</td>
<td>N/A – as land is not depreciated</td>
</tr>
<tr>
<td>Land</td>
<td>Land subject to restrictions as to use and/or sale</td>
<td>Level 3</td>
<td>Market or income approach</td>
<td>N/A - as land is not depreciated</td>
</tr>
<tr>
<td>Buildings</td>
<td>General office/commercial buildings</td>
<td>Level 2 or 3, according to significance of adjustments using unobservable data/j judgements</td>
<td>Market or income approach</td>
<td>Net method</td>
</tr>
<tr>
<td>Buildings</td>
<td>Specialised buildings with limited alternative uses and/or substantial customisation e.g. prisons, hospitals</td>
<td>Level 3</td>
<td>Cost approach</td>
<td>Gross method</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Any type except as below</td>
<td>Level 3</td>
<td>Cost approach</td>
<td>Gross method</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Assets where the highest and best use would be to generate net cash inflows</td>
<td>Level 3</td>
<td>Income approach</td>
<td>Net method</td>
</tr>
<tr>
<td>Asset class/category</td>
<td>Examples of types of assets</td>
<td>Expected fair value level *</td>
<td>Likely valuation approach</td>
<td>Net vs gross revaluation method ^</td>
</tr>
<tr>
<td>---------------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
<td>-----------------------------</td>
<td>-----------------------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Major Plant and Equipment</td>
<td>Non-specialised</td>
<td>Level 2 or 3, according to significance of adjustments using unobservable data/judgements</td>
<td>Market or income approach</td>
<td>Net method</td>
</tr>
<tr>
<td>Major Plant and Equipment</td>
<td>Specialised items with limited alternative uses and/or substantial customisation</td>
<td>Level 3</td>
<td>Cost approach</td>
<td>Gross method</td>
</tr>
<tr>
<td>Heritage and Cultural Assets</td>
<td>Items for which there is no active market and/or for which there are limited uses</td>
<td>Level 3</td>
<td>Cost approach</td>
<td>Gross method</td>
</tr>
<tr>
<td>Heritage and Cultural Assets</td>
<td>Items for which there is an active market and there are operational uses for the item</td>
<td>Level 3 (due to significant judgement expected to be required)</td>
<td>Market approach</td>
<td>Net method</td>
</tr>
<tr>
<td>Intangibles</td>
<td>Where there is an active market for that intangible (otherwise, intangibles must not be revalued)</td>
<td>Level 2</td>
<td>Market approach</td>
<td>Net method</td>
</tr>
</tbody>
</table>

* Queensland Treasury must be consulted (via fmhelpdesk@treasury.qld.gov.au) if an agency believes the expected fair value level is inappropriate in individual cases by stating its preferred fair value categorisation and justification for that. That agency will also need to negotiate this with its auditors.

Refer to NCAP 3.9 ‘Accounting for revaluations – gross vs net method’.
APPENDIX 3.3 CONTENT REQUIRED FOR VALUERS (OR OTHER RELEVANT PROFESSIONALS)

This Appendix outlines the minimum information required from parties who have been engaged to provide a fair value for financial reporting purposes. This Appendix should be read in conjunction with the information provided in NCAP 3 (including NCAP Tools - Better Practice Guidelines for Valuation Instructions).

VALUATION INSTRUCTIONS

Correspondence to external parties setting out instructions for the determination of fair value, at a minimum, must include the following requirements:

- conformity with the fair value principles and guidance in Queensland Treasury’s Non-Current Asset Policies and AASB 13, including the principles about the market and/or the most advantageous market, market participant assumptions, and highest and best use (i.e. uses that are physically possible, legally permissible (taking into account any restrictions) and financially feasible);

- the valuation approach expected to be used, and the method of revaluation to be used (i.e. net method or gross method – refer to NCAP 3.9 Accounting for Revaluations - Gross vs Net Method and Appendix 3.2 Fair Value Measurement Expectations). For example, where the gross method of revaluation is used, both the gross replacement cost and new fair value (i.e. carrying amount) should be requested;

- conformity with Australian Accounting Standard AASB 136 Impairment of Assets (agencies to only include where recoverable amount is to be determined in accordance with AASB 136);

- (in the case of complex assets) provision of fair values for individual components;

- usage of defensible and consistent methodologies to determine valuation assumptions and techniques when there is insufficient relevant observable data to determine a fair value (e.g. a cost approach may be used in the latter circumstances and/or if sale/transfer will never be possible/permission);

- maximum usage of relevant observable data inputs, and minimum usage of unobservable data inputs, as far as possible;

- calibration of the valuation technique, where appropriate, to ensure the technique results in a reliable fair value. Where there are significant valuation uncertainties, the valuer should use more than one valuation technique and compare the results before a final valuation is determined;
in respect of all assets valued, provision of information for the relevant disclosure requirements as detailed in paragraph 91 to 99 of AASB 13 *(agency to tailor according to disclosure requirements applicable to their assets’ circumstances)*; and

- a statement that all data supplied to the valuer and the report and data provided by the valuer to the agency is the property of the Queensland Government should be included, and that the agency should have full access to any supporting documentation for verification of reports, if required.

**INFORMATION REQUIRED FROM VALUERS (OR OTHER RELEVANT PROFESSIONALS)**

At a minimum, the following information must be obtained, applicable to each asset valued:

- the effective date of the valuation;

- a statement that the valuers have complied with the relevant accounting standards (e.g. AASB 13) and Queensland Treasury's Non-Current Asset Policies. In respect of land valuations, the valuer must be registered under the Queensland *Valuers Registration Act 1992*;

- whether or not the asset was physically inspected;

- significant assumptions used (e.g. whether the principal or most advantageous market was used, restrictions that exist, who the market participants would be, and what they would take into account);

- highest and best use (whether this is on a standalone basis or within a group of other assets/liabilities (and if so, what is included in that group)) that is physically possible, legally permissible and financially feasible;

- the valuation technique (including whether more than one valuation technique was used, and justification for the technique chosen in terms of the AASB 13 principles) and details of the calculations;

- data inputs used and their sources (e.g. whether they are observable or not, and whether or not transportation costs have been included and why), and methods used to develop and substantiate unobservable data;

- where significant unobservable data inputs (or significant unobservable adjustments made to observable data) are used – the rationale for doing so, nature and possible variation in such data inputs, and changes in fair values if an alternative amount is applied to the unobservable inputs;

- reason(s) for any changes in valuation technique/methodology or inputs used;
• the proposed fair value hierarchy level of valuation;

• for valuations undertaken using a cost approach - the gross replacement cost and new fair value (i.e. carrying amount);

• other relevant information regarding how the valuation was conducted and how the fair values were derived; and

• provision of support for the reasonableness of the valuations, whether there is an increase, decreased or no change. This should include relevant information about past and predicted future trends in fair values for the type of assets valued, and comparisons to other fair values obtained during the reporting period.