Government Asset
Valuation Policy 7.101

Fair value measurement of property, plant and equipment

Background

The Australian Accounting Standards Board makes standards, including interpretations, to be applied by entities including governments in preparing financial statements for whole of government and the general government sector.

This policy has been revised with the release of Australian Accounting Standards Board AASB Standard 13 which applies to annual reporting periods beginning on or after 1 January 2013. Entities that comply with AASB 13 will simultaneously be in compliance with the International Accounting Standards Board (IASB) standard IFRS 13.

AASB 13 defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value.

AASB 116 shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.

AASB 116 states that after an item of property, plant and equipment has been recognised as an asset, an entity shall choose either the cost model or revaluation model as the basis for measurement.

Treasurer’s Instruction TI954 – Revaluation of Non-Current Physical Assets mandates that subsequent to initial recognition, land and buildings are to be measured at fair value under the revaluation model.

Legislative Authority

Valuation of Land Act 1978, section 39

Treasurer’s Instruction TI 954 – revaluation of non-current physical assets.

Australian and International Standards

Australian Accounting Standard AASB 116 – Property, plant and equipment.
Australian Accounting Standard AASB 13 – Fair Value Measurement.
International Accounting Standards Board (IASB) standard IFRS 13
Policy

For financial reporting purposes the value of an item of property, plant and equipment shall be determined on the basis of Fair Value measurement as defined by AASB 13 using the revaluation model.

Fair value is defined by AASB 13 as;

“The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

Under the revaluation model an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Fair value of land and buildings is determined from market based evidence by appraisal that is normally undertaken by professionally qualified valuers.

Fair value appraisal utilises comparable sale transactions that take place in the principal market using a market comparison approach or capitalisation of income approach, this type of property is classified as a market value (MV) valuation type asset. If no comparable sale transactions are available due to the specialised nature of the asset and the item is rarely sold, except as part of a continuing business, fair value is estimated from market based evidence using the depreciated replacement cost approach, this type of property is classified as a current use (CU) valuation type asset.

Fair Value is the amount determined using the revaluation model, having regard to the highest and best use of the asset for which market participants would be prepared to pay taking into consideration the legal, physical and economic restrictions affecting the properties ability to realise that potential.

For public sector property, socio-political restrictions should be considered and opportunities which are unavailable to the entity are not considered.

There is a going concern presumption that the entity has no intention or need to liquidate, curtail the scale of its operations or to undertake a transaction on adverse terms. The amount determined does not include any allowance for GST liability or site contamination.
**General Principles**

Fair value is a market based measurement that takes into account the characteristics of the asset and shall include assumptions that market participants acting in their economic best interest would consider when pricing the asset, including assumptions about risk.

Fair value is not a market valuation for disposal purposes. Assets held for sale and discontinued operations have a different accounting treatment under AASB 5.

When an asset is acquired the transaction price paid (entry price) does not necessarily equate to the price to sell the asset (an exit price). The price shall not be adjusted for transaction costs as these are not a characteristic of the asset rather they are specific to a transaction and will differ depending on how an entity enters into a transaction.

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

Fair value (unit of account) for an asset determined as part of a group assumes the market participant already holds the complimentary assets and associated liabilities. If the highest and best use of an asset is to use the asset in combination with other assets or on a stand-alone basis, the fair value of the asset would assume maximum value either as a group (e.g. business) or on a stand-alone basis.

Fair value measurement shall not incorporate a premium or discount that, adjusts the unit of account for the asset considered in combination with other assets (complimentary assets) or on a stand-alone basis or in order to reflect the size of the entity’s property holdings as a characteristic on the assumption that the market’s normal trading volume is insufficient to absorb that quantity on the measurement date.

To increase consistency and comparability in fair value measurements and related disclosures a fair value hierarchy has been established that categorises into three levels the inputs to valuation techniques used to measure fair value.

**Level 1 inputs:** are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

**Level 2 inputs:** are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3 inputs:** inputs are unobservable inputs for the asset or liability.
The standard requires disclosure information that helps users of its financial statements assess the valuation techniques and inputs used to develop those measurements.

For land and building assets the following disclosure information is considered appropriate for Fair value assessments currently determined by the Valuer General;

**Inputs to valuation techniques – Fair value hierarchy**

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<td>Income approach</td>
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Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets.

b) Quoted prices for identical or similar assets in markets that are not active.

c) Inputs other than quoted prices that are observable for the asset.

d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means (Market-corroborated inputs).

**Date on which this policy came into force**

1 July 2013

**Date of Most Recent Review**

1 July 2013

**Authorising Officer**

Graham Jeffery  
ACTING VALUER-GENERAL