| FRD 103F |  | Non-Financial Physical Assets  (June 2015) |
| --- | --- | --- |
|  |  |  |
| Purpose | 1.1 | To prescribe the ongoing requirements for the classification, initial measurement and subsequent revaluation of non-financial physical assets. |
| Application | 2.1 | Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act 1994* except universities. State-controlled education providers whose physical assets are consolidated within the State of Victoria economic entity (such as Technical and Further Education Institutes) are also required to apply this Direction, even if they are allied with a university. |
|  | 2.2 | This Direction does not apply to:   * investment properties , as this class of asset is covered by FRD 107A *Investment Properties*; * biological assets which are accounted under AASB 141 *Agriculture* and AASB 13 *Fair Value Measurement*. |
|  | 2.3 | Assets (or shares of assets) that are recognised as a result of joint venture arrangements are excluded from the requirements of this Direction. |
|  | 2.4 | Application by State-owned companies is encouraged. |
| Operative Date | 3.1 | Reporting periods commencing on or after 1 July 2014, superseding FRD 103E. |
| Requirements |  | **Asset Classification** |
|  | 4.1 | Non-financial physical assets shall be primarily classified by the ‘purpose’ for which the assets are used, according to one of six ‘Purpose Groups’ based upon Government Purpose Classifications (GPC). All assets within a ‘Purpose Group’ shall be further subcategorised according to the asset’s ‘nature’ (i.e. buildings, plant and equipment, etc.), with each subcategory being classified as a separate *class* of asset. |
|  | 4.2 | Refer to section 1.2 of Appendix A *‘Guidance on the Revaluation of Non-Financial Physical Assets’* for details on the Purpose Groups. |
|  |  | Measurement Subsequent to Initial Recognition |
|  | 4.3 | All non-financial physical assets should be measured using the revaluation model (being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses), unless the entity has received the prior written approval of the Minister for Finance to measure at cost.  For leasehold improvements, additions or modifications made to ‘fit out’ buildings that are leased by government entities (and such buildings will not revert to the State at the end of the lease agreement), depreciated cost is used for the subsequent measurement. |

| FRD 103F |  | Non-Financial Physical Assets  (June 2015) |
| --- | --- | --- |
|  |  | Assets not subject to revaluation |
|  | 4.4 | Assets under construction/development are measured at cost. |
|  |  | Fair value measurement |
|  | 4.5 | Non-financial physical assets are measured at fair value with regard to an asset’s highest and best use (HBU) from the perspective of the market participant, taking into account any legal, financial or physical restrictions imposed on the use or sale of the asset.  An entity’s current use of a non-financial physical asset will be its HBU unless the HBU indicators (refer to Appendix D *Fair Value Measurement Guidance*) suggest that a different use by market participants would maximise the value of the asset. |
|  |  | Timing of revaluation |
|  | 4.6 | Within each Purpose Group, all classes of assets that are measured using the revaluation model (subsequent to initial recognition) must be revalued within the same financial year. Refer to Appendix A Table 1 *‘Allocation of Purpose Groups to entities’* for further information. |
|  | 4.7 | For each class of assets which is subject to the revaluation model, the following requirements exist:   * ***Fair value assessments*** shall be conducted annually such that the asset reflects the fair value at the end of the annual reporting period, after taking into consideration of all fair value indicators, which include VGV Land and Building indices, the HBU and other relevant indicators.   In the event of an HBU indicator being triggered, the entity should consider and document the assessment of the implications on fair value and consult with VGV where required.  Refer to Appendix D for further guidance on HBU of individual asset classes, including a list of the HBU indicators (noting this is not an exhaustive list).   * ***Scheduled revaluations*** must be performed every five years, with timing based upon the relevant ‘Purpose Group’ as outlined in Appendix A; and * ***Interim Revaluations*** and ***Managerial*** Revaluations may arise as a result of ***fair value assessments.*** Such assessments use indices and/or other fair value indicators for indications of material changes in values, as outlined below: |
|  |  | *‘Exceptionally Material’* movements possibly triggering *‘Interim Revaluations’*: |
|  | 4.8 | * If it appears that the movement in fair values, as indicated by the compounded impact of the Valuer-General Victoria (*VGV) indices* (or other relevant fair value indicators) since the last *interim* or *scheduled revaluation* is *exceptionally material* (equals or exceeds 40 per cent), an entity shall be referred to an *Approved Valuer* (as defined in this Direction) for further advice – which may result in further procedures, such as an interim revaluation. |
|  |  | *‘Material’* movements triggering *‘Managerial Revaluations’*: |
|  | 4.9 | * Subject to paragraph 4.8 above, if it appears that the movement in fair values (since the last interim or scheduled revaluation), is less than 40 per cent, an entity must then evaluate whether the difference between the asset class’ carrying amount and fair value (based on indicators or other evidence) may be *materially* different (greater than 10 per cent). This can be determined by assessing the compounded movement in the relevant fair value indicators since the last *scheduled, interim or managerial revaluation* (whichever is the more recent). If a material movement has occurred, a *managerial revaluation* shall be performed. |
|  |  | *Movements that are not material* |
|  | 4.10 | * If the compounded movement in fair value indicators since the last scheduled, interim or managerial revaluation (or other evidence) is less than or equal to 10 per cent, then no change to carrying amounts is required. |
|  |  | Revaluation Processes |
|  | 4.11 | * Appendix B details the process to be followed when a ‘material’ or ‘exceptionally material’ change in asset values is indicated, including the need to obtain written approval from a Chief Reporting Officer (CRO, as defined in this Direction) before an asset revaluation can occur. |
|  | 4.12 | * For the purposes of the portfolio or State of Victoria reporting entity, even if the value of a controlled entity’s class of non-financial physical assets is assessed to have materially changed for that entity, this does not necessarily mean that a similar conclusion shall apply to larger aggregations of similar assets at either the portfolio or the State of Victoria reporting entity level. |
|  | 4.13 | * The Director Whole of Government - Principal Accounting Officer within DTF shall also decide, in consultation with the CRO and any other relevant portfolio officers, whether there is a sufficiently material change in fair values for a revaluation to also take place for that class of assets across several entities or the entire portfolio. |
|  |  | Impact of *Interim and Managerial* Revaluations on *Scheduled Revaluations*: |
|  | 4.14 | * Classes of assets that have been revalued are still required to undertake a scheduled revaluation at the next stipulated time (in the five-year cycle) when the Purpose Group to which that class belongs falls due for valuation. |
|  | 4.15 | * When assessing possible additional valuation methodologies (as a result of a fair value assessment), the Approved Valuer may consider that circumstances exist within a portfolio such that the asset holdings within a portfolio have a similar nature. This Direction provides for the Approved Valuer, in such circumstances, to provide advice to cover assets for more than one entity in a portfolio. |
|  | 4.16 | * Refer also to Appendix A for: * a listing of the six ‘Purpose Groups’ and their related nature-based classes; and * a five-year timetable for revaluations of each of the six ‘Purpose Groups’. |
|  |  | Revaluations - Accounting treatment |
|  | 4.17 | * When non-financial physical assets are revalued, an entity is to account for the accumulated depreciation at the date of the revaluation by eliminating the accumulated depreciation balance against the gross carrying amount of the asset and increasing the net amount to the revalued amount of the asset. |
|  | 4.18 | * To enable the impact of revaluations to be factored into the following *Budget* period, they should be undertaken prior to the commencement of the Budget process, but only recognised on the Balance Sheet at financial year end (e.g. 30 June). To ensure the validity of such revaluations, entities shall instruct the valuers (if involved) that, to the extent possible, valuations are to be based upon an asset’s anticipated value at the end of the financial year. Any changes to depreciation resulting from the revaluation shall be effective from the commencement of the next year (i.e. 1 July) following recognition of the revaluation on the Balance Sheet. Budget estimates shall be updated, where possible, prior to the finalisation of the Budget for the coming year. |
|  |  | Residual Values |
|  | 4.19 | * Unless there is evidence to the contrary, this Direction deems all non-financial physical assets, other than vehicles, to have a residual value of zero. |
|  |  | Useful life |
|  | 4.20 | * In certain circumstances some infrastructure assets or asset components may have unlimited useful lives. However, unless evidence suggests to the contrary, this Direction deems all non-financial physical assets to have a limited useful life. |
| * Definitions |  | ***Approved Valuer***: an independent professional valuation agency. Unless otherwise approved by the Chief Reporting Officer (as defined in this Direction) in accordance with the requirements of Appendix A, the Approved Valuer is to be Valuer-General Victoria (VGV).  ***Budget***: the Victorian State Budget, incorporating the relevant Budget Papers tabled in the Parliament of Victoria.   * ***Chief Reporting Officer***: The officer responsible for an entity’s submission of financial information for the purposes of consolidation into the State of Victoria economic entity financial statements.   In most cases, this will be the portfolio Chief Finance and Accounting Officer (CFAO, as defined in the Standing Directions of the Minister for Finance); the principal accounting officer in a department responsible for financial management leadership and for consolidated financial reporting of that department and its relevant portfolio entities.  Some entities submit information directly to DTF for the purposes of consolidation. For such entities, the Chief Reporting Officer will not be a Portfolio CFAO, but rather their own Chief Finance Officer (or other such senior accounting or reporting officer).   * ***Class***: For all reporting entities covered by this FRD, other than the consolidated general government sector and whole of government levels, the combination of ‘Purpose Group’ and ‘nature’ establishes a class. In this Direction: * six ‘Purpose Groups’ are used, based upon an amalgamation of ‘Government Purpose Classification’ (GPC) categories; and * an asset’s ‘nature’ refers to its functional use (i.e. buildings, plant and equipment, etc.).   Further information on class can be found in sections 1.1-1.3 of Appendix A.  ***Cost approach***: is a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).  From the perspective of a market participant seller, the price that  would be received for the asset is based on the cost to a market  participant buyer to acquire or construct a substitute asset of  comparable utility, adjusted for obsolescence (as defined below).  ***Depreciated Cost***: the cost of an asset less, where applicable, accumulated depreciation (calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset) and any accumulated impairment losses.  ***Depreciated Replacement Cost***: is the current replacement cost less accumulated depreciation to reflect the already consumed future economic benefits of the assets.  ***DTF***: all references in this Direction to ‘DTF’ shall be taken to refer to the Accounting Policy area within the Department of Treasury and Finance, unless otherwise stated. DTF can be contacted via email on accpol@dtf.vic.gov.au.  ***Fair Value***: is 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 measurement is based on the following assumptions:   * that the transaction to sell the asset or transfer the liability takes place either in the principal market (or the most advantageous market, in the absence of the principal market), either of which must be accessible to the entity at the measurement date; * that the entity uses the same valuation assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.   ***Fair Value Assessment***: a process whereby management makes an assessment, based on its knowledge and expertise and taking into consideration of all fair value indicators, including Land and Building indices, the HBU and other relevant indicators. The purpose of the assessment is to determine whether the current use is the HBU, and whether there has been a material (or exceptionally material) movement in the fair values of a class of non-financial physical assets. The processes to be followed for a fair value assessment are contained in Appendix B, Figure 1(a).  ***Fair Value Indicators***: are indicators that are used to help determine whether there has been a material (or exceptionally material) movement in the fair values of a class of non-financial physical assets. These include the VGV Land and Building indices, the HBU and other fair value indicators. For land and buildings, the *VGV indices* shall be used (unless otherwise authorised according to the requirements in Appendix B). For other assets, management may use other relevant indices, market indicators or observations, its own specialist knowledge or obtain specialist opinions on movements in asset values.  ***Income approach***: is a valuation technique that converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.  ***Market approach***: is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (or similar) assets, liabilities, or a group of assets and liabilities, such as a business.  ***Market participants***: are buyers and sellers in the principal (or most advantageous) market for the asset or liability that are independent of each other, are knowledgeable, are able and willing to enter into the transaction for the asset or liability.  ***Materiality***: in this Direction:   * movements in the fair value of non-financial physical assets are material if the difference from the carrying amount exceeds 10 per cent. This can be determined by assessing the compounded movement in the relevant indices (and/or other appropriate indicators of fair value) since the last scheduled, interim or managerial revaluation (whichever is the more recent); and * compounded movements in indices (and/or other indicators) equal to or greater than 40 per cent since the last interim or scheduled revaluation indicate an exceptionally material movement in fair value.   ***Most advantageous market***: is the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction and transport costs.  ***Non-Financial Physical Asset***: a non-current asset that has a physical form and is within the scope of AASB 116. Refer to AASB101 *Presentation of Financial Statements* for guidance on the distinction between current and non-current assets.   * ***Obsolescence*** encompasses physical deterioration, functional(technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives)(Refer to Appendix D *Fair Value Measurement Guidance*)*.*   ***Principal market***: is the market with the greatest volume and level of activity for the asset or liability.  ***Revaluation***: a process designed to reflect the fair value of an asset (or class of assets). The process to be followed for all revaluations can be found in AppendicesA and B. The types of revaluation in this Direction are:  ***Managerial Revaluation***: conducted using management (or internal) expertise, and used when a fair value assessment indicates that the **difference between the fair value** of an asset class and the class’ **carrying amount** is material (**greater than 10 per cent)**.  ***Interim Revaluation***:involves an Approved Valuer. An interim revaluation is only conducted after a fair value assessment indicates that the movement in fair value of an asset class since the last interim or scheduled revaluation may be exceptionally material (equal to or greater than 40 per cent).  ***Scheduled Revaluation***: performed by an Approved Valuer, at the time stipulated (in the five-year cycle) for assets in that Purpose Group to be revalued (as set out in Table1 of AppendixA).  ***Transaction costs***: are the costs to sell an asset or liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of an asset or the transfer of a liability that meet both of the following criteria:  They result directly from and are essential to that transaction.  They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.  ***Valuer-General Victoria (VGV)***: the Victorian State Government’s independent valuation agency, which provides valuation services to the whole of the Victorian Public Sector via in-house valuers and a panel of external valuers. Refer to http://www.dtpli.vic.gov.au/property-and-land-titles/valuation/government-valuations/valuer-general-victoria for more information about VGV.  ***VGV Indices***: The VGV index factors typically provided to DTF by VGV each April and October. There are separate indices for land and buildings. DTF posts the VGV Indices on the DTF website as they become available. It is the responsibility of the various agencies to either visit the DTF website or – if access is not possible - contact the relevant portfolio CFAO (where applicable) to obtain the set of index factors for their particular assets.  Refer to paragraphs6 and Aus. 6.1 of AASB116 for the following definitions:  Carrying amount;  Depreciation;  Impairment loss; and  Not-for-profit entity. |
| Relevant pronouncements |  | AASB 13 *Fair Value Measurement* (October 2013)  AASB 116 *Property, Plant and Equipment* (September 2012)  AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (December 2012) |
| Background |  | AASB 116 requires entities to measure property, plant and equipment after recognition using either the cost model or the revaluation model.  With the requirement of AASB 1049, this Direction limits the choice by requiring all non-financial physical assets to be measured using the revaluation model.  AASB 13 sets out a single framework for measuring fair value with regard to the HBU and the disclosures relating to fair value measurement. |
| Model for Disclosure within Financial Report |  | Note 1 *Summary of significant accounting policies*  Note 17 *Property, Plant and Equipment* |
| Appendices |  | *Appendix**A -* Scheduled Revaluation of Non-Financial Physical Assets  *Appendix**B* – Annual Fair Value Assessment, Managerial and Interim Revaluations  *Appendix**C* – General Guidance  *Appendix**D –* Fair Value Measurement Guidance  *Appendix E –* Fair Value Measurement Indicative Expectations  *Appendix F -* History of this Direction |
| Other information |  | The following guidance papers are published separately by DTF, and may provide further assistance with the use of this Direction in specific circumstances:  Guidance on the Selection of Valuation Services, DTF  Guidance on Depreciation of Building Components, DTF |

# Appendix A

# SCHEDULED REVALUATION OF NON FINANCIAL PHYSICAL ASSETS

## 1. Guidance

*1.1 Asset Classification*

For external reporting purposes, assets shall be:

* primarily classified by six ‘Purpose Groups’ based upon the amalgamation of ‘Government Purpose Classification categories (GPC)’ (refer section1.2 below); and then
* subcategorised based upon the asset’s ‘nature’ (i.e. buildings, plant and equipment, etc.) (refer section1.3);
* the combination of ‘Purpose Group’ and ‘nature’ establishes a class.

*1.2 Purpose Group Classifications*

The Government Purpose Classification comprises 13 categories (excluding defence). However, for convenience and efficiency in performing revaluations, these GPC categories have been allocated into one of six ‘Purpose Groups’, as shown in the table below.

It is expected that the majority of VPS entities will each be accommodated within a single Purpose Group; however, in the event that difficulties arise in identifying the appropriate Purpose Group, entities should contact DTF for guidance.

In the event of machinery of government (MoG) change, while entities may be moved between departments, the general expectation is that there will be no impact on their revaluation cycle unless they have changed the relevant purposes and are now allocated into a different purpose group.

| **Purpose Groups** | | **GPC category** |
| --- | --- | --- |
| Group 1 | Public Administration | General Public Services  Other Economic Affairs  Other Purposes |
| Group 2 | Education | Education |
| Group 3 | Housing | Housing and Community Amenities (Housing only) |
| Group 4 | Health and Welfare | Health  Social Security and Welfare |
| Group 5 | Transportation and Communications | Transportation and Communications |
| Group 6 | Public Safety and Environment | Fuel and Energy  Public Order and Safety  Community Amenities (Other than Housing)  Agriculture, Forestry and Fishing  Recreation and Culture  Mining, Manufacturing and Constructions |

*1.3 Nature-Based sub-classes*

The following nature-based sub-classes fall within each of the above Purpose Groups:

|  |  |
| --- | --- |
| Nature-based Class | Measurement Basis |
| Land - (Freehold land / Crown land - National & State parks / Crown land other) (1) (2) (3) | Fair Value |
| Buildings | Fair Value |
| Plant, equipment and vehicles  Infrastructure systems | Fair Value  Fair Value |
| Road and road infrastructures, Earthworks(3) | Fair Value |
| Cultural assets | Fair Value |

(1) At a State level, only one class, ‘land’, is identified, with limited additional analytical disclosure. However, individual entities may choose to make additional disclosures of sub-classes of land.

(2) Only entities within the Department of Environment, Land, Water and Planning (DELWP) Portfolio need to separately identify Crown land from freehold land, unless Crown land holdings are material.

(3) In respect to land under the declared road network, controlled by Vic Roads, refer to FRD 118 *Land under roads.*

# Appendix A (Continued)

Nature-based sub-classifications combined with the six ‘Purpose Groups’ represent the minimum level of reporting and the level at which reconciliations are to be reported by entities in compliance with AASB116.

## 2. Revaluation Cycle

AASB116 requires that revaluations be made with sufficient regularity to ensure that the carrying amount of an asset does not differ *materially* from that which would be determined using fair value, at the reporting date.

To ensure that regular revaluations of asset values can be undertaken in an effective and practicable manner, they shall occur according to the following five-year cycle, whereby assets in a ‘Purpose Group’ are revalued within the relevant year over the life of the cycle, as shown in Table1 below. Note that Purpose Groups3 and 4 both fall due within the same year.

Valuations must be made as at a specific date, even if reviews/preparation are undertaken over a longer time.

***Table 1: Allocation of Purpose Groups to entities***

|  |  |  |  |
| --- | --- | --- | --- |
| Year (Commencing) | Purpose Groups | Government Purpose Classifications | Department portfolios  (including public non-financial corporations and public financial corporations) |
| **Year 1**  (1 Jul 2014) | Transportation and Communications | Transportation and Communications | DEDJTR(VicTrack, VLine and Ports) |
| **Year 2**  (1 Jul 2015) | Public Safety and Environment | Fuel and Energy | DTF (SECV) |
| Public Order and Safety | DJR  DELWP (Fire Prevention) |
| Community Amenities (Other than Housing) | DELWP (Water authorities) |
| Agriculture, Forestry and Fishing | DELWP (PNFCs, excluding Water authorities.) |
| Recreation and Culture | DPC portfolio other than the Department and Shrine (Arts)  DJR (Racing)  DELWP (Zoological Parks and Gardens Board, Alpine Resorts Management Boards and Philip Island)  DEDJTR  (Emerald Tourist Railway, Fed Square Pty Ltd, Grand Prix, Melbourne Convention &Exhibition Trusts, Melbourne Markets Authority, Tourism Vic, Film Victoria and Victorian Major Events Corporation) |
|  |  | Mining, Manufacturing and Constructions | n/a |
| **Year 3**  (1 Jul 2016) | Public Administration | General Public Services | DTF (Insurers, , State Trustees, Vic Funds Management and TCV)  DPC Department and Shrine only (VITS LanguageLink)  DEDJTR (former DPCD entities that are within this purpose group)  DHHS - Assets transferred from DEDJTR that are within this purpose group |
| Other | DHHS (Cemeteries) |
| **Year 4**  (1 Jul 2017) | Education | Education | DET |
| **Year 5**  (1 Jul 2018)\* | Housing | Housing and Community Amenities (Housing only) | DHHS (Housing) |
|  | Health and Welfare | Health | DHHS (Queen Victoria Women’s Centre Trust) |
|  |  | Social Security and Welfare | DHHS |

*\* Note: This cycle is to repeat every five years.*

# Appendix A (Continued)

## 3. Valuation Expertise

In terms of the level of expertise required in undertaking physical asset valuations this Direction requires that entities must use independent professionally qualified valuers in performing revaluations (except for *managerial revaluations*, as defined in this Direction).

Valuer-General Victoria (VGV) is the State Government’s independent valuation agency which provides valuation services to the whole of the Victorian Public Sector via in-house valuers and a panel of valuers. The VGV asset valuation team can arrange comprehensive Financial Reporting valuations if given sufficient time and proper instructions.

Unless otherwise approved by the *Chief Reporting Officer* (CRO, as defined in this Direction) in accordance with the requirements of this Appendix, the *Approved Valuer* is to be VGV. In the circumstances that an entity wishes to use the services of an alternative valuer as an *Approved Valuer,* prior written approval is required from the CRO. It would not normally be acceptable for valuers other than valuers of equal professional standing (and expertise relevant to Victoria) to that of the VGV to be used as alternative valuers. Alternative valuers of equal professional standing to VGV include the State Governments’ independent valuation agencies or offices.

If an entity wishes to use a valuer other than the one listed above, that entity will be required to produce evidence, to the satisfaction of the CRO, that the requested valuer’s work cannot be satisfactorily provided by VGV (or the valuers listed above). In deciding on a request for any alternatives to VGV, the CRO shall consult with the relevant audit team and VGV, and also give due consideration to the level of local knowledge and expertise that is appropriate to such an engagement.

DTF and the relevant audit team shall also be advised of any engagement not involving VGV or an alternative valuer listed above.

If the CRO approves a request for an alternative to VGV, all relevant references in this Direction to VGV shall be taken to equally refer to an Approved Valuer.

*3.1 Specialised Assets*

If an entity considers that certain assets are specialised in nature and consequently would be more appropriately valued by a specific type of professional not available to VGV (or a valuer listed above), prior written approval from the CRO to use that specialist shall be required. The CRO shall consult with VGV, and also the relevant audit team, to confirm that the additional specialist services required cannot be procured by VGV on a reasonable basis. The relevant audit team and DTF shall also be advised of any such engagement.

For additional guidance, entities can also refer to ‘*Guidance on the Selection of Valuation Services’* issued by DTF*.*

# Appendix A (Continued)

## 4. Land

Under Government Purpose Classification used in this Direction, there will be many cases where buildings and the underlying land are used for the same purpose. In such cases, valuations of both assets would be undertaken at the same time. However, for reporting purposes, land must be separated from buildings because:

values do not change consistently between land and buildings;

land is not depreciable whereas buildings are;

land and buildings values do not change consistently from year to year; and

there is a need to separately identify *Crown land* from *freehold land* within the same nature-based sub-classes of all land*.* Crown land is not marketable in its current form and is generally used for restricted purposes. This contrasts with *freehold land* which is marketable by virtue of having a transferable title and being used for wider purposes\*.

For this purpose, the developed land sub-class comprise:

Freehold land;

Crown land - National/State parks; and

Crown land - other than National/State parks.

\*Note that entities not within the Department of Environment and Primary Industries Portfolio need only separately identify Crown land from Freehold land when Crown land holdings are material.

## 5. Fair value measurement

Please refer to Appendix D of this Direction for full guidance on fair value measurement.

# Appendix B

# Annual Fair Value Assessment, Managerial and Interim Revaluations

Although it is intended that asset valuations will be based on a five-year cycle, this Direction requires entities to subject asset values to annual fair value assessments, to determine whether additional revaluations need to be undertaken between revaluation cycles.

## 1. Fair Value Assessments - Land and Buildings

VGV Land and Building indices

Separate annual indices for land and buildings are supplied by VGV, which are based on a postcode and building/land use code matrix. These shall be used to determine whether a *material* or *exceptionally material* movement in land and/or building values may have occurred. Indices are to be applied ‘year on year’, and the compounded movement shall be used to assess whether any further procedures are required (e.g. managerial or interim revaluation). To enable sufficient time to conduct any required interim revaluations, and ensure consistency with formal *Budget* Estimates:

* For entities whose annual reporting period ends on or before 30June, the VGV calendar year indices issued in October of each year shall be used for the fair value assessment.
* For entities whose annual reporting period ends on or before 31December, the VGV fiscal year indices issued in April of each year shall be used for the fair value assessment.

If the outcome of fair value assessments indicates that the carrying amount of the asset class still materially represents the fair value (with reference to the materiality provisions in this Direction), then – subject to note (b) (ii) below - NO change to carrying amounts (or revaluation) is required.

Notes:

1. These indices are for a 12-month period, and thus include a level of estimation of values to the end of the relevant index period.
2. For ‘June reporters’ who, using October indices, have assessed that:
   1. a managerial revaluation is required, entities shall apply the April indices for that financial year, when they become available, to actually revalue the class of assets.
   2. no revaluation is required; entities will still need to refer to the April indices for that financial year to ensure that the fair values of the assets are not materially different from their carrying amounts. If applying the April indices resulted in a compounded movement in fair value of greater than 10 per cent, the April indices shall be used to revalue the class of assets (i.e. a managerial revaluation only – refer to section 3 below).
   3. An analogous procedure shall apply for ‘December reporters’.

The relevant audit team shall be advised of the result of fair value assessments as they become available.

Any entity wishing to use fair value indicators for land and buildings other than the VGV indices shall seek the authorisation of the CRO, who will consult with DTF and the relevant audit team.

Highest and best use – Land and Buildings

Please refer to Appendix D for the HBU guidance on land and buildings.

## 2. Interim Revaluations - Land and Buildings

If an entity considers that the potential movement in asset fair values since the last interim or scheduled revaluation, as indicated by the compounded indicators, is exceptionally material (greater than or equal to 40 per cent), it shall notify the relevant CRO.

1. If the CRO does not concur, the relevant audit team shall be consulted and an assessment for *material* movements (less than 40 per cent but greater than 10 per cent) in fair value, a managerial revaluation shall be conducted, as per the next section.
2. If the CRO concurs, the entity shall be referred to an *Approved Valuer*.

# Appendix B (Continued)

1. The CRO shall also notify *DTF* that an entity has been referred to an Approved Valuer, to enable DTF to monitor revaluation activity across portfolios.
2. The Approved Valuer shall assess the evidence, consult with audit, and then advise the entity whether the indicators being used are still relevant to determine the fair value or whether additional methodologies, as outlined below, are needed to establish the valuation.
   1. An interim revaluation will typically involve the professional application, by the Approved Valuer (or its authorised agents), of any or a combination of the following additional procedures:
      1. Indices; and/or
      2. Desktop valuations based on statistically acceptable sampling techniques; and/or
      3. Site visits based on statistically acceptable sampling techniques; and/or
      4. Any other professional methodologies considered appropriate by VGV.
   2. The Approved Valuer may provide common advice to several entities within a portfolio, provided that these entities have similar asset holdings.
3. Note that the Approved Valuer shall also document and advise the relevant audit team of its opinion, including the methodology and rationale behind the choice of any additional procedures.
4. In such circumstances, a managerial revaluation of asset values will not be required, unless otherwise advised by the Approved Valuer that it is appropriate.
5. In the event that the Approved Valuer conducts an interim revaluation on a class of assets to establish the valuation, the CRO shall provide a copy of the results to DTF and the relevant audit team, as soon as practicable.

## 3. Managerial Revaluations – Land and Buildings

Managerial revaluations are appropriate when the compounded movement in indicators is not exceptionally material. If, by assessing the compounded movement in the relevant indicators since the last scheduled, interim or managerial revaluation (whichever is the more recent), it is determined that the difference between the fair value of an asset class and that class’ carrying amount is potentially material (greater than 10 per cent), a managerial revaluation needs to be performed.

The process to be followed for a managerial revaluation is as follows:

1. The relevant CRO shall be notified and provided with the available evidence.
2. If the CRO concurs that a material movement has occurred, the CRO shall authorise a managerial revaluation of carrying amounts of that class of assets.
3. The affected class of assets shall be revalued by applying the relevant, compounded, indexation factors.
4. The relevant audit team shall also be informed of the revaluation.
5. If the CRO does not concur, no revaluation is required and the relevant audit team shall be advised.

*3.1 Special Procedure: Dominant Assets in a Class*

It is presumed that a class of assets will be uniform in nature and so the relevant indexation factor will be applied to revalue all assets in that class. However, at the time of fair value assessment, where a class contains a small number of assets that dominate that class’ value, and the management of an entity has information (or circumstances are such) that indicates that the movement in fair value of these ‘dominant’ assets is materially different to that of the indices, that entity shall refer to an Approved Valuer for further advice on any additional procedures that may need to be conducted on those assets.

For the purposes of this section, to ‘dominate’ a class means collectively represent more than 75% of the asset class value.

# Appendix B (Continued)

The rest of that class of assets shall continue to have the relevant indexation factors applied. The relevant audit team shall also be advised of the results of any additional advice or procedures.

## 4. Interim and Managerial Revaluations - assets other than land and buildings

It is unlikely that non-financial physical assets (other than land and buildings) will experience material changes in fair value from period to period.

However, management often requires reassurance that asset carrying amounts are not materially different from their fair values, so the process for the revaluation of these classes of assets shall be as that detailed above for land and buildings, using indicators other than VGV indices. If appropriate market or other fair value indicators are not available, then management may use specialist professionals to undertake a fair value assessment, or make its own assessment of fair value movement.

A class of non-financial physical assets whose valuation is based on market value (e.g. public housing) may, from time to time, experience material changes in fair value, resulting in a material difference to the last revaluation (interim or scheduled). Such changes should not be inferred or used as indicators for possible movements across the portfolio or the State for other classes of non-financial physical assets, because market-based indicators are specific to that market and class of assets.

### 4.1 Fair Value Indicators –Specialised Assets

An entity must use appropriate indices, market observations and/or its own specialist knowledge to conduct a *fair value assessment* on whether an asset class’ fair values have changed. Certain classes of assets (e.g. cultural assets) may require the application of specialised fair value indicators. An entity is required to consult with the Approved Valuer and CRO when selecting appropriate indicators.

Note that AASB 116 allows the use of depreciated replacement cost for determining fair value in the absence of market-based indicators, which may be applicable for certain specialised assets that are rarely sold (e.g. cultural assets).

Highest and best use – Specialised Assets

Please refer to Appendix D for the HBU guidance on specialised assets

# Appendix B (Continued)

## 5. Scheduled Revaluations

The process to be followed for revaluations that are scheduled to occur at the time stipulated in Table1 of Appendix A shall reflect the process detailed above for interim revaluations, except that fair value assessments are not applicable and other indicators of fair value may be required.

The valuation methodologies that are deemed relevant shall be selected by the Approved Valuer to achieve a level of professional comfort that the revalued land asset class is represented at fair value.

## 6. Insurance valuations

At the same time that assets are valued for financial reporting purposes entities may, for efficiency and cost minimisation, obtain valuations for insurance purposes. However, insurance valuations are typically based upon ‘insurance replacement cost’ rather than ‘fair value’. Accordingly, entities shall differentiate between these two types of valuations in their asset registers.

## 7. Rental valuations

Entities at times obtain valuations for the purpose of establishing rental rates for their assets. Such valuations may occur at other times or may occur at the same time that assets are valued for financial reporting purposes. Such valuations need to be distinguished from revaluations conducted for financial

reporting proposes, and are not subject to this Direction. Such revaluations shall also not affect the revaluation cycle stipulated in this Direction, nor require the revaluation of other assets in the same class.

## 8. Impacts on financial reporting and Budget

Revaluations of an entity’s assets can impact on future:

* depreciation expense;
* depreciation equivalent funding (which is based on the quantum of depreciation expense); and
* levying of the Capital Asset Charge (CAC).

Changes to the above have a potential to impact upon the funding of departmental outputs in future years as reflected in the forward estimates. Accordingly, to enable such impacts to be factored into forward estimates, in particular the subsequent Budget year, and ensure that valuations are comparable on a State of Victoria economic entity basis, revaluations should, to the extent possible, be undertaken prior to the commencement of the Budget process but must be booked to take effect on the Balance Sheet at financial year end (e.g. 30June). Any changes to depreciation resulting from the revaluation should be effective from the commencement of the year (e.g. 1July) following recognition on the Balance Sheet. These revaluation impacts shall also be incorporated into the prospective financial statements supporting the Budget. Budget estimates shall be updated, where possible, prior to the finalisation of the Budget for the coming year.

In instances where valuations are undertaken during the course of the year and involve an external valuer, it is important that clear instructions are given to the valuers that their valuations are to be based upon an asset’s anticipated value at the end of the reporting period.

The major elements of the revaluation process are summarised in the following process diagrams:

***Appendix B, Fig 1(a): Process for Fair Value Assessments***

CRO concurs **fair values** appear **materially** different from **carrying amount**?

**Follow process overleaf for Interim Revaluations and other relevant procedures**

CRO concurs **change in values** appears to be **exceptionally material**?

VGV Land and Building Indices

Entity: notify audit

No revaluation required

Entity: notify audit

No further action

Entity: notify audit

**Compounded change in fair values** since last interim or scheduled revaluation appears **exceptionally material** (>=40%)?

Provide all information relevant to asset values

Notify Chief Reporting Officer (CRO)

**Managerial Revaluation**: Change asset values by use of approved indexation factors

No

Yes

Yes

Yes

No

Asset fair values appear to be **materially** (>10%) different from carrying amount?

Yes

No

Consult with audit team

No

HBU and other fair value indicators

CRO notifies DTF of authorisation

Revaluation Report

Entity changes asset values (revaluation), in accordance with this FRD

CRO and DTF Principal Accounting Officer determine any further actions across entities or portfolio

Copy to CRO

***Appendix B, Fig 1(b): Process for Interim Revaluations and other relevant procedures***

**From Fair Value Assessment** (overleaf): Change in asset fair values appears to be exceptionally material

Assessment/Revaluation conducted

CRO refers entity to Approved Valuer (or other specialist, if approved – refer App A, s3.1), for further assessment, advice and/or revaluation

Entity engages Approved Valuer to conduct revaluation/reassessment

Valuer consults with audit on methods

CRO: copy to DTF and audit

***Appendix B, Fig 2: Valuation Process***



Consideration and Documentation of HBU indicators

*Source: Valuer General Victoria – VAGO – Audit Service Providers Forum, 26 November 2011.*

# Appendix C

# General Guidance

## 1. Disclosure

Example note disclosures, for use in an entities’ annual financial report, can be found in the relevant year’s Departmental Model Financial Report for Victorian Government Departments (Model Report), as issued by DTF.

Model accounting policies disclosure, by way of Note1 in the annual financial report, can also be found in the relevant year’s Model Report, as issued by DTF.

## 2. Treatment of Accumulated Depreciation on Revaluation

AASB116 *‘Property, Plant and Equipment’* permits an entity to account for the accumulated depreciation at the date of the revaluation either by:

* increasing proportionately the accumulated depreciation balance with the increase in the gross carrying amount of the asset, so that the net carrying amount of the asset after revaluation equals its revalued amount (gross approach); or
* eliminating the accumulated depreciation balance against the gross carrying amount of the asset and increasing the net carrying amount to the revalued amount of the asset (net approach).

To ensure consistency on a State of Victoria reporting basis, this Direction requires a non-current physical asset to be measured using the revaluation model, and account for the accumulated depreciation at the date of the revaluation by applying the net approach.

## 3. Prospective Application of Changes to Depreciation

Any change in depreciation charges that occur as a result of revaluations is a change in accounting estimates and is therefore applied prospectively, as per the requirements in AASB 108 ‘*Accounting Policies, Changes in Accounting Estimates and Errors*’.

## 4. Revaluation reserve of derecognised assets

An entity may elect to transfer the revaluation surplus/ (deficit) in respect of a non-financial physical asset to the accumulated funds when the asset is derecognised (except for transfers via contributions by owners – see section 4.1 below).

Subject to 4.1 below, not-for-profit entities are generally not recommended to transfer the revaluation surplus/ (deficit) relating to derecognised assets to accumulated funds.

For-profit entities are encouraged to transfer the revaluation Surplus/ (deficit) in respect of an item of non-current physical asset to accumulated funds when the asset is derecognised rather than as the asset is used.

*4.1 Contributions by Owners*

Where transfers of assets arise as a result of a government decision that involves the transfer of one or more assets, possibly together with related liabilities, that effectively occurs at, or before the time of the transfer either:

from restructures of administrative arrangements; and/or

from all other arrangements which are deemed by an administrative instrument to be contributions by owners,

an entity shall transfer any related reserves directly to its accumulated funds.

# Appendix C (Continued)

## 5. Componentisation

Where assets are regarded as comprising separate parts whose lives and associated depreciation charges would materially affect financial reporting, these components of the assets should be separately identified in asset registers and depreciated.

## 6. Improved Land and Purpose Group Classifications

Improved land (including land reserved for particular improvements) is deemed to be for the same purpose as that identified for the primary improvement of the land. In a formal sense, buildings and other assets attached to land change the nature (and so purpose) of that land.

## 7. Consultations with Audit

In the interests of facilitating the annual audit process, it is assumed and expected in this Direction that entities, the relevant CRO, DTF and the Approved Valuer shall consult with the relevant audit team, at the earliest practicable opportunity, in circumstances such as:

selecting appropriate fair value indices;

deciding whether an exceptionally material change in fair value has occurred;

determining the appropriate valuation processes to be used when an exceptionally material change has occurred; or

evaluating a request to use alternative valuers or indices.

# Appendix D

FAIR VALUE MEASURMENT GUIDANCE

Consideration of highest and best use (HBU) for non-financial physical assets

The fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Judgements about highest and best use must take into account the use of the assets that is physically possible, legally permissible and financially feasible, as follows:

1. A use that is physically possible taking into account the physical characteristics of the asset that market participants would factor when pricing the asset (e.g. the location or size of a property);
2. A use that is legally permissible taking into account any legal restrictions on the use of the asset that market participants would factor when pricing the asset (e.g. the zoning regulations applicable to a property); and
3. A use that is financially feasible taking into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

Entities can assume the current use of a non-financial physical asset is its HBU unless the indicators suggest that a different use by market participants would maximise the value of the asset.

Therefore, fair value assessmentshall be conducted annually so that the asset reflects the fair value at the end of the annual reporting period, after taking into consideration of all fair value indicators, including VGV Land and Building indices, the HBU and other relevant indicators.

In the event of an HBU indicator being triggered, the entity should consider and document the implications on fair value and consult with VGV where required.

These indicators, noting this is not an exhaustive list, that shall be considered include:

**External indicators**

Changed acts, regulation, local law or such instrument which affects or may affect the use or development of the asset;

Changes in planning schemes, including zones, reservations, overlays that would affect or remove existing restrictions imposed on the assets’ use;

Existence of government policies (e.g. Government Gazette)/public announcements with expectations that an asset will be used in certain way to support service delivery;

Government decisions declaring the asset’s redundancy or surplus; or

Social-environmental evidences indicating changes in public expectations of the assets’ use.

**Appendix D (Continued)**

**Internal indicators**

Where an asset’s use is within an entity’s discretion, any plans or intentions that have been formally communicated for a different use of the asset from its past use;

Evidence that suggests the current use of an asset is no longer core to requirements to deliver an entity’s service obligation; or

Evidence that suggests that the asset might be sold or demolished as reaching the late stage of an asset’s life cycle.

In considering these indicators, entities should evaluate whether the restriction is deemed to be a characteristic of an asset (i.e. they will be equally applicable if used by/sold to the market participants) or of the entity holding the asset. The restriction that would transfer with an asset in the assumed sale would generally be deemed as a characteristic of the asset and therefore more likely to be considered by market participants in pricing the asset (e.g. social or environmental consideration of the use of land designated as a national park). Conversely, a restriction that is specific to the entity holding the asset would not transfer with the asset in an assumed sale and therefore should not be considered when measuring fair value. Determining whether a restriction is a characteristic of an asset or the entity holding the asset may be contractual in some cases. It should be noted that this determination requires judgement based on the specific facts and circumstances.

Entities need to assess the HBU annually, ensuring that the assessment also forms part of the five-year review for fair value of non-financial physical assets.

Here below provides further guidance of HBU consideration for the specific asset classes.

Land

Much of the land in the public sector is held as community, cultural or heritage assets or is land under assets held for such purposes. The government will make an announcement in a particular Government Gazette and show on the Planning Scheme that the land is restricted in some way for a Public Purpose. Sometimes there are caveats on land (e.g. Queens’ Caveats) that restrict land to an even greater extent. In some cases, such as cemeteries, not only are they zoned in a certain way by the government, but there are restrictions on use in Legislation and in Government Gazette, for public awareness.

In addition, land under Parliament House, Governor House and historic and similar heritage buildings are restricted to the extent of the restricted use of the buildings on the land. Consequently, land with a restricted use will usually be measured in combination with any building, plant or infrastructure on the land. Same valuation premise (i.e. combination of land and buildings) will also be applied if the buildings are considered restriction-free.

In some circumstances, land may be identified as surplus to current needs. When measuring surplus land, an entity should firstly re‑assess the HBU of the land. Where there is no restriction associated with the land being declared as surplus, the land should be measured with reference to a value determined by market participants based on commercial terms with the most advantageous use. The entity should also consider whether there is any indicator that the land may be impaired when it becomes surplus. If such an indicator exists, the entity must estimate the recoverable amount of the asset in accordance with AASB 136 *Impairment of Assets*. Impairment of land is less likely if its carrying amount is already measured at fair value, except for circumstances when the cost of disposal becomes significant, which may result in the recoverable amount being lower than its carrying amount.

In cases where the surplus land has been subsequently classified as held for sale in accordance with AASB 5 *Non-Current Assets Held for Sale And Discontinued Operations*, the entity must measure the land at the lower of its carrying amount and fair value less cost to sell in accordance with the standard.

**Appendix D (Continued)**

Specialised buildings

Specialised buildings are buildings designed for a specific limited purpose. Such buildings include hospitals, schools, court houses, emergency services buildings (police, fire, ambulance and emergency services stations), as well as buildings to house specialised infrastructure or plant and some heritage properties.

In most cases, such specialised buildings and the land under them (as mentioned in previous section) have no feasible alternative use, because the entity is mandated to continue to provide the goods or services that the building permits. For example, if the government mandates that school services are to continue in an existing location, it would not be permissible or feasible to have an alternative use for the school buildings.

Similar to land, there may be circumstances where the specialised buildings may be identified to be surplus to current needs. This could be due to services being moved to another location; is no longer required for a strategic reason (e.g. a government decision to relocate a school); or due to demographic changes (e.g. population movements).

In such cases, the entity must consider whether the HBU of the building has, or can be, changed considering what is physically possible, legally permissible, and financially feasible. Those specialised buildings might have feasible alternative use if they can be converted into non-specialised buildings (i.e. commercial and general-purpose buildings and investment property for which there is a secondary market), in which case the non-specialised buildings should be valued based on that higher feasible alternative use. Alternatively, if the highest and best use of the building in combination with the land can be achieved through selling the land as a vacant site, then the building and the land under the building must be valued as a group.

In cases where the surplus building has been subsequently classified as held for sale in accordance with AASB 5, the entity must measure the building at the lower of its carrying amount and fair value less cost to sell in accordance with the standard.

Heritage and cultural assets

Heritage or cultural assets are assets that have unique cultural, historical, geographical, scientific, and/or environmental attributes that the Government intends to preserve indefinitely. They assist the relevant entities in meeting their objectives in regard to exhibition, education, research and preservation, all of which are directed at providing a cultural service to the community.

Examples of heritage assets include historical buildings, monuments, certain land preserved in its existing state for its historic value to the State. For cultural assets, examples include artworks, museum and library collections.

A characteristic of most heritage assets is that they are not available for sale or alternative use because of their historical significance or that they fulfil a social need that is either cultural or environmental. Therefore, the HBU is the current existing use on a stand-alone basis, or in combination with other related assets (e.g. land under heritage buildings).

Exceptions might exist where heritage assets are available for a feasible alternative use, particularly when the heritage assets also provide a functional service in addition to their historical or cultural interest. For instance, a fire station situated in a heritage building could be relocated and the heritage building could then be used for commercial purposes that generate better financial return. In this case, a feasible alternative use rises in the event of a change in the legal instrument or government policy.

Some types of cultural assets might be limited from sales or alternative uses because of entity-specific restrictions, for instance, works of art and library collections held by public galleries for not-for-profit purposes. However, entity specific restrictions should not be taken into account in assessing the highest and best use of the cultural assets, and the full market value of cultural assets should be referred to should there be an active market available to reflect the most advantageous use of the assets.

**Appendix D (Continued)**

Other non-specialised assets

Similar to buildings with generalised purpose, other assets that are non-specialised in use might have an alternative use that would generate higher and therefore better use. The FV is the higher of values generated from the current use and the alternatives.

**Unit of account**

The fair value measurement must be applied to the stand-alone asset or a group of related assets, depending on the circumstances. DTF has considered the nature, characteristics and risks of the public sector assets and provided a list of asset classes that have distinct characteristics and fair value levelling which has been included in Appendix E Fair Value Measurement Indicative Expectations as guidance.

**Fair value hierarchy**

The accounting standard includes a fair value hierarchy that prioritises the inputs in a fair value measurement. To increase consistency and comparability in fair value measurements and related disclosures, a fair value hierarchy has been established that categorises the non-financial assets into three levels:

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: are unobservable inputs for the asset or liability.

In most cases, fair value measurements of non-financial assets would be categorised as Level 2 or 3 on the basis that it is rare for identical assets to be actively traded.

When measuring fair value, an entity is required to maximise the use of relevant observable inputs

Please refer to Appendix E Fair Value Measurement Indicative Expectations.

**Level 2 and Level 3 inputs (CSO and depreciation costs)**

AASB 13 acknowledges that, unlike a Level 1 input, adjustments to Level 2 inputs may be more common, but will vary depending on the factors specific to the asset or liability.

There are a number of reasons why an entity may need to make adjustments to Level 2 inputs. Adjustments to observable data for inactive markets might be required for timing differences between the transaction date and the measurement date, or differences between the asset being measured and a similar asset that was the subject of the transaction. In addition, factors such as the condition or location of an asset should also be considered when determining if adjustments to Level 2 inputs are warranted.

If an adjustment to a Level 2 input is significant to the entire fair value measurement, it may affect the fair value measurement's categorisation within the fair value hierarchy for disclosure purposes. If the adjustment uses significant unobservable inputs, it would need to be categorised within Level 3 of the hierarchy.

For example, ‘specialised land’ or ‘land under specialised buildings’ would be categorised within Level 3 of the fair value hierarchy. This is a direct result of the significant adjustment to Level 2 inputs (observable indirectly through corroboration with market data) for Community Service Obligation (CSO) which is derived based on significant unobservable inputs. This can be contrasted with the categorisation of non-specialised land under investment properties’, where no significant adjustments are made to Level 2 inputs

In addition, depreciation adjustments made to the direct market comparison approach will push the levelling from Level 2 to Level 3 given the level of judgement involved in estimating useful lives.

|  |
| --- |
| **Selection of valuation techniques**  An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.  The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.  Three widely used valuation techniques are the market approach, the cost approach and the income approach.  Market approach   * The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business. * For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgement, considering qualitative and quantitative factors specific to the measurement.   Cost approach   * The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). * From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives) * It must be noted that there will be no adjustments for economic obsolescence made to the value of a non‑financial physical asset if the asset is still in use (e.g. providing core services or other ancillary community use). * If the evidence identify assets that are considered surplus to current needs, and the assets are still subject to the restrictions on its current use (i.e. not available for sale or for a better use), this may indicate that the asset could be impaired. In this case, an entity shall determine the asset’s recoverable amount in accordance with AASB 136*.* In circumstances where the previous restrictions imposed on the surplus asset have been removed, the entity must consider if there is a better or higher use of the asset, either through sale or other uses. For an asset that have been subsequently classified as held for sale in accordance with AASB 5, it must be measured at the lower of its carrying amount and fair value less cost to sell in accordance with the standard.   Income approach   * The income approach converts future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts. |

**Appendix D (Continued)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Asset class** | **Examples of types of assets** | **Expected fair value level** | **Likely valuation approach** | **Significant inputs (Level 3 only)** |
| Non-specialised land | In areas where there is an active market –   * Vacant land * Land not subject to restrictions as to use or sale | Level 2 | Market approach | N/A |
| Specialised Land | * Land subject to restriction as to use and/or sale * Land in areas where there is not an active market | Level 3 | Market approach | CSO adjustments |
| Non-specialised buildings | * For general/commercial buildings that are just built | Level 2 | Market approach | N/A |
| Specialised buildings(a) | * Specialised buildings with limited alternative uses and/or substantial customisation e.g. prisons, hospitals, and schools | Level 3 | Depreciated replacement cost approach | -Cost per square metre-Useful life |
| Heritage assets(b) | * Shrine of Remembrance * Governor’s House | Level 3 | Depreciated replacement cost approach | -Cost per square metre  -Useful life |
| Dwellings(a) | * Social/public housing, employee housing | Level 2, where there is an active market in the area | Market approach | N/A |
|  |  | Level 3, where there is no active market in the area | Depreciated replacement cost approach | -Cost per square metre  -Useful life |
| Vehicles | * If there is an active resale market available; | Level 2 | Market approach | N/A |
|  | * If there is no active resale market available | Level 3 | Depreciated replacement cost approach | -Cost per unit  -Useful life |
| Plant and equipment(a) | * Specialised items with limited alternative uses and/or substantial customisation | Level 3 | Depreciated replacement cost approach | -Cost per square metre  -Useful life |
| Infrastructure(a)(c) | * Water infrastructures (Metro) | Level 3 | Income approach | -Estimated cash flow per year  -Discount rate |
|  | * Water infrastructure (Regional) * Rail infrastructure * Others | Level 3 | Depreciated replacement cost approach | -Cost per unit  -Useful life |
| Road, infrastructure and earthworks(a) | Any type | Level 3 | Depreciated replacement cost approach | -Cost per metre  -Useful life |
| Cultural assets | * Artworks, for which there is an active market for the item | Level 2 | Market approach | N/A |
| Cultural assets | * Museum/library collections, for which there is no active market for the item | Level 3 | Depreciated replacement cost approach | -Cost per unit  -Useful life |

**Appendix E:** **Fair Value Measurement Indicative Expectations**

Notes:

(a) Newly built/acquired assets could be categorised as Level 2 assets as depreciation would not be a significant unobservable input (based on the 10 per cent materiality threshold).

(b) For heritage assets and iconic assets, the cost may be the reproduction cost of the asset rather than the replacement cost as their service potential can only be replaced by reproducing them with the same materials.

(c) Infrastructure systems include railways, rail bridges, rail tunnels, harbours, pipelines. Dams and major components of water supply networks e.g. pump.

# Appendix F

# HISTORY OF THIS DIRECTION

## FRD103

This Direction was initially issued as FRD 103 in December 2004 to provide guidance for the preparation of the 2005‑06 Budget. It was revised in 2005 to clarify guidance on measurement of restricted assets and revaluation methodology.

## FRD103A

In August 2006, FRD 103 was revised and reissued as FRD 103A to:

clarify the definition of water and rail infrastructure assets;

prescribe revised Model Report disclosures;

revise the classification of assets and establish the revaluation cycle;

provide guidance on componentisation; and

encourage entities to factor revaluation impacts into prospective financial statements supporting the Budget.

## FRD103B

In February2007, FRD103A was revised and reissued as FRD103B to:

amend Table1 *Allocation of Purpose Groups to entities* in AppendixA to reflect Machinery of Government changes taking effect from 1January2007; and

update references relating to the valuation of land under roads.

## FRD103C

In January2008, FRD103B was revised and reissued as FRD103C to:

provide greater clarity for entities and departments on the requirements and procedures to be followed for the revaluation of assets, in particular:

defining materiality levels for different classes of assets that would indicate a need to revalue; and

allowing for valuers to select from a range of professional valuation techniques to achieve the objectives of revaluations;

update the Purpose Groups to accommodate Machinery of Government changes, effective from 1 September 2007;

update transitional arrangements guidance;

provide additional guidance for selecting valuers;

provide additional guidance for various accounting requirements;

provide additional definitions of terms used in this Direction; and

delete the Appendixcontaining detailed sample reconciliation disclosure notes and model report disclosures for Note1 (accounting policies) for annual financial reports, to avoid the risk of inconsistencies with subsequent versions of the Model Financial Report for Victorian Government Departments.

# Appendix F (Continued)

## FRD103D

In February2009, FRD103C was revised and reissued as FRD103D to:

require all non-financial physical assets to be measured using the revaluation model (AASB 1049);

provide greater clarity and quantifiable tests for certain materiality, assessment and valuation procedures;

provide for the use of indices for the assessment and valuation of buildings;

reduce the size and content of the Direction - some content is no longer required after the initial transition phase; and

refer the accounting of water and rail infrastructure assets, and land under roads, to FRDs 121 and 118 respectively.

**FRD103E**

In June 2014, FRD 103D was revised and reissued as FRD 103E to:

incorporate the requirements of AASB 13 *Fair Value Measurement*, which is applicable from 1 July 2013;

update the Allocation purpose groups as a result of the MoG changes in 2013;

withdraw information that is no longer applicable (i.e. transitional arrangements which have since occurred);

include further guidance notes on the practical considerations and implementation of AASB 13 *Fair Value Measurement.*

**FRD 103F**

In June 2015, FRD 103E was revised and reissued as FRD 103F to:

remove the required disclosure on non-financial physical assets by sub-category of government purpose classifications (GPC) for financial reporting purpose at the whole of government level, while resume this required disclosure at entity level for material asset classes;

require the consideration of obsolescence required when applying the cost approach to fair value measurement;

expand the current guidance in relation to economic obsolescence and assets that are declared surplus;

update the Allocation purpose groups as a result of the MoG changes in December 2014.