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| FRD 118C |  |  | Land under declared roads (June 2016) |
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| Purpose |  |  | To prescribe requirements for the recognition and measurement of land under declared roads as defined under the *Road Management Act 2004* and property acquired in relation to the development of such a road. |
| Application |  |  | Applies to any entity that holds land under declared roads and which is controlled by the State, whose financial position and result are thus included in the Annual *Financial Report for the State of Victoria*. |
|  |  |  | The scope exclusion, referred to in paragraph 2.3 below, is applicable to all public bodies and departments under section 3 of the *Financial Management Act 1994*. |
|  |  |  | Any ‘land under roads’ in the following instances shall not be separated or distinguished from other land on the title or parcel and thus are outside the scope of this FRD and shall be recognised and measured in accordance with the current version of FRD 103 *Non‑financial physical assets*:  Land under roads in the following areas:   1. National/State Parks and Forests; 2. Schools (including TAFE) and Hospital grounds; 3. other properties associated with infrastructure controlled by entities where the road is not the principle asset on the property (e.g. water treatment plants); and 4. ‘unused roads’ on Crown land. |
| Operative date |  |  | Annual reporting periods commencing on or after 1 July 2015. |
|  |  |  | FRD 118B *Land under declared roads* is withdrawn and superseded effective 1 July 2015. |
| Requirements |  |  | Recognition and measurement – entity and whole of government (AASB 1049) reporting: |
|  |  |  | Land under declared roads   1. Land under declared roads shall be recognised as an asset and accounted for consistent with the requirements of the current version of FRD 103, as follows:    1. acquired prior to 1 July 2008: measured at fair value,    2. acquired on, or after, 1 July 2008: measured initially at cost of acquisition, and subsequently at fair value. |
|  |  |  | Property acquired for roads   1. Land acquired prior to, on, or after 1 July 2008 in relation to the construction of a future public road in any reporting period shall be recognised as an asset and accounted for as follows:    1. measured initially at cost of acquisition, and subsequently at fair value; and    2. sub classified as ‘Property acquired for roads’ until such time as the road is constructed and declared under Section 14 of the *Road Management Act 2004*, at which point it shall be reclassified as ‘land under declared roads’. When such land is reclassified, it is transferred at its carrying amount at that time. |
|  |  |  | Classification of land:  ‘Property acquired for roads’ and ‘Land under declared roads’ form part of the general nature‑based sub class of ‘land’. |
| Definitions |  |  | ***Public road:*** for the purposes of this FRD  includes roads declared under:  Section 14 of the Road Management Act 2004; and/or  Section 205 of the Local Government Act 1989.  includes public toll roads; and  excludes roads controlled by Local Councils under Section 17 of the *Road Management Act 2004*.  ***Land under declared roads:*** encompasses land under the road, road reserves, including land under footpaths, nature strips and median strips.  ***Property acquired for road:*** property which has been acquired, directly or indirectly as a result of an intention to construct a road within the vicinity of the property, and which has not been transferred for an alternate use.  ***Unused road:*** land reserved for a Government road which is declared under Section 400 of the *Land Act 1958* as not required for public traffic. |
| Guidance |  |  | Depreciation:  Land under a declared road is not depreciated. |
|  |  |  | **Valuation:**  In 2009, all State Valuers‑General concluded that a ‘statutory land value’ is the most feasible and efficient base for valuing land under declared roads. |
|  |  |  | They agreed that the following resolution *‘jurisdictions may apply different discounts to best estimate a reasonable englobo value for particular road localities for financial reporting purposes’* would be the most appropriate way to value land under declared roads to reflect differences in the reported statutory values and would assist in consistent reporting across all jurisdictions. |
|  |  |  | Statutory land value, in Victoria, is the ‘site value’ for council rating purposes as defined in the *Valuation of Land Act* 1960. |
|  |  |  | Disclosure:  For the purposes of disclosure in to the notes of an entity’s financial statements, land under declared roads shall be disclosed as a separate sub‑class of land. Separate note disclosure is appropriate because of the different valuation methodology and significant value of land under declared roads. |
|  |  |  | Property acquired for roads:  The methodology applied for the valuation of assets classified as ‘property acquired for roads’ is not the same as that applied to ‘land under declared roads’. ‘Property acquired for roads’ is instead valued consistent with other non‑financial physical assets. |
| Relevant pronouncements |  |  | AASB 116 *Property, Plant and Equipment* (June 2014)  AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (December 2013)  AASB 1051 *Land Under Roads* (December 2013)  FRD 103F *Non‑financial physical assets* (June 2015) |
| Background |  |  | Land under declared roads had been exempt from valuation since the inception of accounting Standards AAS 27, 29 and 31. This exemption has been extended on a number of occasions.  The underlying reasons for not recognising land under declared roads included:  the impracticality of valuing such land;  any developed valuation framework would be at best very subjective;  opinion by some AASB members that land under declared roads cannot be reliably measured or recognised by AASB 116 as an asset;  the land provides access to adjacent properties and as a consequence:  contributes to the value of these properties rather than its own value; and  is unlikely to be sold and thus realise monetary value;  subject to general laws and regulations controlling road use and access, the roads are accessible and useable by any member of public;  there are no definitive national standards on measuring land under declared roads; and  it is considered that methodologies proposed to date to attribute a value to land under declared roads do not generate a value that provides meaningful or relevant information to users.  Consequently, the policy adopted for the State of Victoria had been not to recognise land under declared roads.  The transitional provisions of AAS 27, AAS 29 and AAS 31 previously permitted entities to not recognise land under roads as an asset. This election being applicable to Local Governments entities, Government Departments and State Governments. The Minister for Finance, at that time, had mandated this election for all Victorian public sector entities to ensure consistent application of accounting policies in preparing and presenting the State of Victoria’s consolidated financial report.  AAS 27A, AAS 29A and AAS 31A further extended the time frame for this election from reporting periods ending on 30 June 2000 to the first reporting periods ending on, or after, 31 December 2002. AASB 1045 then further amended this time frame to the first reporting periods ending on, or after, 31 December 2006. As a consequence, former FRD 16A *Land under roads* was revised in 2005 to fully reflect these accounting standard changes.  In October 2006, the AASB again extended the exemption for a further year. However, the AASB made it clear that they did not intend to make further extensions and that entities shall either conclude that they could not reliably measure the asset or that they shall establish a policy to reliably measure land under declared roads.  In December 2007, the AASB issued AASB 1051 *Land Under Roads* which provides for entities:  to elect to recognise (including continue to recognise or to recognise for the first time), subject to satisfaction of the asset recognition criteria, or not to recognise (including continue not to recognise or to derecognise) as an asset, land under roads acquired before the end of the first reporting period ending on, or after, 31 December 2007; and  to make an election regarding (a) above, effective as at the first day of the next reporting period following the end of the first reporting period ending on, or after, 31 December 2007.  Initially the pre June 2008 land under declared roads was not recognised for the reasons outlined above. However, land under declared roads acquired on, or after, 1 July 2008, was recognised at cost. FRD 118 was issued to reflect this policy.  This policy was reviewed as a consequence of implementing AASB 1049. In preparing the 2008‑09 Annual *Financial Report for the State of Victoria*, land under declared roads was recognised and measured at fair value in the whole‑of‑government and general government sector.  As an interim measure, FRD 118A was issued to exclude the application of FRD 118 to the consolidated financial statements of the whole‑of‑government and general government sector. However, consistent with FRD 118, land under declared roads acquired before 1 July 2008 was not recognised in the 2008‑09 financial statements of VicRoads.  FRD 118B was issued in 2010 to clarify the position from an entity‑level and whole‑of‑government basis, on a longer term basis.  This FRD was revised in June 2016 to remove guidance relating to transitional application as it is no longer required. |