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| FRD 103I |  |  | Non-financial physical assets (June 2021) |
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| Purpose |  | 1.1 | To prescribe the ongoing requirements for the classification and subsequent revaluation of non-financial physical assets, including Right-of-Use 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* (FMA) 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 107B *Investment Properties*; and * 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 joint venture arrangements in accordance with AASB 11: *Joint Arrangements* (AASB 11) are excluded from the requirements of this Direction. However, this Direction applies to the assets (or shares of assets) that are recognised as joint operations in accordance with AASB 11. |
|  |  | 2.4 | Application by State-owned companies is encouraged. |
| Operative date |  | 3.1 | Reporting periods commencing on or after 1 July 2020. |
|  |  | 3.2 | FRD 103H *Non-financial physical assets* is withdrawn and superseded effective 1 July 2020. |
| Guidance documents |  |  | The following guidance papers are published separately by DTF, and provide further assistance with the use of this Direction in specific circumstances:   * Guidance on the application of FRD 103I *Non-financial physical assets*, * Guidance on the Selection of Valuation Services, and * Guidance on Depreciation of Building Components. |
| Requirements |  | 4.1 | Asset classification  For external reporting purposes, non-financial physical assets shall be primarily classified by the ‘purpose’ for which the assets are used, based upon the Classification of the functions of government (COFOG) (refer to Appendix A). |
|  |  | 4.2 | Measurement subsequent to initial recognition  All non-financial physical assets shall be measured using the revaluation model (as defined in this Direction), with the following exceptions:   * if the entity has received the prior written approval of the Assistant Treasurer, the relevant assets may be measured at cost; or * Right-of-Use (RoU) assets that arise from below market (including peppercorn) leases, which shall be measured at cost in accordance with FRD 123 *Transitional requirements on the application of AASB 16 Leases.*   Service concession arrangement assets (whether tangible or intangible) shall be measured at current replacement cost in accordance with AASB 1059: *Service Concession Arrangements: Grantors.*  For leasehold improvements, additions or modifications made to ‘fit out’ buildings that are leased by government entities (and such buildings that will not revert to the State at the end of the lease agreement), current replacement cost shall be used for their subsequent measurement. |
|  |  | 4.3 | Assets under construction/development[[1]](#footnote-1)  Assets under construction/development shall be measured at cost unless those assets relate to service concession arrangement assets (or equivalent infrastructure projects) which shall be measured at current replacement cost. |
|  |  | 4.4 | Fair value measurement  Non-financial physical assets shall be 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 suggest that a different use by market participants would maximise the value of the asset. |
|  |  | 4.5 | Timing of revaluation  For each class of assets which is subject to the revaluation model, the following requirements exist:   * *Fair value assessments* shall be conducted annually to ensure such that the assets’ carrying amounts approximate their fair values at the end of the annual reporting period, after taking into consideration all fair value indicators, which include the Valuer-General Victoria (VGV) Land and Building indices, the HBU and other relevant indicators. For clarification, management are free to source the information to determine the fair value of right-of-use assets from any source deemed appropriate in the circumstances and are not limited to using indices. * In the event of a change in the HBU or an impairment indicator being identified, the entity should consider and document the assessment of the implications on fair value and consult with VGV as appropriate. * *Scheduled revaluations* shall be performed every five years, with timing based upon the relevant ‘COFOG category.   *Interim Revaluations* and *Managerial Revaluations* may arise as a result of annual *fair value assessments*. Such assessments use indices and/or other fair value indicators for indications of material changes in values, as outlined below. |
|  |  | 4.6 | ‘Exceptionally Material’ movements possibly triggering ‘Interim Revaluations’  If it appears that the movement in fair values of a class of assets, as indicated by the cumulative impact of the 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 refer to an Approved Valuer (as defined in this Direction) for further advice – which may result in further procedures, such as an interim revaluation. |
|  |  | 4.7 | ‘Material’ movements triggering ‘Managerial Revaluations’  Subject to paragraph 4.6 above, if it appears that the movement in fair values of a class of assets (since the last interim or scheduled revaluation), is *less than* 40 per cent, an entity shall 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 cumulative 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. |
|  |  | 4.8 | **Movements that are not material**  If the cumulative movement in fair value indicators of a class of assets 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 process** |
|  |  | 4.9 | The *guidance* document supporting the application of this Direction details the process to be followed when a ‘material’ or ‘exceptionally material’ change in asset values is identified, including the need to obtain written approval from a Chief Reporting Officer (CRO, as defined in this Direction) before an asset revaluation can occur. |
|  |  | 4.10 | 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. |
|  |  | 4.11 | The Executive Director, Financial Reporting – Principal Accounting Officer within DTF shall also decide, in consultation with the Chief Reporting Officer (CRO, as defined in this Direction) 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** |
|  |  | 4.12 | 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 COFOG category to which that class belongs falls due for valuation.[[2]](#footnote-2) |
|  |  | 4.13 | 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. |
|  |  |  | **Revaluations – Accounting treatment** |
|  |  | 4.14 | When non-financial physical assets are revalued, an entity shall 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. |
|  |  | 4.15 | To enable the impact of revaluations to be factored into the following *Budget* period, they shall 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. |
|  |  | 4.16 | **Residual values**  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. |
|  |  | 4.17 | **Useful life**  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** (in this Direction and associated Guidance documents) |  | 5.1 | **Approved Valuer –** an independent professional valuation agency. Unless otherwise approved by the Chief Reporting Officer (as defined in this Direction), the Approved Valuer is to be the Valuer-General Victoria (VGV). |
|  |  | 5.2 | **Chief Reporting Officer (CRO)** – 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 Officer (CFO, as defined in the Standing Directions 2018); 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 CFO, but rather their own Chief Finance Officer (or other such senior accounting or reporting officer). |
|  |  | 5.3 | **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:  based upon the ‘Classification of the functions of government (COFOG) categories; and  an asset’s ‘nature’ refers to its functional use. They may be owned or leased and grouped into one of the following categories:  land and national parks;  buildings;  plant, equipment and vehicles;  infrastructure systems;  road and road infrastructures or earthworks; or  cultural assets.  Note that for valuation purposes, assets may be revalued at a more granular level. |
|  |  | 5.4 | **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). |
|  |  | 5.5 | **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; and  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. |
|  |  | 5.6 | **Fair Value Assessment** – a process whereby management makes an assessment based on its knowledge and expertise, taking into consideration all fair value 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. |
|  |  | 5.7 | **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 and other fair value indicators for land and buildings. For other assets (including right-of-use assets) management may use other relevant indices, market indicators or observations, its own specialist knowledge or obtain specialist opinions on movements in asset values. |
|  |  | 5.8 | **Interim Revaluation** – is only conducted by an Approved Valuer (or management for right-of-use assets) 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). |
|  |  | 5.9 | **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. |
|  |  | 5.10 | **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 but not greater than 40%). |
|  |  | 5.11 | **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. |
|  |  | 5.12 | **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. |
|  |  | 5.13 | **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 cumulative 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  cumulative 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. |
|  |  | 5.14 | **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. |
|  |  | 5.15 | **Non-Financial Physical Asset** – a non-current asset that has a physical form and is within the scope of AASB 116, or a Right-of-Use asset as recorded under AASB 16: *Leases*, or a service concession asset recorded under AASB 1059 *Service Concession Arrangements: Grantors*. Refer to AASB 101 *Presentation of Financial Statements* for guidance on the distinction between current and non-current assets. |
|  |  | 5.16 | **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). |
|  |  | 5.17 | **Principal market** – is the market with the greatest volume and level of activity for the asset or liability. |
|  |  | 5.18 | **Revaluation** – a process designed to reflect the fair value of an asset (or class of assets). |
|  |  | 5.19 | **Revaluation Model** – After recognition as an asset (including property, plant and equipment, right-of-use assets and service concession arrangements assets) whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the 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. |
|  |  | 5.20 | **Scheduled Revaluation** – is performed by an Approved Valuer (or management for right-of-use assets), at the time stipulated (in the five-year cycle) for assets in that COFOG category to be revalued. A table of COFOG categories allocated to VPS entities and the current scheduled revaluation timelines are included in the *Guidance on the application of FRD 103 Non-financial physical assets.* Entities are responsible for monitoring their revaluations and complying with the valuation cycle.  In the event of a machinery of government (MoG) change where entities or functions are moved between portfolio departments, there should be no impact on their revaluation cycle, unless they have changed their purpose, and as a result, have been moved to a different COFOG category. Entities should consult directly with DTF if they have any queries regarding their valuation cycle. The Valuer General’s Office can also be consulted for queries related to revaluations. |
|  |  | 5.21 | **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. |
|  |  | 5.22 | **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 [www.propertyandlandtitles.vic.gov.au/valuation/valuer-general-victoria](http://www.propertyandlandtitles.vic.gov.au/valuation/valuer-general-victoria) for more information about the VGV. |
|  |  | 5.23 | **VGV Indices** – The VGV index factors for land and buildings are provided to DTF by VGV each April and October. The VGV Indices are posted 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 CFO (where applicable) to obtain the set of index factors for their particular assets. |
|  |  |  | Refer to paragraphs 6 and Aus. 6.1 of AASB 116 for the following definitions:  Carrying amount;  Depreciation;  Impairment loss; and  Not-for-profit entity. |
| Relevant pronouncements |  | 6.1 | AASB 13 *Fair Value Measurement*  AASB 116 *Property, Plant and Equipment*  AASB 1049 *Whole of Government and General Government Sector Financial Reporting*  AASB 1059 *Service Concession Arrangements: Grantors*  AASB 16 *Leases* |
| Background |  | 7.1 | 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 1059 requires service concession assets to be recorded at current replacement cost upon initial recognition and follow AASB 116 for subsequent measurement.  Right-of-use assets, arising from AASB 16 are similarly required to be measured at fair value after initial recognition, unless they arise from below-market (including peppercorn) arrangements.  AASB 13 sets out a single framework for measuring fair value with regard to the HBU and the disclosures relating to fair value measurement. |
|  |  | 7.2 | This Direction was initially issued as FRD 103 in December 2004 to provide guidance for the preparation of the *2005-06 Budget*.   * + 1. Changes were made in 2005 to clarify guidance on measurement of restricted assets and revaluation methodology.     2. Changes were made in August 2006 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.     3. Changes were made in February 2007, to amend Allocation of Purpose Groups to entities in Appendix A to reflect MoG changes taking effect from 1 January 2007; and update references relating to the valuation of land under roads.     4. Changes were made in January 2008, 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. Amendments were also made to update the Purpose Groups to accommodate MoG changes, effective from 1 September 2007.     5. Changes were made in February 2009 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; refer the accounting of water and rail infrastructure assets, and land under roads, to FRDs 121 and 118 respectively. |
|  |  |  | * + 1. Changes were made in June 2014, to incorporate the requirements of AASB 13 *Fair Value Measurement*, which is applicable from 1 July 2013 and include further guidance notes on the practical considerations and implementation of AASB 13. The Allocation purpose groups were updated as a result of the MoG changes in 2013. Information no longer applicable (i.e. transitional arrangements) was withdrawn.     2. Changes were made in June 2015 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.     3. Changes made in June 2018 were focused on streamlining the Direction for conciseness and focus on the mandatory requirements for compliance. Information contained in the appendices of the Direction has been transferred into separate guidance documents outside the Direction, published separately by DTF.     4. Minor amendments made to the direction in May 2019 relates to the update of the purpose group categories from Government Purpose Classification (GPC) to ‘Classification of the Functions of Government’ (COFOG) and clarification that MoG changes should not change the entities valuation cycle unless their purpose has changed. Further minor editorial amendments were made to this FRD in December 2019, including insertion of a reference to a table of VPS entities, their COFOG allocation and date of scheduled revaluation which has been included in the guidance paper *Guidance on the application of FRD 103 Non-financial physical assets*.     5. In June 2020, following AASB 1059 being adopted by the State, effective 1 July 2019, the FRD was updated to clarify that construction-in-progress balances recorded under AASB 1059 and similar infrastructure assets under AASB 116, must be recorded at current replacement cost as a measure of fair value as opposed to cost.     6. In June 2021, changes were made to incorporate right-of-use assets into the Direction and clarify that an Approved Valuer is not required to be used for right-of-use asset valuations. General improvements and clarification on applicability to joint ventures were also incorporated. |
| Model for Disclosure within Financial Report |  |  | *Model Report for Victorian Government Departments* – Section 5 Key assets available to support output delivery |
| Appendices |  |  | *Appendix A* – Revaluation of Non-Financial Physical Assets |

# Appendix A

## Revaluation of non-financial physical assets

### 1. Purpose Group Classifications

The Australian system of Government Finance Statistics (GFS) was revised by the Australian Bureau of Statistics. Implementation of the updated GFS manual has resulted in the ‘classification of the functions of government’ (COFOG) framework replacing the former ‘government purpose classification’ (GPC) framework.

For external reporting purposes, assets are now classified by the COFOG categories listed in the table below.

The key changes from GPC to COFOG are:

* the number of categories has reduced from 12 under GPC to 10 under COFOG;
* the ‘fuel and energy’, ‘agriculture, forestry, fishing and hunting’ categories have been abolished and now form part of the new ‘economic affairs’ category; and
* a new ‘environmental protection’ category has been created to include functions such as waste management, water waste management, pollution and production of biodiversity and landscape.

All Victorian Public Sector (VPS) entities have been allocated to a COFOG category. If difficulties arise in identifying the appropriate category, entities should contact DTF for guidance. The change from GPC to COFOG categories has not changed an entity’s valuation cycle, unless the entity changed their purpose, and as a result been moved to a different COFOG category.

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| The table below lists the COFOG categories applicable to VPS entities. Entities are to consult directly with the Valuer-General’s office if they have any queries regarding their valuation cycle.  COFOG category |
| * General Public Services * Education * Housing and Community Amenities * Health * Social Protection * Transport * Public Order and Safety * Recreation, Culture and Religion * Economic Affairs * Environmental Protection |

### 2. Revaluation cycle

AASB 116 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 five-year cycle, whereby assets in a ‘COFOG category are revalued within the relevant year over the life of the cycle. Valuations must be made as at a specific date, even if reviews/preparation is undertaken over a longer time.

### 3. Land

Under COFOG, 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. Note that entities not within the Department of Environment, Land Water and Planning Portfolio need only separately identify Crown land from Freehold land when Crown land holdings are material.

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

* Freehold land;
* Crown land – National/State parks; and
* Crown land – other than National/State parks.

**Improved land**

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.

1. Prior to the introduction of AASB 1059: *Service Concessions Arrangements: Grantors*, construction-in-progress balances were recorded at cost. Effective 1 July 2019, construction-in-progress balances recorded under AASB 1059 and other infrastructure projects recognised as construction-in-progress balances under AASB 116: *Property, Plant and Equipment* shall be recorded at fair value, using current replacement cost. [↑](#footnote-ref-1)
2. In the rare circumstances where the COFOG classification of an entity changes, this may require that an asset is valued more than once in five-year cycle. It is not permitted to exceed the five-year cycle unless prior approval was obtained from the *Executive Director, Financial Reporting – Principal Accounting Officer* within DTF. [↑](#footnote-ref-2)