Guidance on the application of FRD 103H *Non‑financial physical assets*

* + 1. Annual fair value assessments, managerial and interim revaluations

Although it is intended that asset valuations will be based on a five‑year cycle, FRD 103 *Non‑financial physical assets* requires entities to perform annual fair value assessments for each class of non‑financial physical assets to determine whether additional revaluations need to be undertaken between revaluation cycles.

* + - 1. Annual Fair Value assessments ‑ land and buildings
				1. VGV land and building indices

Separate annual indices for land and buildings are supplied by the Valuer‑General Victoria (VGV) every six months, which are based on a postcode and building/land use code matrix. The indices are published on DTF’s website every October (covering the period 1 January to 31 December) and April (covering the period 1 July to 30 June). These indices shall be used to determine whether a material or exceptionally material movement in land and/or building values may have occurred during the year.

Indices are to be applied ‘year on year’, and the cumulative 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. This means that the movements should be considered in aggregate for the interim years between the last managerial/formal scheduled revaluation (i.e. years 1 to 4). Refer to Figure 1 for how indices are considered on a cumulative basis.

* + - 1. Illustrative example of how indices should be considered on a cumulative basis

Figure 1: Illustrative example of an annual fair value assessment calculation

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Valuation | Year 1 | Year 2 | Year 3 | Year 4 |
| Annual indices rate | 1.09 | 1.11 | 1.12 | 1.08 |
| Valuation at 30 June Year 0: $1 000 | 1 090 | 1 210 | 1 355 | Pending3 |
| Compounded indices rate since Year 0 | 1.09 | 1.21 | 1.36 | 1.46 |
| Action required  | None(a) | Managerial revaluation(b) | Managerial revaluation(c) | Formal revaluation(c) |

Notes:

1. No action is required as there is only a 9 per cent increase from the last valuation.

2. Managerial valuation is required as there is a more than 10 per cent increase since the last scheduled interim or managerial revaluation (whichever is most recent) but less than 40 per cent increase from the last formal revaluation.

3. Formal revaluation is required as there is a more than 40 per cent increase since the last formal revaluation.

If an adjustment to the asset’s fair value is triggered, entities shall ensure they adjust the book value of the asset by the appropriate indexation factor before adjusting for deprecation. Note that this process should be performed on an asset‑by‑asset basis, as the Level of depreciation may vary for different assets.

* + - For entities whose annual reporting period ends on or before 30 June, the VGV calendar year indices issued in October shall be used to perform the fair value assessment to determine whether any material movements in fair values have occurred.
		- For entities whose annual reporting period ends on or before 31 December, the VGV financial year indices issued in April shall be used to perform the fair value assessment to determine whether any material movements in fair values have occurred.
		- If the outcome of the fair value assessment indicates that the carrying amount of the asset class still materially represents the fair value (with reference to the materiality provisions in FRD 103), then – subject to Note (b)(ii) below ‑ **NO** change to carrying amounts (or revaluation) is required.

**Notes:**

The indices are for a 12‑month period, and thus include a level of estimation of values to the end of the relevant index period.

For ‘30 June reporters’ using October indices, who have assessed that:

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.

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 results in a cumulative 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 1.3 *Managerial Revaluations – Land and Buildings*).

an analogous procedure shall apply for ’31 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 Chief Reporting Officer (CRO), who will consult with DTF and the relevant audit team.

* + - 1. 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 cumulative indicators, is **exceptionally material** (greater than or equal to 40 per cent), the entity shall notify the relevant CRO.

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 section 1.3.

If the CRO concurs, the entity shall be referred to an Approved Valuer.

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.

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.

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:

indices;

desktop valuations based on statistically acceptable sampling techniques;

site visits based on statistically acceptable sampling techniques; and/or

any other professional methodologies considered appropriate by VGV.

The Approved Valuer may provide common advice to several entities within a portfolio, provided that these entities have similar asset holdings.

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.

In such circumstances, a managerial revaluation of asset values will not be required, unless otherwise advised by the Approved Valuer that it is appropriate.

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.

* + - 1. Managerial revaluations – land and buildings

Managerial revaluations are appropriate when the cumulative movement in indicators is **not** exceptionally material. If, by assessing the cumulative 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 displayed in Figure 2(a).

* + - * 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 per cent of the asset class value.

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.

* + - 1. 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.

* + - * 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).

* + - 1. Scheduled revaluations

The process to be followed for revaluations that are scheduled to occur at the time stipulated in Appendix A of FRD 103 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.

The table below shows VPS entities, their COFOG categories and date of scheduled revaluation, current as at December 2019. Entities are responsible for monitoring their revaluations and complying with the valuation cycle and should consult directly with the Valuer-General’s office if they have any queries regarding their valuation cycle.

**Allocation of COFOG categories to entities**

|  |  |  |
| --- | --- | --- |
| Scheduled revaluation year (Commencing)  | COFOG category | Applicable VPS Functional Entities |
| 1 July 2019 | Transport | * DOT (incorporating the former VicRoads and PTV as well as VicTrack, V/Line Corporation and Victorian Ports Corp) excluding Fisheries
 |
| 1 July 2020 | Public Order and Safety | * DJCS
* DELWP (Fire Prevention)
 |
| 1 July 2020 | Recreation, Culture and Religion | * DPC portfolio other than the Department and Shrine of Remembrance Trustees and VITS Language Link and Queen Victoria Women’s Centre Trust
* DELWP (Zoological Parks and Gardens Board, Alpine Resorts Management Boards and Phillip Island Nature Parks)
* DJPR portfolio other than Vicforests
 |
| 1 July 2020 | Economic Affairs | * DTF (State Electricity Commission of Victoria)
* DELWP (PNFCs, excluding Water authorities)
* DJPR (VicForests and Australian Sustainable Hardwood)
* DOT (Fisheries)
 |
| 1 July 2020 | Environmental Protection  | * DELWP (Water authorities)
 |
| 1 July 2021 | General Public Services  | * DTF (insurers, State Trustees Ltd, Victoria Funds Management Corporation and Treasury Corporation Victoria)
* DPC Department and Shrine of Remembrance Trustees
* DHHS – Assets transferred from DEDJTR that are within this purpose group
* DHHS (Cemeteries)
 |
| 1 July 2022 | Education  | * DET
 |
| 1 July 2023 | Housing and Community Amenities | * DHHS (Housing)
* DPC (VITS Language Link)
 |
| 1 July 2023 | Health | * DPC (Queen Victoria Women’s Centre Trust)
* DHHS
 |
| 1 July 2023 | Social Protection | * DHHS
 |

* + - 1. 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.

* + - 1. 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 the Direction. Such revaluations shall also not affect the revaluation cycle stipulated in the Direction, nor require the revaluation of other assets in the same class.

* + - 1. 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 on 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. 30 June). Any changes to depreciation resulting from the revaluation should be effective from the commencement of the year (e.g. 1 July) 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 process diagram.

Figure 2(a): Valuation process



Figure 2(b): Process for interim revaluations and other relevant procedures



* + 1. Fair value measurement guidance
			1. Consideration of highest and best use 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 (HBU) or by selling it to another market participant that would use the asset in its HBU.

Judgements about HBU must consider the use of the assets that is physically possible, legally permissible and financially feasible, as follows:

A use that is physically possible considering the physical characteristics of the asset that market participants would factor when pricing the asset (e.g. the location or size of a property);

A use that is legally permissible considering 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

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 assessment shall 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.

The following indicators shall be considered, noting this is not an exhaustive list:

* + - * 1. 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 evidence indicating changes in public expectations of the assets’ use.
			* 1. 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.

The following provides further guidance of HBU consideration for specific asset classes.

* + - * 1. 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 reassess 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.

* + - * 1. 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 HBU 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.

* + - * 1. 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 HBU 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.

* + - * 1. 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 fair value is the higher of values generated from the current use and the alternatives.

* + - 1. 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, please refer to the current *Model Report for Victorian Departments*, appendix on Fair value measurement indicative expectations.

* + - 1. 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 the current *Model Report for Victorian Departments* Appendix on Fair value measurement indicative expectations.

* + - 1. Level 2 and Level 3 inputs (CSO and depreciation costs)

AASB 13 *Fair Value Measurement* 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.

* + - 1. 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, detailed below.

* + - * 1. 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.

* + - * 1. 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).

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 has 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.

* + - * 1. Income approach

The income approach converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

Figure 3: Valuation process



* + 1. 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 Note 1 in the annual financial report, can also be found in the relevant year’s Model Report, as issued by DTF.

* + - 1. Treatment of accumulated depreciation on revaluation

AASB 116 *Property, Plant and Equipment* permits an entity to account for 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, FRD 103 *Non‑financial physical assets* 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.

* + - 1. 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*.

* + - 1. 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 3.4.1).

Subject to section 3.4.1, 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.

* + - * 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.
			1. Consultations with audit

In the interests of facilitating the annual audit process, it is assumed and expected in FRD 103 *Non‑financial physical assets 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.