

Circular No. 09-09
Date 17 March 2009
Doc ID. A171577

Contact Finance Policy Section
02 4428 4100
dlg@dlg.nsw.gov.au

RECOGNITION OF CERTAIN ASSETS AT FAIR VALUE

Extension of time for roads, bridges, footpaths and drainage assets

Following on from the revaluation of council's operational land and buildings by 30 June 2008, the next class of assets to be revalued are roads, bridges, footpaths and drainage assets. The Department recognises that it may take some time for councils to revalue these assets. In consultation with the Local Government Accounting Advisory Group, it has been determined that the timeframe for the revaluation of such assets should be extended. Accordingly:

- all councils' roads, bridges, footpaths and drainage assets are to be valued at fair value by 30 June 2010.

Further information and advice relating to revaluation steps and components is provided in the annexure to this circular.

Recognition of land under roads

The transitional arrangements provided in AAS 27 in relation to accounting for land under roads have expired. The Australian Accounting Standards Board has released AASB 1051, Land under Roads. The standard is applicable from 1 July 2008.

Land under roads is land under roadways and road reserves, including land under footpaths, nature strips and median strips.

The Department of Local Government, in consultation with the Local Government Accounting Advisory Group and other stakeholders, has determined that:

- councils should elect to recognise land under roads acquired before 1 July 2008
- councils should recognise land under roads acquired (pre or post 1 July 2008) at its cost, where the cost represents fair value
- any land under roads acquired (pre or post 1 July 2008) at no or nominal value should be measured at its fair value.

A method of reliable measurement for fair value of land under roads is yet to be determined on a sector-wide basis. When determined, it will be communicated to the local government sector. This will be reviewed for the 2009/10 financial

year. The Local Government Code of Accounting Practice and Financial Reporting, Update 17, will reflect this position.

In the meantime, councils are encouraged to establish the physical dimensions of land under roads (not yet recognised) and to record this information in their asset registers. Disclosure requirements will be included in the Local Government Code of Accounting Practice and Financial Reporting, Update 17.

Community land, land improvements, other structures and other assets

The valuation of community land in terms of Australian Accounting Standard AASB 116, Property Plant and Equipment, has now been deferred until 30 June 2011.

The Department has reviewed its position on the use of the Valuer General's valuations of community land. In association with the Local Government Accounting Advisory Group, the Department has determined that community land may be valued as follows:

- The NSW Valuer General's valuations may be used to initially recognise community land acquired at no cost or nominal cost. It is considered that the valuations represent the fair value of such land in lieu of actual cost, as required by clause Aus15.1 of AASB 116.
- Community land acquired at market price fulfils the requirement of recognition as an asset under clause 7 of AASB 116. Such land should be recorded initially at cost as per clause 15 of AASB 116. Therefore, the Valuer General's valuations for the initial recognition of the land acquired at market price should not be used.
- The NSW Valuer General's valuations may be used under the revaluation model to represent fair value for the revaluation of community land under clause 31 of AASB 116.

In the case where community land has not been valued by the Valuer General, council may request a valuation under section 20 of the *Valuation of Lands Act 1916*.

The valuation of land improvements, other structures and other assets in terms of Australian Accounting Standard AASB 116, Property Plant and Equipment, has now been deferred until 30 June 2011 (refer Annexure).

The Local Government Code of Accounting Practice and Financial Reporting, Update 17, will reflect this position.



Ross Woodward
Acting Director General

ANNEXURE: RECOGNITION OF CERTAIN ASSETS AT FAIR VALUE

The purpose of this paper is to provide additional information to councils in relation to the requirements in Council Circular 09-09 *Recognition of Certain Assets at Fair Value*.

Councils should develop a project plan and establish a project management team prior to the commencement of revaluing assets. As part of this, councils will need to consider progress to date, what remains to be done, resources required and the timeframes involved. A centralised documentation process that addresses all of the key criteria for recognising, valuing and depreciating assets should be included in the plan. Councils need to ensure that there is strong documentation supporting decisions and the reasons for decisions covering such areas as:

- Completeness
- Valuation
- Existence
- Depreciation and
- Condition Assessment Models.

To further assist councils with this process, the Department and the Local Government Accounting Advisory Group (LGAAG) have developed some guidance on the revaluation steps and an implementation plan.

Revaluation Steps	Due by
Establish a project plan and project management team (including an experienced finance professional)	Mid April 2009
Finalise any outstanding operational land, buildings, water or sewerage asset revaluation matters (particularly componentisation of assets)	Mid April 2009
Confirm that the asset register is current, ie, the dimension/number of assets is reliable	30 June 2009
Confirm that the asset register is accurate (that assets still exist and council still controls the assets)	30 June 2009
Ensure that assets are recorded at component level as per this circular	30 September 2009
Confirm appropriate Unit Rates for all components, ie, \$ rate per square metre for footpaths, roads, etc	31 October 2009
Determine Useful and Remaining Lives for the assets. Assess whether there is any residual value. Assess the condition of the assets. (This will help establish depreciation models that reflect the consumption of assets more effectively.)	31 March 2010

Councils can use this as a guide to developing plans for the revaluation of roads, bridges, footpaths and drainage assets. Councils that have already commenced the revaluation process should continue with those plans and take into account the suggested steps in this circular. Councils may fair value one asset class at a time, however, adherence to an implementation plan that ensures completion by the due date is required.

As the auditors are required to include the revaluation of the assets in their audit, they will need assurances that the processes in place are adequate and will be completed on time. To enable this, the auditors may ask councils to provide them with information regarding the council's implementation of the project plan at the interim audits and at the audit for 30 June 2009.

Asset components

Most council assets are infrastructure assets. Almost all infrastructure assets can be separated into component parts. These assets are typically managed at the component level, because each major part has a different life and/or requires different approaches to repair, maintenance and renewal/replacement. Also the financial reporting standards require that major parts of assets be identified and depreciated separately. Given this, the way the assets are separated for accounting purposes should be the same as the way they are identified within the asset management system. This allows integration between the two different systems.

For roads, bridges, footpaths and stormwater drainage, the minimum components suggested would be:

Asset type	Component
Roads	Road Surface for sealed roads per segment Road pavement structure for sealed roads per segment Road pavement structure for unsealed roads per segment Road formation/earthworks for sealed roads per segment (where significant) Road formation/earthworks for unsealed roads per segment (where significant)
Kerbs and gutter	Kerbs and gutter each side per segment
Paths (foot and cycle)	Paths each side per segment
Road Furniture	Signs, furniture
Road structures	Islands, local area traffic management, roundabouts, raised crossings, bus shelters, etc
Bridges	Components depend on the type of bridge, how the bridge is managed and renewed and information available to value the components. Some examples of components (depending on management and renewal) could be: <ul style="list-style-type: none"> • Bridge Deck/Superstructure • Bridge Abutments/Foundations • Bridge Sub Structure • Bridge Furniture/Signs

Stormwater Drainage	Pipes between pits Pits per pit Other Structures: gross pollutant traps, detention basins, etc
------------------------	---

In relation to Land under Roads (LUR) councils should measure the length and width of the LUR and record this in their asset registers in preparation of a suitable valuation methodology.

Use of Independent Valuer versus In-house expertise for valuations

Councils can source Fair Value unit rates from either internal or external (current contract rates) service providers. Unit rates for various assets include materials, plant and labour, as well as relevant council overheads. Where contract rates are not available, estimates are to be provided by council’s internal service provider based on individual assets (broad) specifications. For example, a single or multi-span timber bridge in a local or remote location.

Land Improvements, Other Structures and Other Assets.

Land improvements (that are not already captured as part of the land valuation) include all works carried out to the land to improve its utility, service potential or to make it ready for an identified use.

Other Structures include all other structures not included in the category of Buildings that are controlled by a council and constructed for a variety of purposes. Examples include statues, fences, monuments and clocktowers.

Other Assets are any assets that are not land, land improvements, buildings, roads, drainage, water, sewer, plant and equipment or furniture and fittings.