# Queries from 2020 LG Finance Intensive: Assets

Following from this years intensive in Bathurst there were tow queries raised regarding the valuation of assets. These queries flowed from some inconsistent advice provided by different presenters over the course of the week. The two queries related to –

- Application of AASB136 Impairment
- Frequency of Valuations

# Application of AASB136 Impairment

The Impairment Standard (AASB136) was amended in 2016 with an effective date for all financial periods commencing on or after 1 Jan 2017 (ie. 2017-18 for local governments).

The impact is that AASB136 no longer applies to local governments except for non-specialised assets (valued using market approach) or assets valued at Historical Cost (minor plant).

**AASB Standard** **AASB 2016-4**
June 2016

## Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities

**[AASB 136]**

### Main features of this Standard

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This Standard amends AASB 136 *Impairment of Assets* (July 2004) and AASB 136 *Impairment of Assets* (August 2015) to:

(a) remove references to depreciated replacement cost as a measure of value in use for not-for-profit entities; and

(b) clarify that the recoverable amount of primarily non-cash-generating assets of not-for-profit entities, which are typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13 *Fair Value Measurement*, with the consequence that:

 (i) AASB 136 does not apply to such assets that are regularly revalued to fair value under the revaluation model in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*; and

 (ii) AASB 136 applies to such assets accounted for under the cost model in AASB 116 and AASB 138.

#### Application date

This Standard applies to annual periods beginning on or after 1 January 2017. Earlier application is permitted.

# Frequency of Valuations

Some councils are of the understanding that revaluations are only required every five years. This is not the case.

Jasmine Osborne who is the  Senior Policy Officer – Finance in the Policy Team of the Office of Local Government recently confirmed -

> *We did remove the 5 year stipulation from the Code. The latest update of the Code says that a comprehensive revaluation of each asset should be performed on a regular basis as determined appropriate by Council. This is in addition to an annual assessment by Council of carrying amount compared to fair value.*
>
> *Where a Council undertakes an assessment and determines there is any indication current carrying amount of assets is materially different from their fair value, Council is to perform a comprehensive revaluation of the asset class, regardless of the date of the previous comprehensive revaluation. If Council performs their annual assessment and concludes that carrying value was not materially different from fair value, a reval is not required however, Council needs to document reasons why, where applicable.*
>
> *Councils should develop their comprehensive revaluation schedule based on their current practice. OLG does not mandate when each class of asset is subject to a comprehensive revaluation.*

The code requires compliance with AASB1116 which in turn requires an annual assessment of whether there are any indications that carrying amount differs materially from the Fair Value.

### Revaluation model

31 **After recognition as an asset, an item of property, plant and equipment 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.**

32–33 [Deleted]

34 The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

Given the –

- inability to undertake impairment adjustments and
- there are usually significant adjustments to asset values annual due to –
    - changes in unit rates from year to year,
    - CAPEX during the year,
    - changes in asset condition and natural events (such as fires and floods) combined with
    - changes in obsolescence due to council decisions to decommission assets

it is best practice to undertake annual revaluations with a comprehensive done every three years with desktop updates in the intervening years.

Annual revaluations done this way also provide of a range of other benefits including –

- keeping all asset registers aligned
- ensuring the data used for asset management and LTFP modelling is up to date
- significantly reducing overall valuation costs.


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