

## Valuation of Physical Non-Current Assets at Fair Value

### Summary

This Direction specifies mandatory requirements for valuing physical non-current assets at fair value for general purpose financial reporting by reporting GSF agencies.

**Commencement:** This Direction takes effect on 1 September 2021.

### Application

This Direction applies to all entities that are reporting GSF agencies within the meaning of section 7.3 of the *Government Sector Finance Act 2018*, and to the accountable authorities for those reporting GSF agencies.

For the avoidance of doubt, the direction does not apply to universities and their controlled entities, or to their accountable authorities.

### Purposes / Objects

The objects of this Direction are to:

1. specify mandatory requirements for valuing physical non-current assets for the purposes of preparing annual GSF financial statements for reporting GSF agencies which apply in addition to the Australian Accounting Standards;
2. ensure a consistent approach to asset valuation across the NSW Public Sector; and
3. identify the principles, practices, arrangements and procedures to be applied or followed by reporting GSF agencies and the accountable authorities for those agencies to enable Consolidated government sector reporting to be prepared in accordance with Division 7.4 of the *GSF Act*.

Comprehensive guidance on valuing physical non-current assets at fair value for general purpose financial reporting is provided in TPP21-09 Policy and Guidelines Paper – Valuation of Physical Non-Current Assets at Fair Value.

### Interpretation

In this Direction:

**Accountable Authority** has the same meaning as in section 2.7 of the *GSF Act*.

**AASB 13** means AASB 13 Fair Value Measurement, as amended or replaced from time to time.

**AASB 116** means AASB 116 Property, Plant and Equipment, as amended or replaced from time to time.

**AASB 140** means AASB 140 Investment Property, as amended or replaced from time to time.

**AASB 1059** means AASB 1059 Service Concession Arrangements: Grantors, as amended or replaced from time to time.

**AASB 1049** means AASB 1049 Whole of Government and General Government Sector Financial Reporting, as amended or replaced from time to time.

**Agency** means a reporting GSF agency as defined in section 7.3 of the *GSF Act* but, for the avoidance of doubt, does not include a university or its controlled entities.

**Assets** means physical non-current assets, including Property, Plant and Equipment (which includes Service Concession Assets) and Investment Property.

**Auditor-General** means the Auditor-General referred to in section 27B of the *Government Sector Audit Act 1983*.

**Carrying Amount** has the same meaning as in AASB 116.

**Comprehensive Revaluation** – valuation of an Agency's Assets in accordance with clause 1A(v) of this Direction.

**Fair Value** has the same meaning as in AASB 13.

**Financial Statements** means the annual GSF financial statements prepared for reporting GSF agencies under section 7.6 of the *GSF Act*.

**GFS** means Australian Bureau of Statistics, Government Finance Statistics.

**GSF Act** means the *Government Sector Finance Act 2018*.

**Interim Revaluation** means valuation of an agency's Assets in accordance with clause 1A(vi) of this Direction.

**Investment Property** has the same meaning as in AASB 140.

**Management Assessment** means the annual assessment of an Agency's Assets by the Accountable Authority of an Agency to determine whether there is any indication that the Carrying Amount of the Assets is materially different from their Fair Value, consistent with AASB 116 para 31.

**Property, Plant and Equipment** has the same meaning as in AASB 116 and includes physical Service Concession Assets.

**Revaluation** means the process of valuing Assets and adjusting the Carrying Amount of an asset to its Fair Value at the date of the revaluation. Revaluation can be either a Comprehensive Revaluation or an Interim Revaluation.

**Service Concession Asset** has the same meaning as in AASB 1059.

**TPP 21-09** means TPP 21-09 Accounting Policy: Valuation of Physical Non-Current Assets at Fair Value.

**Unit of Account** has the same meaning as in AASB 13.

## Direction

1. The Accountable Authority for an Agency must carry out the following steps (or ensure that the following steps are carried out) in relation to the revaluation of the Agency's Assets for the purposes of preparing the Agency's Financial Statements.

### A. Perform Revaluations of an Agency's Assets

- i. The Accountable Authority for an Agency must comply with clause 1A of this Direction, unless:
  - a. the Asset or Assets are non-specialised assets with short useful lives that can be measured at depreciated historical cost as an acceptable surrogate for Fair Value; or
  - b. the Accountable Authority determines that the relevant Asset or Assets are unlikely to be material to the Financial Statements of the Agency for the relevant year.
- ii. All material Assets must be measured at Fair Value.
- iii. Fair Value must be determined using the cost approach for Service Concession Assets (AASB 1059, para 7 and 9(b)).
- iv. When determining the Fair Value of an item of Property, Plant and Equipment:
  - c. Using the cost approach – Any accumulated depreciation must be restated proportionately with the change in the gross Carrying Amount of the Asset so that

- the Carrying Amount of the asset after Revaluation equals its revalued amount. This method is often used when an Asset is revalued by means of applying an index to its depreciated replacement cost;
- d. Using the income approach or the market approach – Any accumulated depreciation must be eliminated against the gross Carrying Amount of the Asset and the net amount restated to the revalued amount of the Asset. This method is often used for buildings.
  - v. A Comprehensive Revaluation of an Agency's Assets:
    - a. must be performed or reviewed by an external professionally qualified valuer;
    - b. ordinarily includes an assessment of the physical condition of the Assets;
    - c. for land and buildings (except infrastructure and land under infrastructure) where the market or income approach is the most appropriate valuation technique for that Asset under AASB 13 – must be performed at least once every 3 years;
    - d. for all other classes of Assets – must be performed at least once every 5 years.
  - vi. An Interim Revaluation of an Agency's Assets:
    - a. may be performed or reviewed by an external professionally qualified valuer;
    - b. may be less detailed than a Comprehensive Revaluation and should typically involve one or more of the following procedures: indices, desktop valuations using sampling, site visits using sampling and other professional methodologies;
    - c. must be performed when a Management Assessment indicates a risk that there is a material difference between the Carrying Amount and the Fair Value of those Assets, unless a Comprehensive Revaluation has been or will be performed in the same year, either:
      - 1. in accordance with cl. 1A(v) of this Direction; or
      - 2. because the Accountable Authority determines, after performing a Management Assessment, that a Comprehensive Revaluation should be performed instead of an Interim Revaluation.
  - vii. An individual or individuals must be appointed within the Agency to be responsible for the Revaluation process.
  - viii. A valuation plan must be prepared which sets out and governs the process for each Revaluation of the Agency's Assets.

This document must be reviewed by senior management before any Revaluation is performed.
  - ix. When the valuation process involves an independent valuer, written instructions must be provided to an independent valuer.

These instructions must:

    - a. include a request that the valuer provide a written scope of work that sets out the valuer's terms of engagement;
    - b. specify that the independent valuer must perform their Revaluation or review in accordance with the requirements of this Direction.
  - x. The independent valuer must be consulted to agree on the approach to be taken by the valuer for the Revaluation.
  - xi. Revaluations, whether they are performed by an independent valuer or by the Agency internally, must be reviewed by an appropriately qualified person within the Agency to ensure that the Revaluations are appropriate before they are relied on or used by the Agency.
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**B. Reassess decisions not to recognise an Asset (including a heritage Asset) on the basis that a reliable value cannot be obtained.**

Any decision not to recognise an Asset (including a heritage Asset) in the Agency's Financial Statements on the basis that a reliable value cannot be obtained for the Asset must be reassessed annually.

This clause only applies to an Asset that is likely to be material to the Financial Statements for an Agency. Information about this type of Asset must be disclosed in the notes to the Agency's Financial Statements (see cl. 1(C)(i) of this Direction).

**C. Prepare specific note disclosures in Financial Statements.**

The following matters must be disclosed in the notes to the Agency's Financial Statements:

- i. Where an Agency holds Assets that are not recognised in the Financial Statements because a reliable value cannot be obtained (for example, certain heritage Assets) and those Assets are likely to be material to the Agency's Financial Statements:
  - a. The reasons for the inability to obtain a reliable value for the Assets;
  - b. The quantum, nature and functions of the Assets, and their heritage significance (where applicable) and
  - c. An estimate of the annual costs of maintenance or preservation of the Assets (where applicable).
- ii. The Agency's policy on Revaluation, including the Agency's policy on:
  - a. When an Interim Revaluation should be performed or reviewed by an external professionally qualified valuer; and
  - b. The circumstances in which an Accountable Authority may determine, after performing a Management Assessment, that a Comprehensive Revaluation should be performed instead of an Interim Revaluation.

**2. Exemptions and Extensions**

- A. The Secretary of the Treasury, or a person nominated by the Secretary may, on his or her own initiative, or in response to a written request from an Accountable Authority for an Agency, grant an exemption from, or extension in relation to, one or more of the requirements of this Direction.
- B. The Accountable Authority for an Agency may request an exemption from, or extension in relation to, one or more of the requirements of this Direction by writing to the Secretary of the Treasury.
- C. The Accountable Authority for an Agency must consult with the Auditor-General prior to seeking an exemption or extension under this clause.
- D. A request for an exemption or extension under this clause must identify:
  - i. the requirement or requirements that the Accountable Authority for an Agency is seeking exemption from, or an extension in relation to,
  - ii. reasons why the Accountable Authority for an Agency cannot comply with the requirement or requirements, and
  - iii. the outcome of consultation with the Auditor-General.

This Direction is made under sections 3.1 and 7.6(3) of the GSF Act.

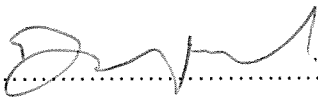
**End date or review date for this Direction:** This Direction is to be reviewed by July 2026.

**Related documents**

- TPP 21-09: Policy and Guidelines Paper – Valuation of Physical Non-Current Assets at Fair Value
- AASB 13 Fair Value Measurement
- AASB 116 Property, Plant and Equipment
- AASB 140 Investment Property
- AASB 1059 Service Concession Arrangements: Grantors
- AASB 1049 Whole of Government and General Government Sector Financial Reporting

**(Legislative) References:**

Divisions 7.2-7.2 of the *Government Sector Finance Act 2018 (NSW)*



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Dominic Perrottet  
Treasurer of New South Wales

Dated.....*1/9*.....2021