ASSET ACCOUNTING POLICY

GUIDELINE 4: REVALUATION

Version 1.0

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1.0 PURPOSE

This guideline is intended to support the Asset Accounting Policy. It provides additional explanations on revaluing non-current assets.

2.0 NON-CURRENT ASSETS REQUIRED TO BE REVALUED

All non-current assets controlled by Council are to be revalued using the fair value basis.
The only exceptions to this rule are the following assets that remain valued at cost:

- Operational motor vehicles
- Furniture, fittings and equipment
- Intangible assets
- Work in progress.

As per the requirements of NZ GAAP, if an item of property, plant and equipment is revalued, all assets in the asset class it belongs to should also be revalued. Items in an asset class are revalued simultaneously to avoid selective revaluation of assets and reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

3.0 REVALUATION SCHEDULE

Asset class	Last revaluation	Next revaluation
Buildings/improvements	2015-16	2018-19
Roading	2015-16	2018-19
Waste management and minimisation	2015-16	2018-19
Stormwater	2015-16	2018-19
Flood protection	2015-16	2018-19
Water	2015-16	2018-19
Wastewater	2015-16	2018-19
Land	2015-16	2018-19
Parks and reserves	2015-16	2018-19
Puke Ariki book collection	2016-17	2019-20
Puke Ariki museum collection	2016-17	2019-20
Govett-Brewster/Len Lye Centre collection	2016-17	2019-20

4.0 FAIR VALUE OF ASSETS FOR REVALUATION PURPOSES

All assets subject to a revaluation are to be revalued at fair value based on **Market Value** if there is a readily available market or **Depreciated Current Replacement Cost** if there is no readily available market.

For asset types subject to a revaluation, a readily available market only exits for land and non-specialised buildings. All other asset types will therefore be revalued at depreciated replacement cost.

5.0 MARKET VALUE

Issues to consider when revaluing assets under a market approach are no different to those detailed within *Guideline 1* for the initial recognition of assets at market value.

Theoretically, preference is to be given to assessing market value in an active market for identical assets that Council can access at acquisition date (i.e., a Level 1 fair value as prescribed by NZ GAAP).

In reality, identical markets will not exist for land and non-specialised building assets that the Council will be revaluing at market value. Such assets are revalued with reference to other observable inputs with the most reliable inputs coming from real estate markets.

These valuations are considered to be Level 2 fair values as by NZ GAAP. Level 2 fair values should also take into account the condition and location of the asset being revalued and the asset's highest and best use.

A market value should be obtained for non-specialised buildings in similar condition to the asset being revalued. NZ accounting standards require market value to be adjusted for any transportation costs where applicable. Any other form of transaction cost such as real estate or legal fees are specifically excluded as being part of market value.

With regard to highest and best use, consider a use that is:

- Physically possible - it accounts for the asset's physical characteristics such as size and capacity as well as any physical impediments due to location.
- Legally permissible – it includes zoning regulations applicable to a property and any other legally enforceable restriction.
- Financially feasible - it accounts for the economic realities of upgrading or converting an asset to achieve a better usage.

Note that highest and best use (and hence market value of the asset) is from the perspective of market participants, which can differ from how the Council is using or intends to use the asset.

6.0 DEPRECIATED CURRENT REPLACEMENT COST

Depreciated current replacement cost of an asset is the current replacement or reproduction cost less any accumulated depreciation. Current replacement or reproduction cost of an asset is the minimum that it would cost the Council to replace an existing asset with a technologically modern equivalent (as opposed to a second hand asset) that provides commensurate economic benefits.

Reliable sources of information for determining current replacement cost are:

- Qualified and knowledgeable expert valuers.
- By reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period.
- The costs incurred by the Council acquiring/constructing similar assets (refer *Guideline 1*).
- Expected costs of materials, services and labour sourced from appropriate suppliers and applied by appropriately qualified staff.

Revaluations undertaken via these methods are deemed Level 3 fair values under NZ GAAP. For such valuations, any sunk costs incurred in the construction of a brand new asset are excluded from the determination of current replacement or reproduction cost.

For major infrastructure assets it is common for current replacement cost to be derived from unit rates that take into account individual components of the asset as well as differing operational conditions.

Unit rates for an asset as a whole or individual components are made up of direct and indirect costs, both of which need to be considered in determining current replacement cost:

- **Direct Costs** – are directly traceable to an asset or asset component; for example, materials and labour.

- **Indirect Costs** – cannot be traced directly to a particular asset but still forms part of the asset's replacement cost. For example, statutory and non-statutory labour on costs and project management costs. The attribution of indirect costs requires a causal relationship between the cost and the asset.

All asset unit rates developed by the Council for revaluation purposes should be maintained in an appropriate register with supporting documentation to ensure that they are fully defensible to external audit scrutiny.

7.0 GUIDELINE REVIEW

The guideline is to be formally reviewed on a triennial basis in conjunction with Asset Accounting Policy review