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FinPro Local Government
Finance Professionals

Asset Update

Valuation and Asset Management



Introductions

David Edgerton

- ◆ Fellow CPA
- ◆ Member and former chair Public Sector Assets Collaborative Group
- ◆ Author CPA Guides to Valuation and Depreciation
- ◆ Member AASB Fair Value Project
- ◆ Review panel of IPWEA IIFMM
- ◆ International Consultant
- ◆ Audit Background (Qld LG Sector)



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Key Guides

CPA Australia's *Guide to asset valuation and depreciation for not-for-profit and public sector physical assets*

Download from CPA website or [here](#)



**WA Dept Local Government Sport and Cultural Industries
Asset Revaluation Guidelines: Methodology Requirements and Satisfying Auditor Expectations**

Download from DLGSC website or [here](#)



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Agenda

- ❖ Strategic Asset Management
- ❖ Financial Reporting & Accounting Standards
- ❖ SAMF: Public Sector
- ❖ Data Needs
- ❖ Case Study: Integration

Before we start...

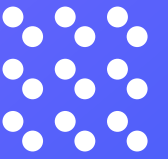
What aspects of your work require asset related figures?

- Valuations
- Depreciation
- Annual Budgets – CAPEX and Maintenance
- Long Term Financial Plans
- Strategic Asset Management Planning
- Insurance
- Other?



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Strategic Asset Management

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Strategic Asset Management

- ❖ What is Asset Management about?
- ❖ What are we trying to achieve?
- ❖ What role do you play?



Asset Management is

- ❖ Providing an 'acceptable Level of Service'
- ❖ To the 'Community'
- ❖ In the 'Long Term"
- ❖ In 'Most Cost-Effective Manner"



Its about Optimising

❖ Whole of Lifecycle Cost

Acquisition
Operation
Maintenance
Renewal
Disposal

❖ Level of Service

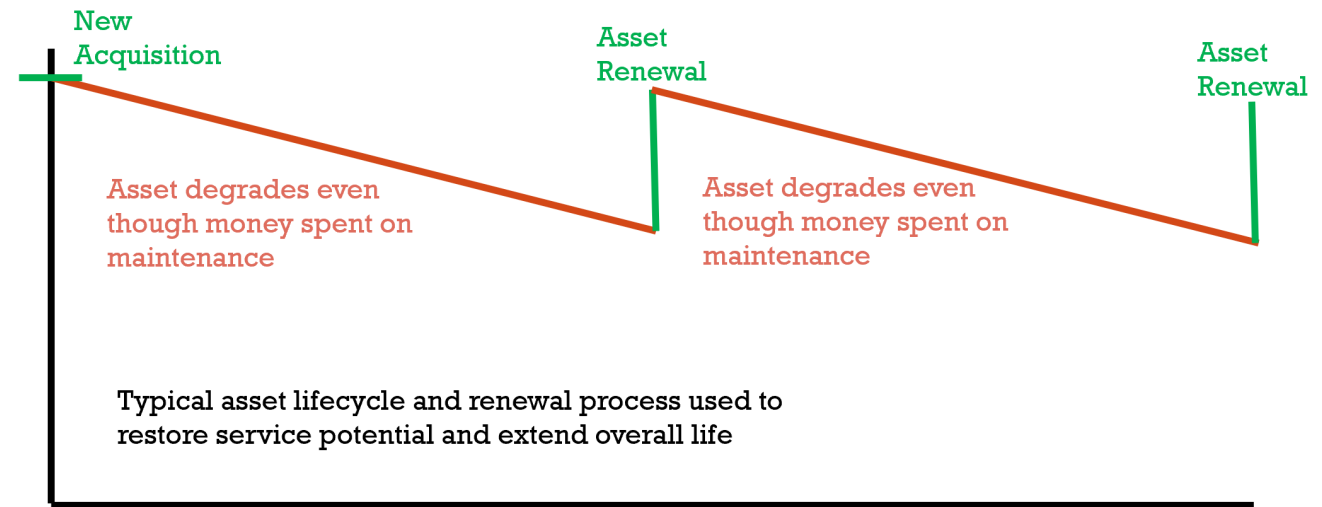
Condition
Service Delivery

Service Centric
Not
Asset Centric



Strategic Asset Management Modelling

- ❖ Renewals is only 'part of the picture'
- ❖ Maintenance is highly material
- ❖ Goal of asset management is to optimize Whole of lifecycle cost against Level of Service
- ❖ Different approaches –
 - Different cost
 - Different Level of Service



What are your 'asset management strategy options?

- ❖ Increase or decrease amount spent on maintenance and impact on useful life
- ❖ Changes to timing and design of renewal treatments
- ❖ Forced early or delaying renewal for specific assets
- ❖ Conscious decision to cease maintaining or to renew/replace specific assets
- ❖ Adjusting useful life expectations



What raw information do you need?

For each component of the asset –

Cost of typical renewal / replacement

When will it occur –

- Condition and typical useful life (to calculate RUL) or
- Decommission Date

**This key asset management information
forms part of the basic outputs from the
asset valuation
(if requirements of AASBs are satisfied)**

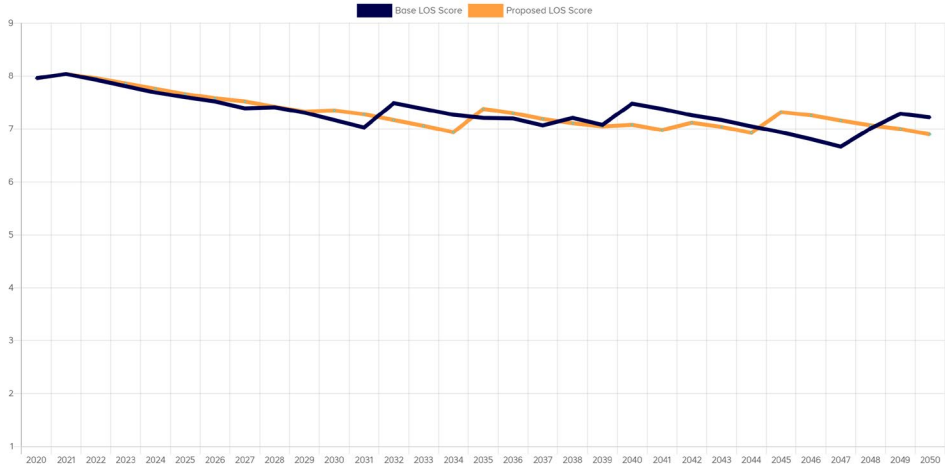


Modelling Process

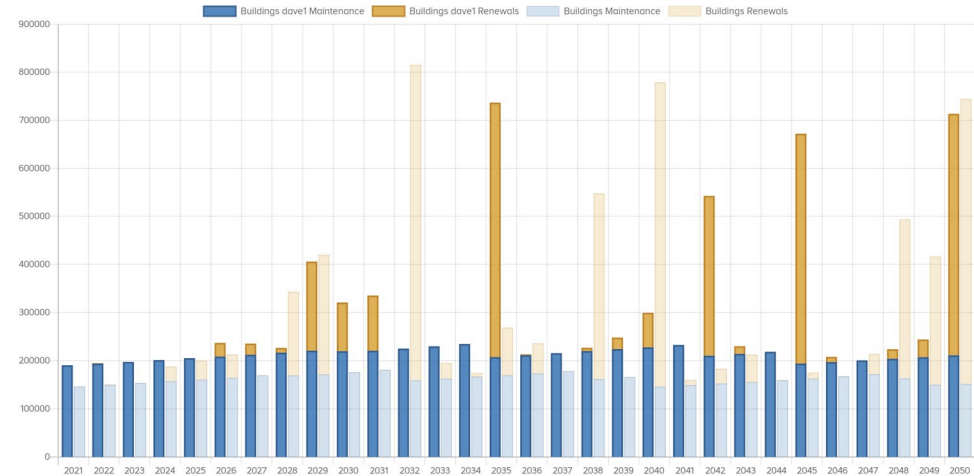
- ❖ Create baseline strategy based on valuation
- ❖ Create new alternative strategies
- ❖ Refine alternatives or create new alternatives
- ❖ Review visual tools and data tables to assist in analysis
- ❖ Once finalized – export detailed strategy to Excel



LOS Condition



Maintenance and Renewals Chart



Summary of Results

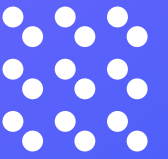
TOTAL PROJECTED COSTS	BASED ON CURRENT BUDGET	BASED ON PROPOSED BUDGET	IMPACT (%)	IMPACT (AMOUNT)
Total Maintenance	\$4,867,138	\$6,367,503	30.83%	\$1,500,365
Total Renewals	\$3,760,533	\$2,496,330	-33.62%	\$-1,264,203
Total Cost	\$8,627,671	\$8,863,833	2.74%	\$236,162

PROJECTED AVERAGE ANNUAL COSTS	BASED ON CURRENT BUDGET	BASED ON PROPOSED BUDGET	IMPACT (%)	IMPACT (AMOUNT)
Total Maintenance	\$162,238	\$212,250	30.83%	\$50,012
Total Renewals	\$125,351	\$83,211	-33.62%	\$-42,140
Total Cost	\$287,589	\$295,461	2.74%	\$7,872

PROPORTION MAINTENANCE V RENEWAL	BASED ON CURRENT BUDGET	BASED ON PROPOSED BUDGET	IMPACT (%)	IMPACT (AMOUNT)
Total Maintenance	56.41%	71.84%	27.35%	-5569.16%
Total Renewals	43.59%	28.16%	-35.4%	-4330.84%
Total Cost	100%	\$100	\$0	\$0

AVERAGE LOS CONDITION SCORE	BASED ON CURRENT BUDGET	BASED ON PROPOSED BUDGET	IMPACT (%)	IMPACT (AMOUNT)
Year 0	7.959674623319561	7.959674623319561	0%	0
Year 30	7.22	6.9	-4.43%	-0.32
Improvement (Worsening) of Average Condition	-0.74	-1.06		0.32





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Financial Reporting and Accounting Standards

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Survey Results

How did you fare?

Survey Results



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Alignment of Asset Management and AASBs

Asset Management need	AASB requirement
<ul style="list-style-type: none">• Break asset into the different components to enable modelling of different strategies• For each component identify the typical renewal strategy (cost and timing)	<p><u>Ratified by AASB May 2015 decision</u></p> <ul style="list-style-type: none">• AASB116 requires each asset to be split into 'each part that has a different useful life to be separately depreciated over its useful life'• Estimated cost of renewal is 'short-life' or 'renewal' part and balance of the component is the 'long-life' or 'recyclable' part• NOTE: AASBs make no reference to 'components'... only 'parts'
<ul style="list-style-type: none">• Assess condition / decommission date to determine estimated time to next renewal / replacement	<ul style="list-style-type: none">• AASB13 specifies that the valuation must be based on the key characteristics relevant to market participants. AASB13.11 lists these as condition, location and restrictions.• AASB116 also requires assessment of the 'wear and tear' and 'obsolescence' of each part as part of the annual reassessment of the useful life (RUL) in order to calculate depreciation expense• NOTE: Useful Life is not listed in AASB13 as relevant to valuation



Key Valuation Requirements

Requirement	Why
Separate valuations required for short-life and long-life part of each component of each asset	AASB116 – need to split into parts AASB108 example 3 – Straight-line Depreciation is $(WDV - RV) / RUL$ Therefore, need FV for each part of the asset with a different useful life
Valuation to be based on 'condition' and 'obsolescence' and NOT Useful Life	AASB13.11 – must be based on the key characteristics: condition, location and restrictions. Useful life in AASB116 but not AASB13 AASB13.B9 – depreciation for valuation conceptually different than depreciation for financial reporting
Selection of method	Market, Income, Cost or combination
Replacement cost is not brownfield or greenfield	Assume to be replaced in its current environment taking into account all cost that would be necessarily incurred
Optimization for excess capacity	If over-capacity is considered temporary – then no discount to be applied for optimization



AASB 2022-10 Special Project for Fair Value in Public and NFP sectors

- ❖ 2016 – 2022
- ❖ Designed to address inconsistencies and non-compliance across the jurisdictions
- ❖ Significant involvement from many stakeholders
- ❖ Tentative decisions published 2019
- ❖ Formal changes to AASB13 Dec 2022 (Clarifications & Additional Australian Guidance)



Depreciation – RUL not UL

- ❖ AASB116 – each 'part' to be depreciated separately
- ❖ AASB108 Example 3
- ❖ If using straight-line –

$$(\text{Carrying amount} - \text{Residual Value}) / \text{RUL}$$

- Therefore need 'fair value' calculated for each 'part' so that depreciation can be calculated correctly
 - OK to use 'blended approach'. ie. Weighted average RUL at component level
- ❖ Pattern of Consumption



Replacement Cost

- ▶ Identifying modern equivalent or reproduction
- ▶ Calculate the gross replacement cost ensuring –
 - Same location
 - Use its own assumptions as a starting point and adjust those assumptions to the extent that reasonably available information indicates that other market participants would use different data
 - The costs reflect normal course or operation
 - Include costs required to restore another entity's assets
 - Include other disruption costs
 - Include site preparation unless already reflected in land value
- ▶ Adjusting for the difference in utility between the existing asset and reference asset as well as for any permanent over-capacity or obsolescence



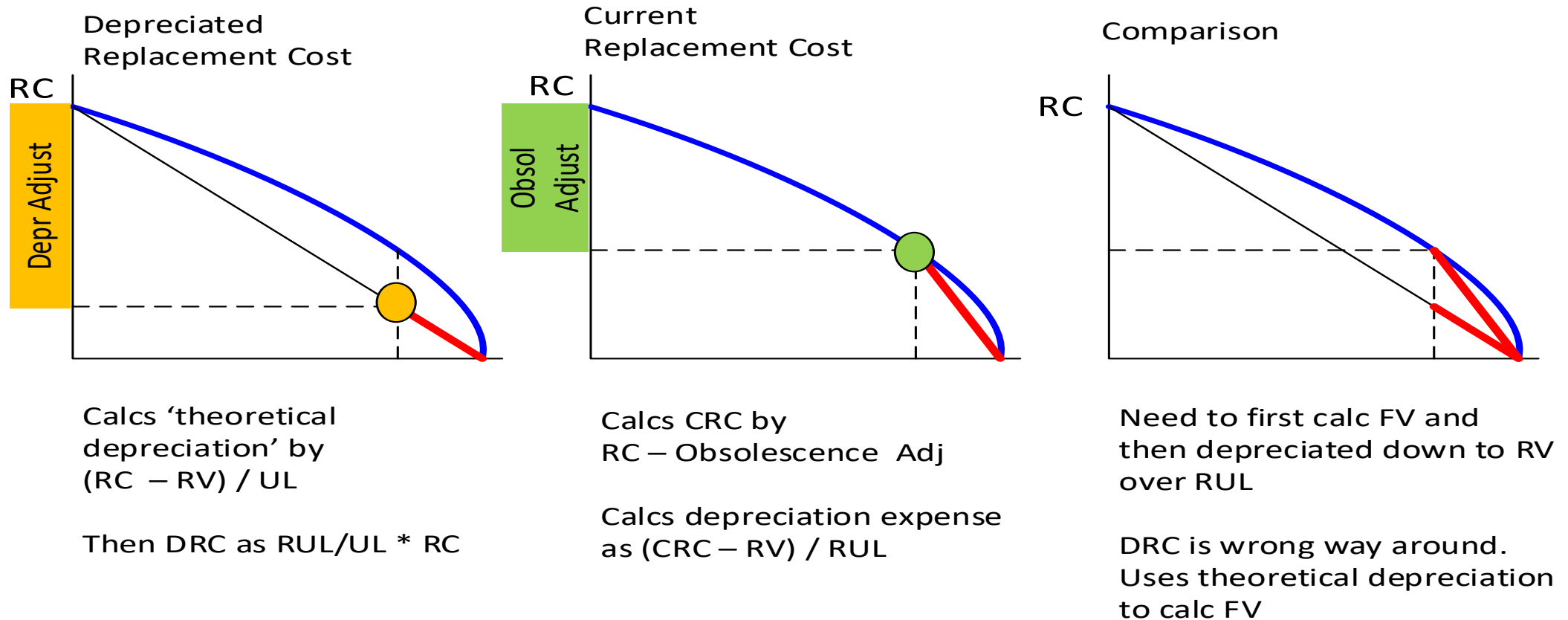
Condition & Obsolescence

- ❖ Depreciated Replacement Cost (DRC) non-compliant – removed from AASBs in 2013 !!!!
- ❖ CRC is conceptually different
 - Market based not entity specific
 - Based on key characteristics relevant to market participants (condition, location, restrictions)
 - Adjustment from replacement cost to CRC is not to be an adjustment for depreciation but is an adjustment for obsolescence



DRC is wrong way around

Depreciated Replacement Cost versus Current Replacement Cost



Restricted Land

- ❖ Only take into account those restrictions that would pass from the hypothetical seller to the hypothetical buyer
- ❖ Do not take into account those restrictions that would not pass from the hypothetical seller to the hypothetical buyer

Nothing to do with whether or not you would ever sell the asset.
Only what restrictions would pass 'if you hypothetically sold it'



What does it look like in p

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Uganda example

Framework

Jobs

Assets

Projects

Easy SAM

311451

Roof

311452

Concrete - Suspended

Typical Life

Jun 30, 2016 → ?

Consumption Score

1

Depreciation Policy

Apply RUL

Valuation Policy

Apportionment Cost

TYPE		GROSS	CURRENT VALUE	REMAINING SERVICE POTENTIAL	DEPRECIATION EXPENSE	USEFUL LIFE	REMAINING USEFUL LIFE	RESIDUAL VALUE	PROFILE
Short Life	20%	\$7,772	\$6,995	90%	\$81	96 yrs	86.4 yrs	\$0	AVP Default SL
Long Life	80%	\$31,088	\$29,844	96%	\$207	150 yrs	144 yrs	\$0	AVP SL
		\$38,860	\$36,839		\$288	134.83 yrs	127.82 yrs	\$0	

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Amenities

General

Valuation

Location

Components 5

Images 12

Notes 0

Insurance

Replacement Costs 2

Summary

Detail

Gross

\$268,000

Current Value

\$252,317

Depn Expense

\$2,436

WA UL

110 yrs

WA RUL

104 yrs

NAME	GROSS	CURRENT VALUE	DE	WA UL	WA RUL
Floor Coverings	\$12,060	\$10,854	\$360	33.5 yrs	30.2 yrs
Roof	\$38,860	\$36,839	\$288	134.8 yrs	127.8 yrs
Serv - Hydr	\$53,600	\$50,170	\$534	100.3 yrs	93.9 yrs
Structure	\$136,680	\$128,753	\$1,065	128.3 yrs	120.9 yrs
Sub-Structure	\$26,800	\$25,701	\$188	142.4 yrs	136.6 yrs



Implications: Financial Statements

- ❖ Fair Value methodology needs to be reviewed to –

Mirror the asset management reality (lifecycles and treatments)

Ensure compliance with AASB13 (condition and obsolescence) and not based on Depreciation Expense (Useful Life)

- ❖ Components to be split into Short-Life and Long-Life parts
- ❖ Need Fair Value and RUL at 'part level' to enable depreciation expense calculations



Implications: Asset Management

- ❖ SL = Renewal Estimate
- ❖ Condition determines RUL of SL part
- ❖ Obsolescence determines RUL of LL part
- ❖ Therefore –

Can auto generate long term CAPEX cashflow forecast

Can model future maintenance costs based on transition through condition phases

Provides base for Optimised Lifecycle modelling (cost v LoS)



AASB136 Impairment

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

Main features

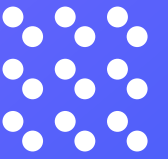
This Standard amends AASB 136 *Impairment of Assets* (July 2004) and AASB 136 *Impairment of Assets* (August 2015) to:

- (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.





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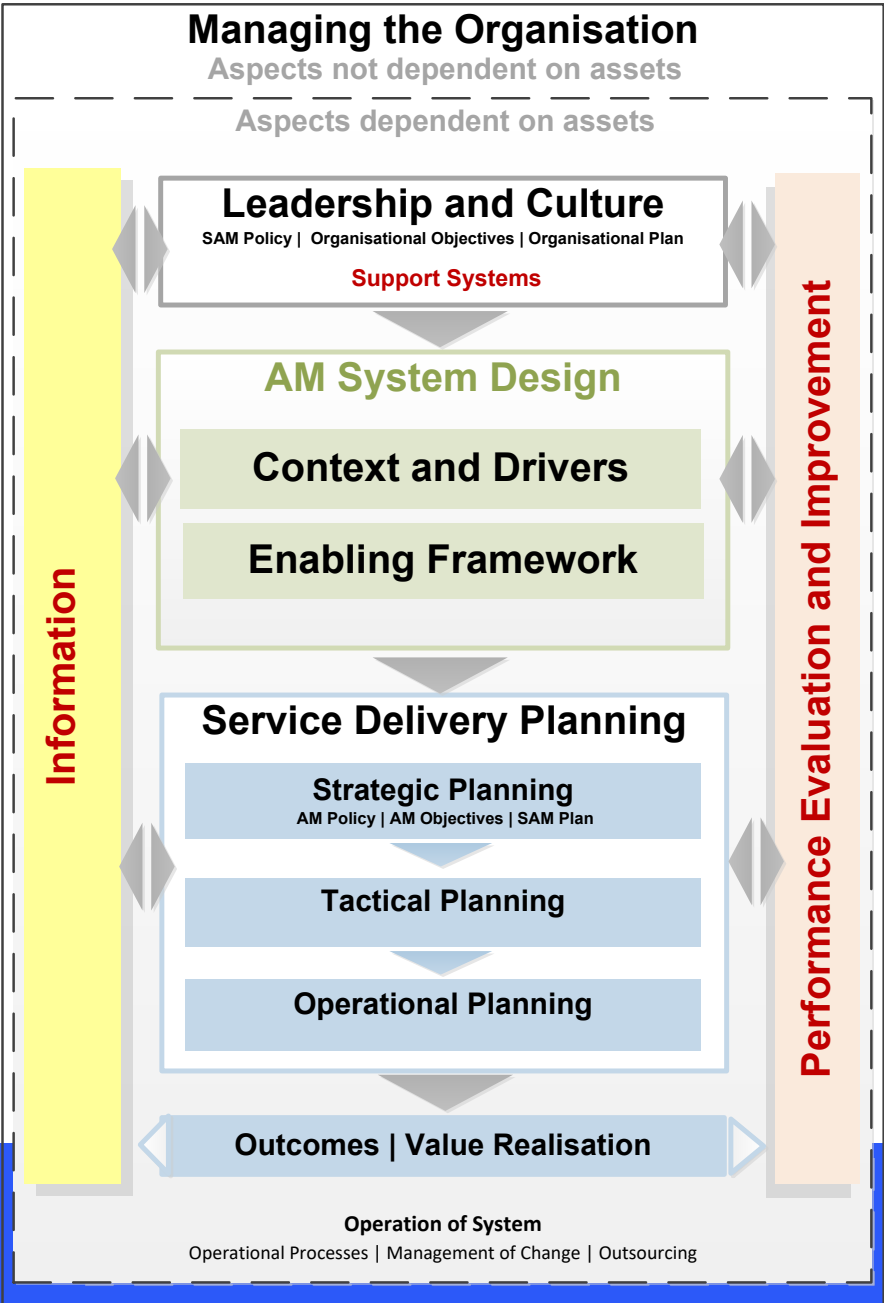
SAMF: Public Sector

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ISO:55000

Australian SAMF: Public Sector



Key Elements

Delivered Outcomes | Value Realisation

Leadership and Culture

Demonstrate | Promote | Continual Improvement | Collaboration
Policies | Roles | Responsibilities | Authorities

SAM Policy | Organisational Objectives | Organisational Plan

Resources | Competence | Awareness | Communication | Documentation

AM System Design

Fundamentals: Value | Alignment | Leadership | Assurance

Context and Drivers

Stakeholder Needs and Expectations | Scope of AM System | Risks
Environmental Factors | Financial Limitations

Enabling Framework

Whole of Government, Policy | Corporate Governance Frameworks

Scope | Boundaries | Interaction | Process | AM Decision Criteria

Service Delivery Planning

Strategic Planning

Risk Management | Resources | Awareness | Competence
AM Policy | AM Objectives | SAM Plan

Tactical Planning

Acquire | Operate | Maintain | Dispose
**AM Plans | Lifecycle Management Methods | Decision
Documentation**

Operational Planning

Risks and Opportunities | Non Conformity | Performance Monitoring
Corrective and Preventative Action | Procurement | Contingency
Planning | Continual Improvement | Resource and Financial Planning



Key Elements

Information

Requirements | Repositories | Data Collection | Alignment Terminology

Performance Evaluation and Improvement

Monitoring | Measurement | Analysis | Evaluation | Internal Audit | Management Review
Non Conformity and Corrective Action | Preventative Action | Continual Improvement



What is your role with –

Managing the Organisation

Leadership and Culture

Context and Drivers

Enabling Framework

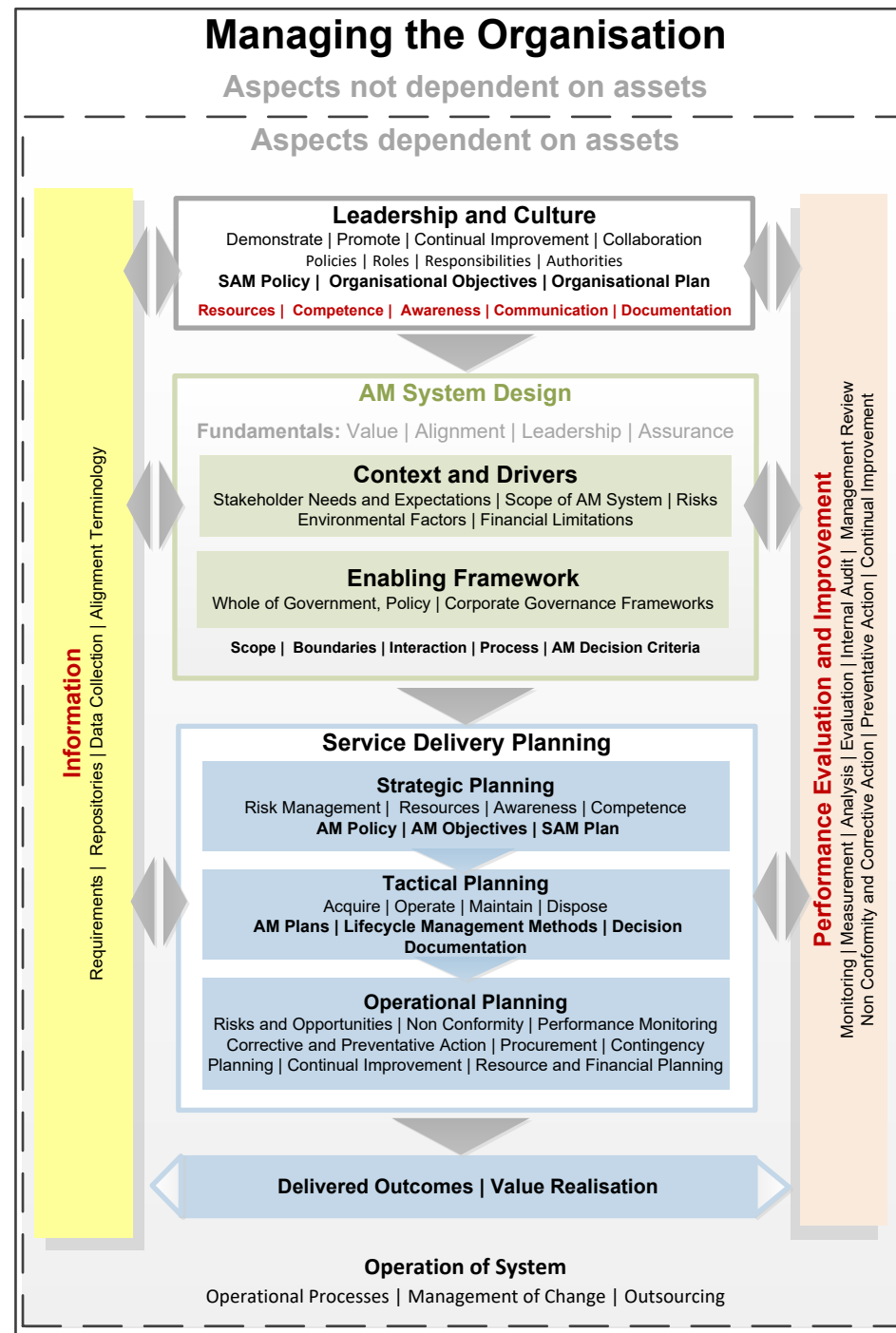
Strategic Planning

Tactical Planning

Operational Planning

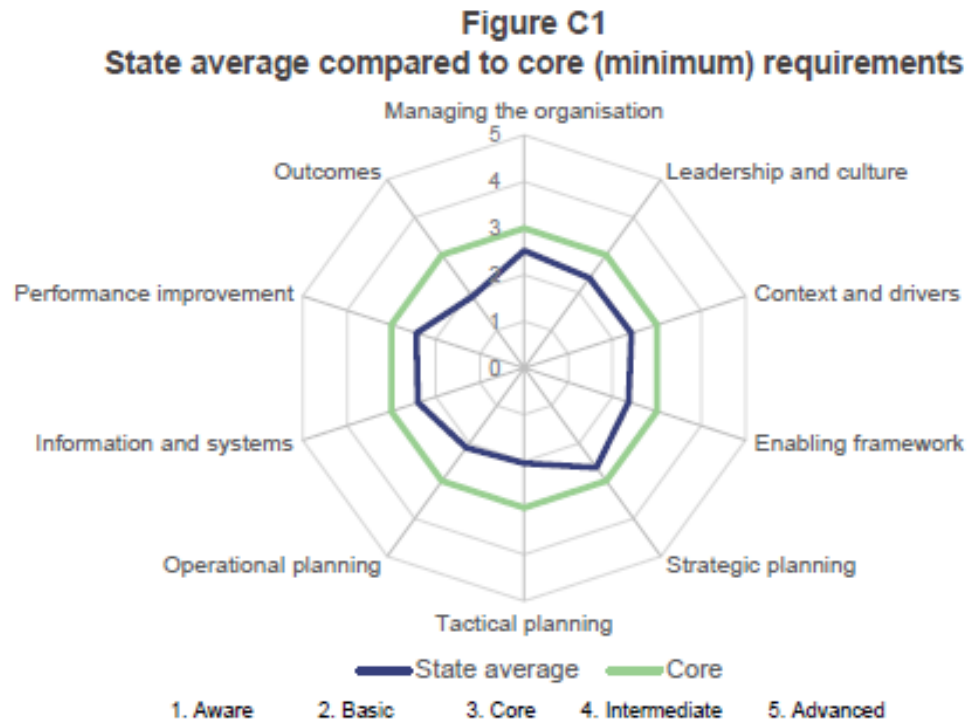
Support Systems

Performance Evaluation and Review

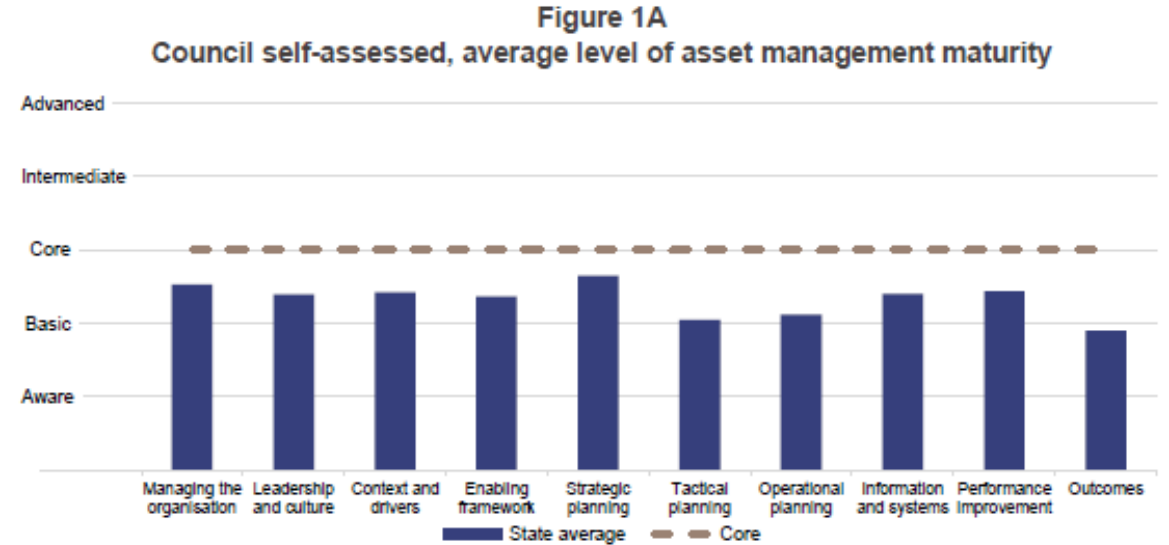


Self Assessment: Maturity Analysis

SAMF: Public Sector Self Assessment Tool



Source: Queensland Audit Office, Asset management maturity survey.



Note: We have not audited these self-assessments.

Source: Queensland Audit Office, Asset management maturity survey.

DEFINITION

The 5 levels of maturity based on the requirements of the international standard:

Advanced	Processes are optimised with no improvements needed
Intermediate	Has sound processes; however, improvements could be made
Core	Meets the minimum requirements
Basic	Partially meets requirements
Aware	Does not meet the legislative requirements



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Data Needs

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What 'asset data' do you need?

Financial Reporting

Valuation
Depreciation
Disclosures

Budgeting

Short-term
Long-term
Cashflow forecasting

Asset Management

Short-term
Long-term
Risk Management

Insurance and Risk Disaster Management





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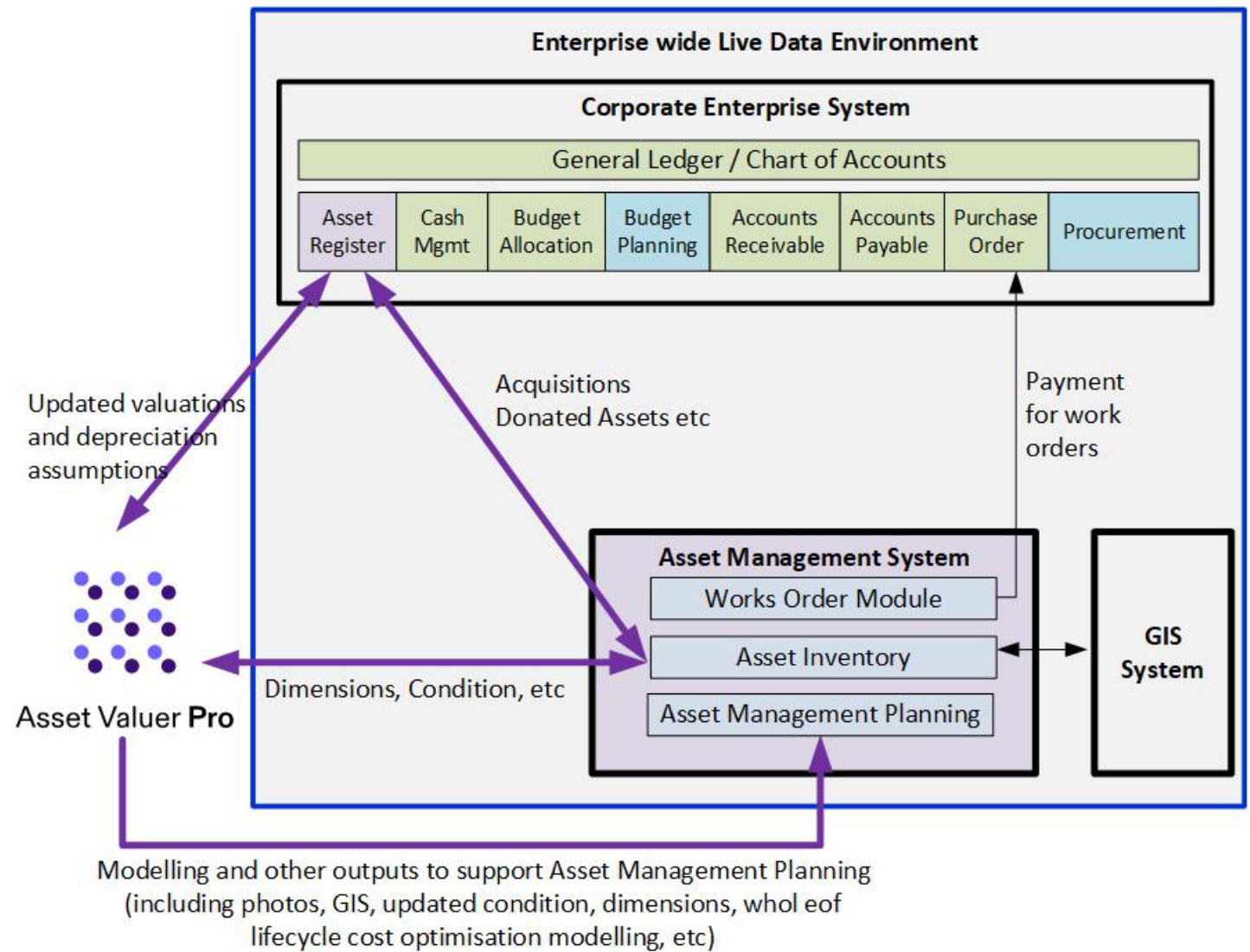
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Case Study



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It is critical that valuation exercise be undertaken external to council's live systems



Case Study

- ✧ Integration of asset accounting and asset management
- ✧ But ... Need to get valuation methodology right!
- ✧ Data collection does not need to be complex
- ✧ Advantages of databases over spreadsheets
- ✧ Significant savings to be made If you want!
- ✧ Asset Management does not require very expensive ERP systems.
Cost v Benefit / Simplicity v Complexity



Final Thoughts

- ❖ Be pro-active about changes to AASB13
- ❖ Understand Auditors Expectations
- ❖ Doing Fair Value requires much more than some calculations (calc is only 25% of work)
- ❖ Easy to get key concepts wrong
 - **Understate value**
 - **Overstate Depreciation Expense**
- ❖ Be wise about your implementation options
- ❖ Integration: valuation and Asset Management
- ❖ Use CPA and WA GLGSC guides for guidance



Valuation Timeline

Valuation Timeline (30 June year-end)

		Entity		Valuer	Audit
Procurement	Jul		Prepare RFQ		
	Aug		Go to market		
		Financial Statements		Prepare Proposal	
	Sept		Assess Proposals		
Planning	Oct		Appoint Valuer		
		Supply Asset Registers		Schedule Inspections	
	Nov			Plan and Prep	
Inspections	Dec			Undertake Inspections	
	Jan	Christmas New Year Leave			
	Feb			Undertake Inspections	
Draft	Mar			Prepare Draft	
			Review draft valuation		
	Apr			Address Queries	
Final	May	Financial Statements		Address Queries	Audit Review of draft
			Final Internal Review		
	Jun			Issue Final	

Audit Sign-Off	Jul				
	Aug			Address Queries	Audit Review of Final
	Sept				Audit Certification



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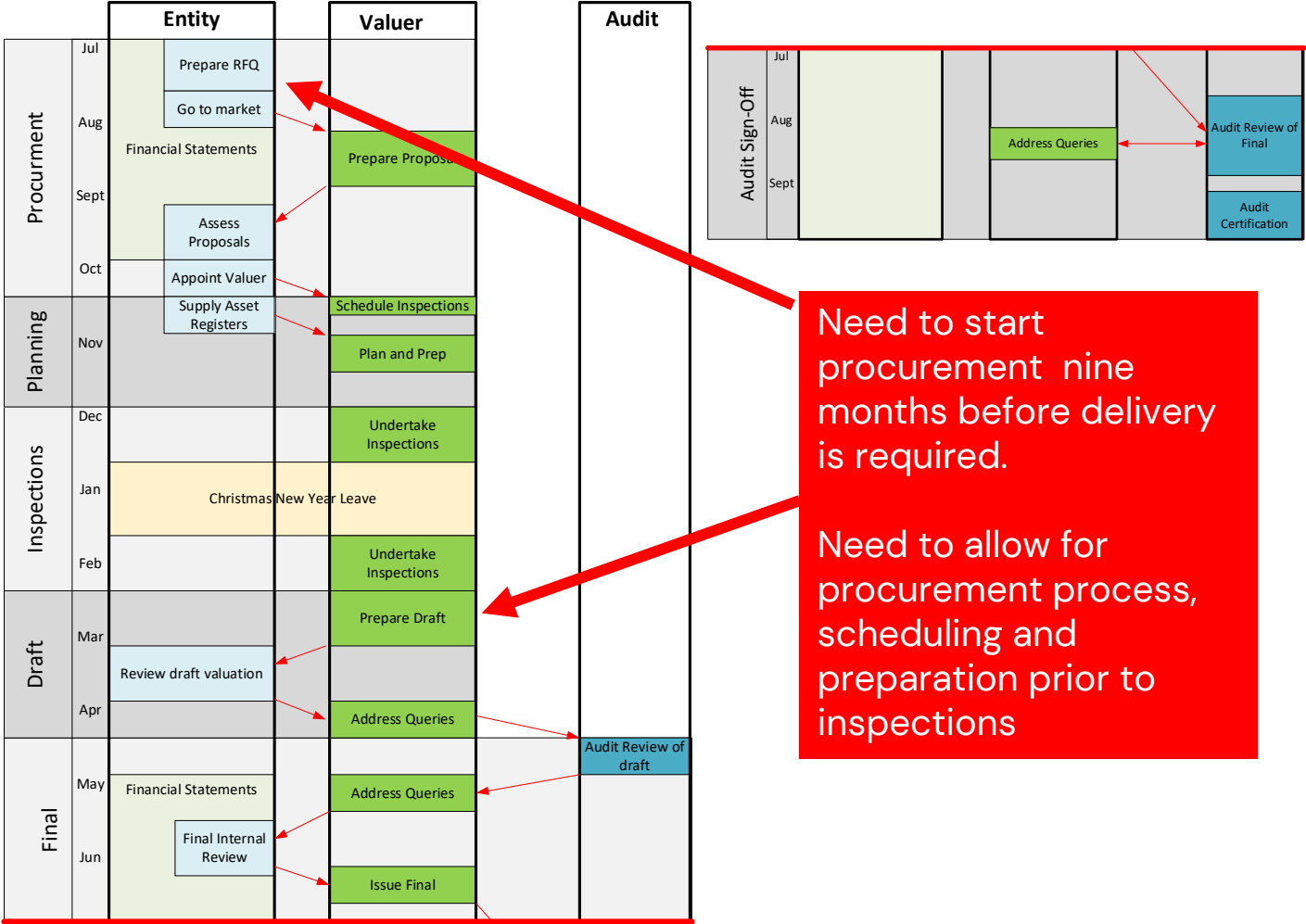


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Valuation Timeline

Valuation Timeline (30 June year-end)



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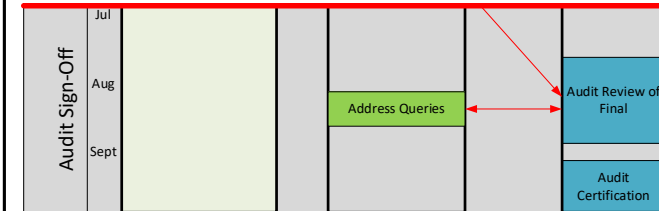
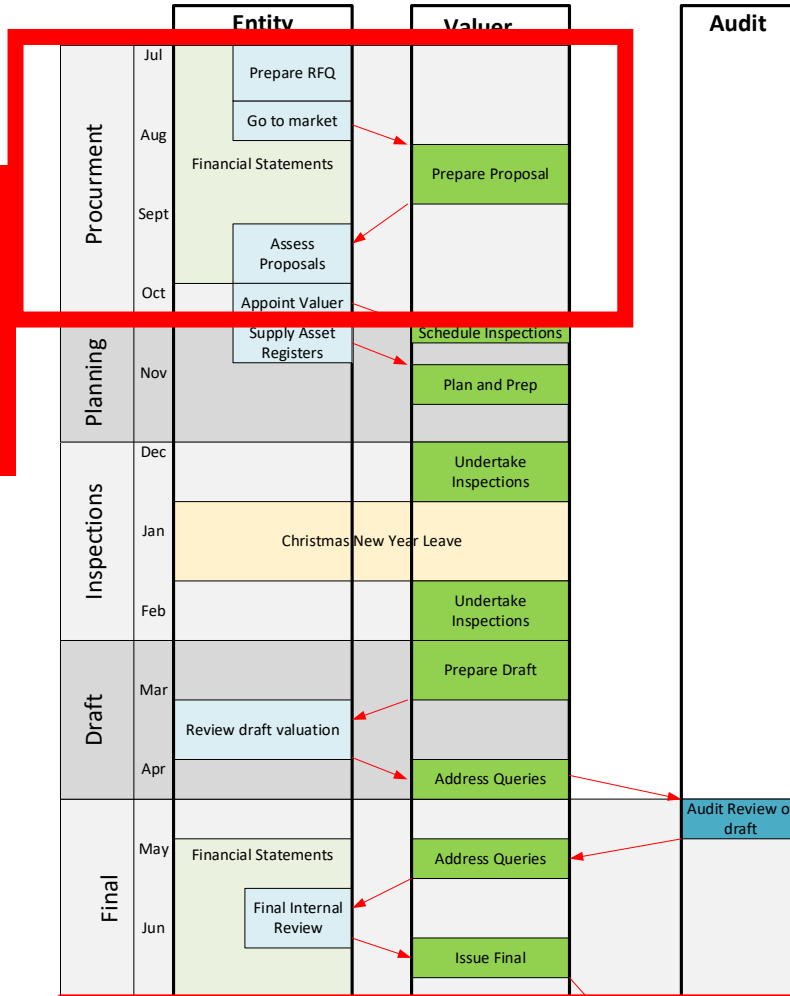


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Valuation Timeline (30 June year-end)

Eliminate time and cost by appointing to 3-5 years contract.

Enables workflow to



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Questions / Discussion



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