Case Study LG Focus

APV Valuers and Asset Management

Case Study: City of Greater Geelong Valuations

The success of the City of Greater Geelong in undertaking their annual financial reporting valuation requirements using Asset Valuer Pro demonstrates that there really are better options to satisfy this regulatory prescribed requirement.

Many councils follow the traditional practice of appointing external valuers to undertake and deliver their valuations using Excel and providing a supporting valuation report in PDF format. While there is nothing fundamentally wrong with this approach it is usually the most expensive option and carries with it risks. For example, what happens if there is an impairment event after the delivery of the valuation or there are large price movements. Additionally, what if the methodology is not fully compliant with the accounting standards and audit raises issues six months after delivery of the valuation?

This case study highlights how easy these risks can manifest over time and how such problems can be easily and more cost effectively overcome by adopting a more innovative approach.

Background

As background, Geelong is one of the largest Council in Victoria with significant asset base, Geelong Council saw the need to invest in asset management to improve the quality of their asset data. The City of Greater Geelong approached APV in early 2020 to undertake an independent valuation of their top 42 buildings.

APV completed the valuation of the 42 buildings and delivered the valuation in Asset Valuer Pro. The methodology adopted for specialized buildings was a Current Replacement Cost (CRC) which replaced the Depreciated Replacement Cost (DRC) method of calculation. This approach complies with AASB13 that was implemented in 2013.

This involved –

- The valuation process was changed from using DRC to CRC method.. Note that ED320 issued in March 2022 has confirmed that DRC approaches are not consistent with AASB13 as they are based on depreciation concepts rather than the key characteristics as set out in AASB13.11
- Building assets were separated into sub-components (different parts) based on different useful life as required by AASB116 and the AASB May 2015 Residual Value decision
- This allowed for key inputs with different dimensions and material types that were significantly different to be recognized in revaluing the asset class and sub class.
- The unit rates adopted for many buildings were based on cost guides, however componentizing the asset class based on different components and material types, allowed to accurately reflect the style or standard of construction of the actual buildings
- Depreciation calculation can now be based on RUL (AASB108), this is a change from one useful life, being based on the assets overall useful life..

Following this sample revaluation process, Council then adopted our recommend strategy which was to subscribe to Asset Valuer Pro and use the system to revalue the remaining 650 properties progressively. This approach would also enable council to progressively undertake their own valuations of all asset classes internally. APV also provided additional assistance and guidance to establish a new Non Current Assets Policy and address a range of technical asset accounting issues.

A local in-house team was trained to undertake the data collection of the remained of the buildings portfolio in 2020 with APV providing mentoring support and responsibility for quality control and allocation of unit rates. This approach allowed council to have better control over the timing as well as all underlying assumptions.

Based on the success of this project, council then used Asset Valuer Pro in 2021 to deliver the financial reporting valuations for their Roads. Again, APV provided a limited support role by mentoring council employees through the valuation process. This entailed a one-week on-site visit to take the raw data from scratch, set up Asset Valuer Pro, import the data and produce the draft valuation by the end of the week.

In the following weeks, council reviewed the results, updated and refined assumptions and delivered the final valuation.

Council continued their journey on improving their quality of their asset database with the funding opportunity that became available through the Working for Victoria program to employ additional resource to fast track data collection. Following this, during 2022 and with reduced mentoring from APV, council undertook the internal valuation of the remaining asset classes including bridges, paths, kerb and channel, drainage, leisure assets, park and recreational assets, etc. Multiple workshops were held with Council engineers, AVP consultants and finance employees on working through unit rate and short life/long life for each asset sub-class based on condition rating and sample testing. Council also delivered desktop by indexation revaluations for the buildings and roads.

Outcome

This approach has allowed council to deliver annual valuations for the majority of asset classes ensuring that the data maintained in the General Ledger and asset management systems are reconciled and up to date. It also delivered greater control over the valuation inputs and outputs while doing so at a significantly lower cost than the traditional methods.

Council comment

Council plan to bring in the minor infrastructure asset class in 2022-23 financial year to complete valuation of all asset classes using Asset Valuer Pro, with the exception of land. Asset Valuer Pro has the functionality to apply an index per asset class or sub class for book valuation and condition rating per asset.

Given the large number of assets, providing auditors the view access to the Asset Valuer Pro database, enhanced independent audit of the revaluation process and reports. It is easy to maintain the year-on-year valuation, either book valuation based on indexation/ sample condition test or comprehensive valuation of the asset class. Reports can be run at any-time for each round of pre and post valuation and tables of final agreed unit rates and useful life are also maintained in the database and not in a separate worksheet.

APV have been available to assist with questions and provide guidance at very short notice and walk through the process to Council staff.