THE TREASURY
Kaitohutohu Kaupapa Rawa

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Sir David Tweedie
Chairman
International Valuation Standards Council
41 Moorgate
London EC2R 6PP
United Kingdom

Email: CommentLetters@ivsc.org

IVSC ED Valuations of Specialised Public Service Assets Comments

The Treasury welcomes the opportunity to provide comments to the International Valuation Standards Council (IVSC) Exposure Draft *Valuations of Specialised Public Service Assets*. International Valuation Standards are adopted as national standards in New Zealand, in conjunction with New Zealand International Financial Reporting Standards (NZ IFRS), which are currently amended for public benefit entities as appropriate.

The Treasury prepares the consolidated Financial Statements of the Government of New Zealand, which includes a number of public service asset valuations. In New Zealand, where possible, a fair value (market value approach or income approach) is adopted. If this is not possible, and as there is no market, a common method applied to public sector entities is optimised depreciated replacement cost (cost approach).

The Treasury is of the view that the majority of specialised public service assets including land can be valued (i.e. that one of the current valuation approaches can be applied to most assets, following the hierarchy or market approach, income approach and then cost approach). Some heritage assets can be difficult to value (excluding land and buildings), given their unique characteristics, however a framework is required to determine whether a valuation can be completed. Further guidance in this area would be beneficial.

As a result, the Treasury is commenting on two areas in particular from the Valuations of Specialised Public Service Assets Exposure Draft (the exposure draft), being the valuation approach for land and valuations of specified cultural and heritage assets, in response to question 4 of the exposure draft.

1 The Terrace
PO Box 3724
Wellington 6140
New Zealand

tel. 64-4-472-2733
fax. 64-4-473-0982

www.treasury.govt.nz

Land

In New Zealand land is valued at market value (or a close proxy for remote conservation land), we are not aware of a situation where a market value is not available.

The exposure draft has an example of utility supply (paragraph 22) that states land may not have the same potential for more valuable alternative use as the subject land and public services are mandated or directed by government or other legal requirements (paragraph 23). Therefore it is important to establish the statutory framework around the provision of the public service in question, and obligations that this imposes on the continued use of the land (paragraph 24).

The exposure draft states *"Even if it could be reasonably expected that the necessary consents and permissions required for a more valuable alternative use could be obtained, unless there was also a reasonable expectation that the public service would either be no longer be required in this location or that it would be legally permissible, physically and financially feasible to relocate it, the market value normally would need to reflect the current use".*

The Treasury would be concerned if there was a change to land being valued based on market value using a highest and best use methodology. Our view is that no discounting should be applied for public service assets land (by not being able to apply highest and best use), as we have not encountered a situation where land is unable to be reliably valued this land can be sold just as easily as adjoining land. We believe land should therefore be specifically excluded from the finalised TIP and should be valued on a market based approach.

The exposure draft discusses separate values for land and buildings for financial reporting purposes (paragraphs 56 – 61). These paragraphs of the TIP would need reconsidering in light of our view that land can sold on an active market and therefore valued using a market approach. Accounting standards require the componentisation of assets and land would always be a component of the asset, so splitting this cost will continue to be a requirement for financial reporting purposes. Market valuation techniques for land allow this to occur.

Specified Cultural and Heritage Assets

The exposure draft includes Appendix 2, Historic Property, which discusses some cases where historic property may be incapable of reliable valuation (paragraph A11).

The Treasury is of the view most specified cultural and heritage assets can be reliably measured and valued. Specified cultural and heritage assets can be more problematic in terms of valuation for financial reporting purposes. More detailed guidance in this area would be useful regarding specified cultural and heritage assets more generally, rather than specific guidance on historic property.

In the New Zealand context, valuations of heritage buildings follow the usual methodology for valuation, with specialised building being valued following the cost approach. Other specified cultural assets are valued using market based evidence (ie museum collections and artwork). These valuations are often based on assets which are similar (but not the same). Where there is no market that provides evidence of selling price, significant judgements are applied in determining the values.

The Treasury believes that if items cannot be reliably measured or valued, then there needs to be a framework and a high hurdle would need to be met. These assets are likely to be specified cultural and heritage assets (ie founding documents for countries, ruins) and would need to have a framework to determine when valuations are not required. Some determining aspects of the framework could be:

- there is no market providing evidence of selling price,

- a replacement cost is not available (as no replacement available), or cannot be reliably measured and

- the income approach is unavailable as the asset is not income generating.

These aspects would ultimately mean that only a very small number of items would not be able to be valued, as most specified cultural and heritage assets would be able to be valued through a cost approach (i.e. sports facilities) or there is a market where proxy sales can be used to assign a value (i.e. artworks and collections).

We would be happy to discuss any of the matters raised in this letter further.

Yours sincerely

Nicola Haslam
Manager Fiscal Reporting