Queensland
Government

Department of
Natural Resources
And Mines

26 March 2013

Roy Farthing
Ernst & Young
8 Exhibition Street
Melbourne VIC 3000, Australia

Dear Roy,

Australasian Valuers-General response to IVSC Valuations of Specialised Public Service Assets Exposure Draft.

I refer to your request for feedback and comments relating to the *IVSC Valuations of Specialised Public Service Assets* Exposure Draft.

On the 1st December 2012 the Australasian Valuers-General were contacted to provide feedback relating to the recently released *Valuations of Specialised Public Service Assets* exposure draft. Responses were received from South Australia, Queensland and Victoria, which have been combined in this response. Additional detail contained in each of the state Valuers-General responses can be obtained from the individual submission provided for that jurisdiction. This letter provides a coordinated response from the Australasian Valuers-General to the exposure draft questions for respondents.

In general from all of the comments received, the overall opinion is that the Technical Information Paper is a comprehensive document that is easy to read, informative and provides sound guidance for the issues associated with the valuation of specialised public sector assets.

Question One: *Asset Ownership and Valuation*

We would be of the view, that once it has been decided that the asset is a specialised public service asset, then it should not matter who the owner of the asset is. The valuer should determine the fair value of the asset for financial reporting purposes at a particular date for a particular financial year. As long as the entity is going to continue with its business into the future, then there should be no concern. The value of similar assets may differ dependant on

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the status of the entity. For example if the valuation is undertaken on the basis of a specialist public service asset, on a depreciated replacement cost of land, infrastructure and buildings, it would be expected that the value may be different if the assessment was carried out on an income approach for a cash generating assets for a "For Profit" entity.

There will be some public sector agencies that must operate in a price-regulated industry, such as electricity and water supply. Property, plant and equipment assets owned by these entities generate cash inflows where there is no market price for such assets, fair value may be determined using either the depreciated replacement cost model or the income approach.

Question Two: *Market value and Investment value*
Do you consider that these distinctions are clearly explained?

The exposure draft is clear that the Market value adequately represents the Fair value for Specialised Public Sector Assets. It is considered that the draft does not properly distinguish between market value and investment value.
The investment value may reflect the return on investment of a particular asset for that owner that is different to the actual cost of acquiring the asset.
We consider that the distinction could be clearer based on the following information:

- More detail on the definition of Investment value including references to IVS 2 (3.4 and 3.11) and Special value.
- The value of an investment property must be at market value. The fair value of an investment property is to reflect the market conditions at the reporting date.

The Investment value should equate to Market value when a property is put to its highest and best use. It has to be assumed that the current public use is the highest and best use (HBU).
In a market value sense, in assessing the HBU, the valuer may decide not to assume the HBU to be the current public use.

Question Three: *Measure of the Social value of an asset.*

From a general valuation perspective we would reflect in the value of a property (based on market evidence) any enhancement or detriment that the property receives from a public sector asset, but it would be difficult to quantify the specific amount.
The construction of a specialised Public Sector Asset may have an impact on values in a local area particularly where a new government service is provided ie school, hospital, and police station. There may be an affect on the value of surrounding property becoming more sought-after for residential development or to bring forward further development opportunities not available previously.

The difference between the hypothetical value of the public purpose land (as if it was zoned for another highest and best use) and the value of the land as zoned for a public purpose (current public use) is considered to be the Community Service Obligation. This is the value the government is prepared to forgo (in terms of financial reporting) so that it has that land set aside for a public purpose.

Question Four: *Are all Specialised Public Service Asset Capable of reliable valuation?*

(a) We are of the opinion that all specialised Public Service Assets are capable of valuation, but there is a considered opinion that not all specialised Public Service Assets may be capable of reliable, repeatable and believable valuation when considered by other valuers and accountants. Also, it is recognised that the valuations of specialised public service assets may rely on subjective elements in the calculations that are based on professional judgment, and are more difficult to justify than the inputs used in the valuations of non-specialised assets.

(b) *Examples of Specialised Public sector assets capable of valuation:*

- **Parks and Gardens** – Where no feasible, viable or legal alternative higher use exists, then the land should be valued on the basis of its existing use.
- **Land under Roads -** In order to recognise land under roads as an asset three issues must be considered: ownership of the asset; how the asset is uniquely identified; and the way in which that asset is to be valued. . The collective Valuers-General from around Australia have agreed on a process to value Land Under Road for State Government Financial Reporting.

Question Five: *Historic Property Annexure*

We agree and consider that the Historic Property Annexure is more appropriately included under this TIP rather than being considered as a type of Real Property Interest under IVS 230. Although the IVSC may consider a more straight forward Chapter System such as:

1. Valuation of Private Sector Assets
2. Valuation of Public Sector Assets
    a. Valuation of Specialised Public Sector Assets
    b. Valuation of Iconic Public Sector Assets
        i. Valuation of Historic and Heritage Public Sector assets.

Many historic properties are in public ownership and additional guidance may initially be sort through the *Valuations of Specialist Public Service Assets TIP*.

Question Six: *Principal Categories of Assets*

We agree in principal to the categorisation of assets, but propose alternatives of a simple **three** tier structure or a measured **five** tier structure. This will simplify the categories and provide assets of the same type to be grouped and valued on a similar basis. The concept of grouping the specialised assets into categories is helpful to target and address specific issues that are similar to those assets in the category, and also agree that each of the assets in the category should have the same valuation approach as well.

The three tier approach

In our revised three tier proposal the Transport and Infrastructure category would generally be valued on an income approach with individual assets on a depreciated replacement cost approach. The Social Infrastructure would generally be valued on a DRC approach and the Sports and Recreation category would be valued considering the social benefit to the public.

Proposed suggested changes as described above to include:

1. Transport and infrastructure
- Roads (including Toll roads and tunnels)
- Rail
- Ports
- Electricity
- Gas
- Water
- Wastewater
- Communications

2. Social infrastructure
- Parliament and government buildings
- Law courts
- Prisons and penitentiaries
- Emergency services (fire, police and ambulance stations)
- Military bases, command centres, munitions depots, firing ranges, etc.
- Schools, colleges, universities and research institutions
- Hospitals
- Cemeteries
- Libraries
- Museums
- Arts and cultural centres

3. Sports and recreational infrastructure
- Botanical gardens
- City parks and gardens
- National parks and wilderness areas
- Conservation areas
- Sports Stadiums
- Playing fields

<u>The five tier approach:</u>
Heritage/Historic/Iconic assets
Assets on crown land within a Public Purpose Zone used for providing a Community Service
Assets on crown land considered for disposal
Assets on Crown Land but within a planning scheme zone for a 'commercial purpose'
Infrastructure Assets

1. **Heritage/Historic/Iconic assets** on crown land in a Public Purpose zone, some with caveats used for providing a community service eg Parliament House, Treasury Building, Government House, Shrine of Remembrance, Museum, Library, Some National parks, Land Under Water such as Coastal reserves, Marine Parks etc. Never to be sold or public would surely oppose any attempt to sell. Apply significant adjustment factor to land

value based on land sales from another market. Depreciate the reproduction cost of the improvements.

2. **Assets on crown land within a Public Purpose Zone used for providing a community Service** and without a need or desire to sell. Eg Schools, Police Stations, Fire Stations, Ambulance Stations, Hospitals, Community Housing, Zoos, Parks, Libraries, etc. Apply a lower adjustment figure to the land value, depreciate the replacement cost of the improvements.
3. **Assets on crown land considered for disposal** within public purpose zones that are for disposal within the next twelve months such as schools, houses, police stations, fire stations, ambulance stations, etc. Land would have lower adjustment factor for CSO and in some cases the buildings would be written down significantly.
4. **Assets on Crown Land or Freehold Title but within a planning scheme zone for a 'commercial purpose'** such as residential, commercial, industrial, Farming, Township etc. not expected to sell in near future and those that are expected to sell within twelve months. Land value based on comparable zoned market evidence with improvement based on depreciated replacement cost.
5. **Infrastructure assets** such as water, sewer, power, telecommunications, roads, Land Under Roads, Railways, Land Under Railways, gas, etc. will have different elements such as land and buildings that will require a separate value for both. Straight line or consumption depreciation curve will be used with the depreciated replacement cost approach.

On behalf of the Australasian Valuers-General, I would like to thank you for the opportunity to provide input to the IVSC Exposure Draft, having regard to the very good association we have over many years.

If you require any further information regarding this matter, please contact me on (07) 3330 5955.

Yours faithfully

Neil Bray
Valuer-General
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