Asset Valuation Methodology Review

Feedback Form

Introduction

In March 2024, the Hon. Ron Hoenig MP, Minister for Local Government, asked the Legislative Council's State Development Committee to undertake a review into the ability of councils to fund infrastructure and services (the Inquiry) and to provide recommendations for a way forward. The NSW Government responded to the Inquiry, supporting 15 of the 17 recommendations.

In response to recommendations 13 and 14 of the Inquiry the Office of Local Government (OLG) has prepared the *Local Government Asset Valuation Discussion Paper* which seeks feedback on the preferred model of asset valuation for the NSW local government sector.

The options considered in the Paper are:

- Option 1: Continue with the Fair Value model
- Option 2: Transition to the Cost model; or
- Option 3: Use a mixed approach with different models for different asset classes.

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Have your say

To have your say on this Discussion Paper, you may:

Online: Complete the online feedback form at https://www.olg.nsw.gov.au/programs-and-initiatives/financial-sustainability-reforms.

By email: Complete the Word version of the feedback form and email it to olg@olg.nsw.gov.au

By post: Complete the Word version of the feedback form and send it by post to:
Asset Valuation Methodology Review
Sector Policy and Frameworks Team
Office of Local Government
Locked Bag 3015
Nowra NSW 2541

Submissions will be accepted until close of business on Friday, 11 September 2026.

Feedback Form

Your Details	
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5. Which of the following best describes you? *(required field)*:	☐ Member of the public ☐ Council Metro ☐ Council Regional ☐ Council Rural ☐ County Council ☐ Councillor *(choose this option if responding as an individual, not on behalf of your council)* ☐ Joint Organisation/Regional Organisation of Councils ☒ Industry / advocacy organisation ☐ NSW State Government agency ☐ Other *(please specify)*: ____
6. Name of Organisation and Role/Position *(if applicable)*:	Chief Executive Officer Institute of Public Works Engineering Australasia (IPWEA)
7. I approve the publication of my personal information and submission on OLG's webpage *(required field)*:	☒ Yes - I approve the publication of my personal information and submission on OLG's webpage. ☐ Yes - I approve the publication of my submission only on OLG's webpage, and do not approve the publication of my personal information on OLG's webpage. ☐ No – I do not approve the publication of my personal information and submission on OLG's webpage.

Targeted Questions (Revaluation Model)
Question 1. What is your view on the revaluation model?

Answer 1.

The Revaluation Model is the preferred model for valuing infrastructure assets under the options provided by Accounting Standard AASB 116.

The Revaluation Model covers all financial transactions, focussing on assets, liabilities, equity, revenues and expenses, is externally focussed and shows true profitability and financial heath, gives a more complete picture facilitating strategic decision making.

Question 2.	**Do you support the continued use of the revaluation model for NSW councils?**
Answer 2.	☒ **Yes** ☐ **No**

Question 3.	**What are the advantages and disadvantages of continuing to use the revaluation model and how would your council prioritise them?**

Answer 3.

The Revaluation Model provides the following advantages for local governments:

1. For most local government infrastructure, being specialised or other assets for which there is no active market, the Revaluation Model uses the Cost Approach under AASB 13, based on the Current Replacement Costs of assets.
2. The Replacement Cost of local government infrastructure is essential to the forecasting of capital renewal needs for both the Long Term Financial Plan (LTFP) and the Asset Management Plans (AMPs) under the Integrated Planning and Reporting Framework. Historical asset prices do not provide support for these important plans
3. Asset Replacement Costs are important for asset managers to be able to determine optimal replacement timings and strategies for their assets. Councils would still be required to maintain Current Replacement Costs in order to undertake meaningful long-term asset management planning, effectively removing any perceived reduction in cost of moving to a Cost Model.
4. Depreciation based on Fair Value (using Current Replacement Costs) enables local governments to see if they are truly financially sustainable over the timeframe of their assets. Depreciation based on Current Replacement Costs does this by showing the consumption of asset value in terms of what it would cost to replace that asset consumption in current day terms. Reporting the consumption of infrastructure assets at Fair Value enables councils to recognise the true operational costs of its services to the community and properly consider issues of intergenerational equity. This information is vital if we are to assess the government entity as an organisation that will be able to replace its assets as and when required to "self sustainably" provide services over the long term, and be able to sustainably raise revenue, and make informed expenditure and service level decisions.

It is acknowledged that the Revaluation Model, and the consequential need to regularly update fair values, does have disadvantages in terms of:

1. High contractor costs can be incurred if asset registers are not maintained and valuations are outsourced,
2. Potential audit delays to verify the reliability of key estimates used in the process.

However, these disadvantages can potentially be addressed through the provision of centralised valuation resources and further training. This is explained further below.

Question 4. **Would the continued use of the revaluation model provide more relevant and reliable information to users of the financial statements about the effects of transactions, other events or conditions on financial position, performance and cash flow for councils over the other options?**

Answer 4. ☒ **Yes** ☐ **No**

For the majority of council infrastructure assets, being specialised or other assets for which there is no active market, Fair Value is calculated using the Cost Approach and is based on Current Replacement Cost under para B8 of AASB 13.

As explained above, depreciation based on Fair Value (current replacement cost) and remaining useful lives of assets provides more accurate information about the consumption of current asset value required to provide the services for the year. Consequently, the “bottom line” operating result after Fair Value depreciation shows the true sustainability of the organisation as an entity required to renew its assets as required to provide services over the long term.

Fair value based on replacement cost also enables the values held by finance managers in the organisation’s asset register to potentially align to the values required by asset planners for their asset management planning. The dual purpose of maintaining current replacement costs (for fair value measurement and asset planning) means there would be a real risk that a shift away from the Revaluation Model would seriously compromise a council’s ability to justify resourcing its asset management planning functions.

Question 5. **Can you provide modelling or statistics to support your views on the revaluation model?**

Answer 5. ☒ **Yes** ☐ **No**

IPWEA can draw on sector-wide data such as the Australian Local Government National State of the Assets technical report and NAMS+ utilisation data (used by more than half of Australian councils) for component-level lifecycle modelling.

IPWEA would welcome the opportunity to work with OLG to compile further sector-specific modelling – for example, comparative funding-gap analysis under fair value versus historical cost bases – drawing on member council data through its network.

Question 6. **What changes, improvements, additional guidance, training or support would assist your council if the revaluation model is retained?**

Answer 6.

It is current practice for many councils to engage outside valuation specialists to conduct periodic comprehensive valuations, simply because they lack the internal expertise and/or the time resources needed to conduct their own comprehensive valuations internally. In turn, this can sometimes lead to delays in finalising these valuations to the satisfaction of council's auditors as there is often a three way conversation required in conducting audit enquiries and obtain the required audit evidence.

Acknowledging these cost and time issues, it is proposed that the NSW Office of Local Government (NSWOLG) move to **simplify the revaluation process and provide the required resources and training** to enable councils, particularly in rural and regional areas, to conduct their own internal comprehensive valuations as required.

Specifically, NSWOLG should investigate the development and provision of:

- A **reference of standard replacement cost unit rates for common infrastructure items**. The development of the unit rates reference should be done by commissioning external valuation resources specialising in various infrastructure types and with expertise in the varying costs applicable in different regions of NSW. The unit rates reference should be refreshed every 3 or 5 years and reviewed by the NSW Audit Office before final publication

  It should be noted that unit rate data is not a new practice or resource, and such data is currently widely developed and maintained by external valuers for the provision of their existing valuation engagements.

- A **reference of Standard Useful Lives**. This reference should be developed by external consultants and provide details of expected useful lives for common infrastructure items applicable to different locations and environmental contexts in NSW. This, along with resources to assist in the identification of asset obsolescence and impairment, would enable councils to estimate the remaining useful lives of its assets, in compliance with AASB116.

  While IPWEA encourages councils to develop their own estimates of useful lives based on their own asset management practices, it is acknowledged that this is often a difficult task for under resourced councils. Accordingly, IPWEA has in the past provided resources to assist with this task, including some standard useful lives, and could again be engaged to assist OLG with this resource.

  It should be noted that the reference of standard useful lives is required for both the revaluation and cost models to enable the calculation of depreciation, and the annual assessment of useful lives under AASB 116.

- A **reference on the Assessment of Obsolescence/Remaining Useful Lives**. This could be developed alongside a policy change acknowledging the use of sampling/extrapolation and the use of aged-based estimates as a proxy for assets where condition is impractical to physically assess (e.g. subterranean assets). Note that the emphasis in this reference must be on the simple application for smaller councils, including the more widespread use of aged - based estimates. As above, IPWEA has resources available to assist NSWOLG with this.

- A **reference of applicable Annual Indexation Rates** to apply to fair values for reporting periods where a comprehensive valuation is not required. Again, these resources are currently available either from industry sources, or via the Australian Bureau of Statistics Produce Pricer Index for more common construction types.

  a. **Training on the calculation of Fair Value** using the references referred to above. Again, as IPWEA currently deliver similar training to councils across Australia, we would be available to assist NSWOLG in delivering this training to NSW councils. Many councils find it extremely difficult to find and employ AM practitioners. A funded program to increase the numbers of finance and engineering practitioners able to access AM courses would help to address this.
  b. Training for Elected Councillors, the Executive and Finance teams would aid in the understanding that information obtained through the Valuation method is a critical input into meaningful asset planning.

For those councils that elect to continue using external valuation contractors, there are also clear pathways to address apparent high cost of revaluations:

- Regular valuations and well-maintained asset registers significantly reduce the cost of subsequent valuations. It becomes a case of reviewing Unit Rates and Useful Lives and is conceivably done in-house without high-cost consultancies. This application of reference unit rates and useful lives would further simplify the in-house valuation approach, while building vital corporate knowledge of council's asset portfolio, improving the linkages between AMPs and LTFPs.
- Collaborative approaches (including use of Joint Organisations combined purchasing power) can substantially reduce costs of revaluations. This approach can also improve networking and knowledge sharing among member councils when a well-managed approach is applied.

As a further concession, NSWOLG, through the *Code of Accounting Practice and Financial Reporting*, could consider **permitting the use of Historical Cost (Cost Model) for assets with unlimited useful lives and assets which are not planned to be replaced**. For example, land assets and heritage assets. The use of Current Replacement Costs for such assets has little benefit for Asset Management Planning, LTFP projections and the calculation of depreciation.

Question 7. What else should be considered?

Answer 7.

It should be noted that the above measures are based on the majority of council assets valued at Fair Value under the Cost Approach in AASB 116. In practice this still leaves assets subject to the Income or Market Approaches, principally non-specialised buildings. For such assets it is acknowledged that external valuations may still be required to gather the required market evidence. This is already the case with Investment Properties regularly set to Fair Value under AASB 140.

Targeted Questions (Cost Model)

Question 8. What is your view on the cost model?

Answer 8.

The Cost Model, using Historical Cost asset values, is inadequate to demonstrate the true cost of services, through current value deprecation, and allow councils to accurately compile their LTFP projections in terms of capital renewals. The impact of using historical costs is exacerbated in the case of councils as they are notably asset - intensive, relying on infrastructure with very long useful lives.

By using historic cost, it is not possible for the rate of asset consumption to be demonstrated / calculated and therefore it is not able to address intergenerational equity.

Question 9. Do you support the cost model for NSW councils?

Answer 9. ☐ **Yes** ☒ **No**

IPWEA does not support the use of, or transition to, the cost model.

Question 10. What are the advantages and disadvantages of moving to a cost model and how would your council prioritise them?

Answer 10.

Advantages — simplicity, lower professional valuation costs, and reduced subjectivity — are real, but in IPWEA's view they do not outweigh the:-

Disadvantages - which include:

- **Understatement of asset worth and future funding needs.** Using the Discussion Paper's own worked example, a road built in 1980 for $2 million would continue to be depreciated at $40,000 per year under the cost model (totalling $2 million), versus depreciation reflecting a $20 million current replacement cost under fair value. This dramatically understates the true annual cost of consuming the asset's service potential, and risks entrenching under-funding of asset renewal in the Long Term Financial Plan — an outcome IPWEA's Position Paper explicitly warns against, particularly given the sector-wide shift away from untied grant funding toward competitive, project-based funding that already increases financial risks for councils.
- **Loss of relevance for decision-making.** Historical cost values do not reflect current replacement cost, market conditions or insurance requirements, and could mislead lenders, insurers and the community about the true condition and value of council infrastructure.
- **Compounding existing data weaknesses.** IPWEA's Position Paper identifies data quality, componentisation and useful-life review as the sector's core capability gap. A retrospective transition to cost would require rebuilding historical cost records for every asset — a substantially larger and riskier data exercise than continuing to improve current revaluation practice. Further, it would significantly reduce the focus on understanding and capturing all of a council's assets.
- **Perceived reduction of costs / resources to undertake Revaluations would only be realised with the abandonment of meaningful asset planning**. The replacement cost, condition, function and capacity of assets would still need to be continually monitored and reported to produce meaningful asset renewal planning, eroding any perceived reduction in cost.
- **Increases risk to State and Federal government funding bodies** of councils seeking funding for renewal projects as the required funding would not be understood by a council until well into the development of a project scope.

Therefore IPWEA <u>does not support</u> the use of, or transition to, the cost model.

Question 11. **Will the introduction of the cost model result in more relevant and reliable information to users of the financial statements about the effects of transactions, other events or conditions on financial position, performance and cash flow for councils over the other options?**

Answer 11. ☐ **Yes** ☒ **No**

The cost model is based on out of date historical cost information which can distort decision making and assessment of sustainability in the longer term. As councils are notably "infrastructure heavy", controlling assets with longer useful lives typically of 10 to 100 years, historical cost information can become quite out of date and irrelevant to current day decision making.

Furthermore, introducing the Cost Model may:

- Interfere with ability to benchmark council performance against similar councils in other states.
- Create confusion within communities trying to understand why the budgeted renewal / rehabilitation costs are far in excess of the depreciated actual cost.

Question 12. **Can you provide modelling or statistics to support your views?**

Answer 12. ☐ **Yes** ☒ **No**

Question 13. **Does your council have sufficient historical information available to report a 'true historical cost' for the transition of current assets to the cost model?**

Answer 13. ☐ **Yes** ☐ **No**

Not applicable

IPWEA's consistent feedback from the sector is that most councils, and particularly smaller and rural councils, do not hold reliable acquisition-cost records for infrastructure constructed or acquired prior to 2006 (when the revaluation model became mandatory under the Code). This is consistent with the very data and record-keeping weaknesses that IPWEA's Position Paper identifies as the sector's principal challenge; a transition of this nature would place additional strain on an already stretched data capability base, rather than resolve it.

Question 14. **What is your view on a phased approach to the cost model, where certain asset classes are transitioned over time so that councils have time to prepare systems and processes and work with their auditor?**

Answer 14.

IPWEA does not support the cost model in principle and therefore does not support a phased transition to it.

Question 15. If a phased approach was supported, what timeframe would you suggest to phase in the cost model?

Answer 15.

Not applicable, as IPWEA does not support the cost model.

Question 16. If a phased approach was supported, what asset classes should be prioritised?

Answer 16.

Not applicable, as IPWEA does not support the cost model.

Question 17. If there was a change in local government valuation approaches, what finance system and/or implementation timelines and processes would council need to undertake?

Answer 17.

IPWEA does not support the cost model. Any change of this scale would require substantial investment in finance systems, retrospective data reconstruction, staff training, and audit engagement — a significant diversion of scarce council resources.

Question 18. What training, guidance or support would council need if the cost model was implemented?

Answer 18.

IPWEA does not support the cost model. IPWEA considers this diversion is better avoided; the same training and capability investment (as outlined under Option 1) would deliver greater sector benefit if applied to strengthening current revaluation practice instead.

Significant training would be required across the whole of a council, from the Elected Council, the Executive, CFO, Finance Teams and Asset Managers, Asset Officers and key Operational staff. The resources required for any transition would far outweigh any training required to improve the current model.

Targeted Questions (Mixed Model)

Question 19. What is your view on a mixed valuation approach?

Answer 19.

IPWEA does not support the use of a mixed valuation approach. The mixed valuation approach essentially uses historical cost for the items of infrastructure for which, it has been argued above, current replacement costs are essential for meaningful and accurate LTFP and AMP projections, as well providing a depreciation result which is truly indicative of long term sustainability.

The mixed valuation approach is based on the **flawed assumption that Fair Value is only relevant to assets that will be sold**. This is incorrect. As detailed above, Fair Value uses current replacement cost for most council infrastructure, which is highly relevant to the financial management, asset management and financial sustainability reports and decisions of local government.

The mixed valuation approach does not do away with the valuation burden entirely and still has councils undertaking costly and time-consuming valuations on assets for which there may not be any need for current costs, particularly where these assets will not be sold in the near term (e.g. community land and specialised buildings).

Question 20. Do you support the use of a mixed valuation approach?

Answer 20. ☐ **Yes** ☒ **No**

IPWEA does not support the use of a mixed valuation approach in the form outlined in the Discussion Paper's example. IPWEA notes that the current revaluation model already applies different valuation techniques appropriate to different asset types — a market approach for non-specialised land and buildings, and a replacement cost approach for specialised infrastructure — within a single, consistent measurement basis (fair value). IPWEA does not see a clear benefit in formalising a second, separate cost-based measurement basis for infrastructure classes, when the practical differentiation OLG is seeking is already achieved within the existing revaluation model.

Question 21. Which asset classes would you consider appropriate for measurement under the revaluation method and which asset classes under the cost method?

Answer 21.

As discussed above, all classes, should be measured under the revaluation method, with the possible exception of non-depreciable assets and other assets for which there is no intention to replace.

Question 22. If a phased approach was supported for the asset classes falling under the cost approach, what timeframe would you suggest to phase in the cost model?

Answer 22.

Not applicable, given IPWEA does not support asset classes moving to the cost approach.

Question 23.	**If a phased approach was supported, what asset classes should be prioritised?**
Answer 23. Not applicable, given IPWEA does not support asset classes moving to the cost approach.	
Question 24.	**What are the advantages and disadvantages of implementing a mixed valuation approach and how would your council prioritise them?**
Answer 24. ☐ **Yes** ☐ **No** Whilst there may be some reduction in compliance burden for asset classes moved to the cost approach this is far outweighed by: • **Increased systems and process complexity** from maintaining two measurement bases concurrently, including the administrative burden of tracking which classes sit under which model and applying different revaluation and impairment rules to each; • **Partial undervaluation risk,** where infrastructure moved to cost becomes progressively less representative of its true replacement value over time, while fair-valued assets remain current — creating an inconsistent and potentially misleading picture of council financial position; • **Loss of the funding-gap visibility** that depreciation under fair value provides for the sector's largest infrastructure classes, which IPWEA regards as the single most important information output of the current model.	
Question 25.	**Would the mixed valuation approach result in more relevant and reliable information about the effects of transactions, other events or conditions on financial position, performance and cashflow for councils over the other options?**
Answer 25. ☐ **Yes** ☒ **No** Refer to answers 3 and 8 above. IPWEA's assessment is that a mixed approach, applied as illustrated in the Discussion Paper, would reduce the relevance and reliability of financial information for the sector's largest and most service-critical infrastructure asset classes, while adding operational complexity without a clear offsetting benefit over the status quo.	
Question 26.	**If there was a change in local government valuation approaches, what system and/or implementation timelines, costs and processes would council need to undertake?**
Answer 26. IPWEA does not support the use of a mixed valuation approach.	

As with Option 2, a transition of this nature would require significant investment in dual valuation systems, staff training, and data reconciliation processes, for asset classes where IPWEA does not consider a change in measurement basis to be warranted.	
Question 27.	**Do you have any modelling or statistics to support your views?**
Answer 27.	☒ **Yes** ☐ **No** As above (Option 1 and Option 2), IPWEA can draw on sector data such as the 2026 National State of the Assets technical report and NAMS+ usage data
Question 28.	**What training or guidance would council need if a mixed valuation approach was implemented?**
Answer 28.	IPWEA's recommendation remains consistent in that this investment be redirected to strengthening consistent application of the current revaluation model across the sector.