

(2)(a)

There were no government agencies that had a material change in valuation methodology that impacted net worth of the total public sector by more than \$100 million in any of the years ending 30 June 2008 to 2011. However, for the year ending 30 June 2009, the adoption of Australian Accounting Standards Board (AASB) 1049: *Whole-of-Government and General Government Sector Financial Reporting* required agency-level fair value estimates of 'land' and 'property, plant and equipment' to be used in place of some agency historical cost valuations for whole-of-government balance sheet reporting. The agency valuations used for AASB 1049 reporting from 30 June 2009 are shown in the table below and were provided by each of the identified agencies. These valuations were reviewed by the Office of the Auditor General as part of the audit of the 2008-09 *Annual Report on State Finances*.

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### REVALUATION OF INFRASTRUCTURE

Impact on Net Worth at 30 June 2009

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	Cost \$m	Fair Value \$m	Impact on net worth \$m
Land			
Water Corporation	214	379	165
Bunbury Port Authority	18	92	74
Fremantle Port Authority	42	107	66
Albany Port Authority	3	12	9
Esperence Port Authority	1	10	9
Port Hedland Port Authority	3	4	1
<i>Total Land</i>	<i>281</i>	<i>605</i>	<i>323</i>
Property, plant and equipment			
Water Corporation	10,235	16,965	6,729
Western Power Networks	4,011	5,919	1,908
Verve	1,297	1,521	224
Esperence Port Authority	47	182	136
Fremantle Port Authority	114	209	95
Dampier Port Authority	67	107	40
Port Hedland Port Authority	70	95	26
Bunbury Port Authority	58	81	23
Albany Port Authority	30	48	18
Broome Port Authority	22	30	8
<i>Property, plant and equipment</i>	<i>15,951</i>	<i>25,158</i>	<i>9,207</i>
<b>Total</b>	<b>16,233</b>	<b>25,763</b>	<b>9,530</b>

Note: Columns/rows may not add due to rounding.

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(2)(b)

The impact of the AASB 1049 fair value valuation reporting for the year ending 30 June 2009 is summarised in the following table.

<b>REVALUATION OF INFRASTRUCTURE</b>			
Impact on Net Worth at 30 June 2009			
	Cost \$m	Fair Value \$m	Impact on net worth \$m
Land			
Water Corporation	214	379	165
Bunbury Port Authority	18	92	74
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Note: Columns/rows may not add due to rounding.

(2)(c)

AASB 1049 became effective for financial reporting periods beginning on or after 1 July 2008. The key objective of the Standard is to harmonise Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) to produce a single set of government financial reports that are comparable with budget statements.

One consequence of the adoption of this Standard was that assets be measured at fair value for general government and whole-of-government reporting, while individual agencies could continue to utilise the option in the accounting standards of reporting assets at cost in their annual reports.

Material asset classes subject to the need to revalue on a fair value basis for AASB 1049 purposes included 'land' and 'property, plant and equipment'.

This valuation methodology has been in place for all such AASB 1049 reporting for periods since the year ending 30 June 2009, including forward estimates published in the annual State Budget Papers and mid-year reviews since the September 2009 release of the 2008-09 *Annual Report on State Finances*.

Note 3 (sections (l) and (x)): *Summary of Significant Accounting Policies* to the AASB 1049 statements for the year ending 30 June 2009, published in Appendix 1 of the 2008-09 *Annual Report on State Finances*, outlined the fair value valuation policy applied for the first time in that year. Please see extracts from this Note below for information.

**EXTRACTS FROM NOTE 3: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES* TO THE 2008-09 *ANNUAL REPORT ON STATE FINANCES***

**(l) Land, and Property, Plant and Equipment and Infrastructure**

**Initial recognition and measurement**

All items of property, plant and equipment and infrastructure are initially recognised at cost.

**Subsequent recognition and measurement**

After initial recognition, the public sector has adopted the following measurement models.

<b>Class of Asset</b>	<b>Subsequent Measurement</b>
Land (including land under roads)	Fair value
Buildings	Fair value less accumulated depreciation and accumulated impairment losses
Infrastructure – road network	Fair value less accumulated depreciation and accumulated impairment losses
Infrastructure – water storage and distribution	Fair value less accumulated depreciation and accumulated impairment losses
– electricity generation and transmission	
– other	
Plant, equipment and other	Fair value less accumulated depreciation and accumulated impairment losses

## **Land**

Land (excluding improvements) is valued at either:

- current market buying price, taking into account the nature of the parcel, any legal restriction on use, the opportunities for or impediments to development that are inherent to the specific parcel of land, any other constraints that exist in respect of that land and any special attributes that the land may possess (value in use); or
- current market value (selling price) based on its feasible alternative use taking account of the cost of achieving the alternative use.

The fair value of land under roads (i.e. land within road reserves) is based on the market value of the land adjoining the road reserve. The land values are provided by geographic location on an annual basis by the Land Information Authority as follows:

- Metropolitan area - median value for single residential land for each Local Government Area. Land parcels up to 899 square metres are assumed to have a single residential zoning;
- South West region - nominal unimproved valuation rates covering the south west of the State from Geraldton to Esperance; and
- Balance of State – nominal unimproved valuation rates based on leasehold rates for Crown land.

The most significant assumptions in estimating fair value are made in assessing whether to apply the existing use basis to assets. Professional judgement by the valuer is required where the evidence does not provide a clear distinction between market type assets and existing use assets.

## **(x) Initial application of Australian Accounting Standards**

The public sector has applied the following Australian Accounting Standards and Australian Accounting Interpretations effective for annual reporting periods beginning on or after 1 July 2008:

- AASB 1049: *Whole of Government and General Government Sector Financial Reporting*. This new Standard sets out requirements for the form and content of whole-of-government and general government sector financial reports. AASB 1049 harmonises Australian Generally Accepted Accounting Principles and Government Finance Statistics reporting in a single set of financial reports. The main impact on the financial statements was the valuation of some infrastructure assets at fair value instead of at cost.