

8.1 REVALUATION OF ASSETS

Contact Person: Dale Welsh

Why is this matter confidential?

Subject to an order pursuant to Section 90(3)(b) of the Local Government Act 1999, this matter is confidential because the report relates to investment of council money in the 2022/23 Annual Business Plan.

A. COMMITTEE TO MOVE MOTION TO GO INTO CONFIDENCE

No action – this motion passed in the open section.

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B. THE BUSINESS MATTER

8.1 REVALUATION OF ASSETS

Responsible Executive Manager : Dale Welsh

Report Author : Trisca Price

Delegated Authority : Matters delegated to the Committee.

Attachments :

- 1. City of Playford Valuation of Council Assets Report
- 2. Valuation Protocol – Significant Valuation Uncertainty
- 3. Five Year Revaluation Cycle

Purpose

The purpose of this report is to:

- Table a copy of the City of Playford Valuation of Council Assets report as prepared by Liquid Pacific Asset Consultants.
- Discuss the work underway to develop an Asset Capitalisation and Accounting Guideline including a revision to the economic useful lives.
- Summarise the combined financial impacts of the external asset revaluation and revised economic useful lives.
- Seek Corporate Governance Committee support for a proposed cyclical revaluation of Council assets into the future.

STAFF RECOMMENDATION

The Committee:

- 1) Note the City of Playford Valuation of Council Assets Report.
- 2) Support the proposed economic useful lives and note these will be incorporated into the new Asset Capitalisation and Accounting Guideline.
- 3) Note the combined financial impacts of the external asset revaluation and revised economic useful lives.
- 4) Support the proposed timeline for cyclical revaluation of Council assets into the future.

Relevance to Strategic Plan

Periodic external revaluation of Council assets and useful lives:

- Ensures compliance with S127 (2b) of the *Local Government Act 1999* and Australian Accounting Standard *AASB116 Property, Plant and Equipment*.
- Provides transparent financial reporting to the community to demonstrate long term financial sustainability.
- Enables sufficient funding for asset renewal so as to maintain service levels.
- Enables progressive, rather than a sudden, adjustment to rates.

Relevance to Community Engagement Policy

There is no requirement to consult with the community.

Background

Australian Accounting Standards require assets to be periodically independently revalued. Generally accepted accounting practice is for this to occur at least once every five years. Council assets were last independently valued in 2016 so an external revaluation is required in 2021.

In December 2020, the Committee considered a report outlining various valuation methodologies, concerns with the current valuation methodology and recommendations about a future valuation methodology. Committee's recommendations at that time were:

- Re-Tender the 2020/21 Valuation of Council Assets using the same methodology underpinning the 2016 revaluation i.e. the Consumption Based Valuation Approach.
- Apply the external valuation of Infrastructure Assets at 30 June 2021 and Land, Building and Park Assets at 1 July 2021.
- Management undertake further detailed analysis into the most appropriate valuation methodology moving forward. Pending this analysis, any potential implication of a change in asset valuation methodology be discussed with Corporate Governance Committee at a future date.

Management re-tendered the 2020/21 external valuation in line with Committee recommendations. The valuation industry advised the Consumption Based Valuation Approach was not consistent with their valuation principles and the majority would only undertake a revaluation on the principle of Fair Value using Current Written Down Replacement Cost consistent with the requirements *AASB116 Property, Plant and Equipment*.

Given the need to further consider the asset valuation methodology, and to allow sufficient time to assess potential rating impacts to the community, the external revaluation was reprioritised to 2021/22 with an effective date of 1 July 2021. The 2020/21 Financial Statements were therefore prepared on the basis of the Consumption Based Valuation Approach broadly in line the Committee's preference outlined above.

The asset values adopted in the 2020/21 Financial Statements were audited as part of the 2020/21 external audit. Whilst no issues were raised with respect to the asset valuations, External Audit identified some assets where the economic useful lives exceeded Council policy. This audit finding was reported to the Committee in October 2021 along with Management's response that this matter would be reviewed and actioned in conjunction with the upcoming external revaluation.

Current Situation

2021-22 External Revaluation

Liquid Pacific Asset Consultants (Liquid Pacific) were appointed to undertake the 2021/22 external revaluation. The scope included a revaluation of land and buildings, a review of unit rates for infrastructure assets and an independent assessment of economic useful lives to be used as one input into Council's annual assessment of economic useful lives.

Liquid Pacific submitted the City of Playford Valuation of Council Assets Report on 14 January 2022 as provided in Attachment 1.

The 2021/22 external valuation is based on Fair Value consistent with AASB116. Fair Value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The valuation approach to estimating Fair Value depends on the extent to which a market exists resulting in the following hierarchy of valuation approaches to estimate Fair Value:

- Sales Comparison/Market Approach (considers sales of similar properties)
- Income Approach (considers income and expense data relating to the property)
- Cost Approach (current replacement cost regardless of asset condition)

For the 2021/22 external valuation the following valuation approaches have been applied:

Asset Class	Valuation Approach
Land & Land Improvements	Market
Building & other Structures	Market, Income, Current Replacement Cost
Infrastructure - Streetscape	Current Replacement Cost
Infrastructure – Parks & Reserves	Current Replacement Cost
Infrastructure - Stormwater	Current Replacement Cost
Plant & Equipment	At Cost
Office Furniture & Equipment	At Cost

Valuing the Infrastructure asset classes using Current Replacement Cost is in line with generally applied local government sector practice and the valuation industry protocols. Compared to the Consumption Based Valuation Approach, a greater proportion of Council's assets will be recorded at current replacement cost as opposed to historic cost. The approach improves inter-generational equity and provides improved financial sustainability over the long term as asset renewals are more appropriately funded.

Of note, the 2021/22 external valuation also incorporates a move to the following assumptions:

- Unit rates inclusive of project costs. Project costs reflect civil construction costs and associated costs of undertaking works to replace assets, professional fees, insurance costs, cost of meeting work safety regulations, traffic management and other ancillary service provisions. Typically project costs range between 20%-30% of the construction cost and had been excluded as part of the previous valuation approach.

- Unit rates based on brownfield costs i.e. the cost to replace an asset on a site already developed and with the same footprint as the existing asset. Previous valuations were based on greenfield costs i.e. the cost to construct on land that has not previously been developed. Brownfield costs are more reflective of the assets being valued.

Impairment for Covid19 Uncertainty

The COVID-19 pandemic, and responses to moderate the economic outcomes of the pandemic, continue to impact communities and businesses alike. Significant stimulus funding to boost construction activity has resulted in supply shortages of key materials, resource constraints within the construction sector, delays in construction and upward pricing pressure. The impact of these factors on the 2021/22 external revaluation is uncertain.

In response to the COVID-19 pandemic, the Australian Property Institute released a Valuation Protocol – ‘Significant Valuation Uncertainty’ included for reference in Attachment 2. The Valuation Protocol states that market uncertainty (i.e. arising as a result of an event external to the valuation process) is not typically measurable as the uncertainty arises from the inability to observe and reconcile the impact of the event on market prices as at the valuation date. The Valuation Protocol requires valuers to assess the significance of market uncertainty and report as a disclosure in their valuation report.

Liquid Pacific provided a Significant Uncertainty Disclosure for COVID-19 in Sections 1.4 and 9.6 of the External Revaluation Report. In their opinion, there remains a risk asset values are exposed to systematic volatility as a result of COVID-19 which could vary the asset values by as much as 10%. The estimate is based on reduced utility due to COVID-19 over a 5 year period as detailed in the table below.

Year	1	2	3	4	5
% Full Utility	85%	85%	90%	95%	100%

Whilst impairment is a Management decision, the Valuer recommends 10% impairment across the portfolio.

In considering whether to impair asset values by 10% Management sought evidence of reduced asset utilisation or significant uplift in contracted prices.

- **Asset utilisation** - Stormwater infrastructure is unlikely to be impacted by lower utilisation as its use is largely environmentally driven. There is no evidence of reduced use of streets, paths and local parks and it could be suggested these are being utilised more as residents work from home and indoor public activities are restricted.
- **Contract prices** – Whilst recent contracts for parks and reserves show pricing uplift in the order of 30% arising from high demand due to government stimulus funding these higher rates are not reflected in the 2021-22 external revaluation. Other contract prices remain relatively stable and in some cases are locked in under long term procurement contracts.

On the basis of the above observations, an impairment of asset values at this time is not proposed. However, given the changing nature of the COVID-19 pandemic in South Australia, Management will continue to monitor asset utilisation and contract pricing and if necessary consider a future asset impairment.

Economic Useful Lives

Consistent with the requirement to review economic useful lives on an annual basis, Management has revisited the reasonableness of economic useful lives.

As part of the review, consideration has been given to industry practices, publicly available ranges for other local councils, useful life analysis provided in the 2021/22 external valuation report and the useful life ranges provided in the Local Government Association of SA's Infrastructure Assets Useful Lives SA Councils' Current Practices Report as drafted by Tonkin Consultants in 2014 (the LGA Report). The review also took account of the Asset Management team's professional judgement, knowledge and experience of asset condition, asset replacement profiles and engineering standards. The review also took into account the community impact of changes to economic useful lives.

Taking the above into account, revised economic useful lives have been assessed for each asset type. The current and proposed useful life ranges for each asset class are summarised in the table below.

Asset Class	Current Policy	Proposed Policy
Building & Other Structures	5-75	10-100
Infrastructure - Stormwater	10-100	10-120
Infrastructure - Streetscape	10-100	10-100
Infrastructure – Parks & Reserves	10-100	10-100
Plant and Equipment	2-15	2-15
Office Furniture & Equipment	2-15	2-15
Land	infinite	infinite
Infrastructure - Formation	infinite	infinite

The economic useful life ranges on most asset classes remains in line with the current policy.

The slightly longer range of economic useful lives on the Buildings and Other Structures asset class recognises a greater level of asset componentisation. Whilst the range is broader, many components will have shorter economic useful lives than previously applied which better reflects the actual life of those components.

A slightly longer range of economic useful lives is proposed for stormwater assets. The economic useful lives for long-lived underground pipes is not directly observable and hence remains uncertain. The LGA Report prepared in 2014 indicated the useful life range for reinforced concrete pipes to be between 60 and 150 years with an average of 98 years. Asset maintenance approaches for pipe infrastructure continue to advance (e.g. pipe relining, scaling, targeted preventative maintenance based on CCTV inspections, etc.) which have the potential to extend useful lives over time. A blend of 100 and 120 year useful lives are proposed for Council's stormwater pipes to balance the findings of the peer review with the need to moderate the rating impact for the community. Management acknowledges this is towards the higher end of the peer range and commits to undertaking further detailed analysis of stormwater useful lives in 2022-23.

The proposed economic useful lives have been applied to all assets within the Asset Register, effective 1 July 2021 to fully address the External Audit findings. A summary of the adjustments by asset class are detailed in the table below.

Asset Type	Current Asset Register	Proposed 2021-22
Building & Other Structures	8-152	10-100
Infrastructure - Stormwater	1-203	10-120
Infrastructure - Streetscape	1-197	10-100
Infrastructure – Parks & Reserves	9-180	10-100
Plant and Equipment	2-29	2-15
Office Furniture & Equipment	1-40	2-15
Land	infinite	infinite
Infrastructure - Formation	infinite	infinite

The proposed economic useful lives will form part of an Asset Capitalisation and Accounting Guideline (the Guideline) which is being developed to replace the Property, Plant and Equipment Policy that was decommissioned as part of the ICAC review. The Guideline will be finalised and formally adopted by the end of June 2022. Galpins have been engaged to provide independent assurance that the Guideline, including the target economic useful lives are in line with industry benchmarks.

The Draft Report suggests that any policy changes or other decision impacting depreciation should be implemented with careful consideration of the reliability/accuracy of evidence supporting the change and the impact on ratepayers both now and into the future. The Draft Report confirms the sections of the Guideline reviewed are consistent with good practice in the local government sector, that the useful life ranges are consistent with other councils and that the resultant depreciation expense is consistent with the State average.

Financial Impacts

The table below compares the written down value of assets at 30 June 2021 to those to be adopted at 1 July 2021.

Written Down Value	30 Jun 2021 \$000	01 Jul 2021 \$000	Movement \$000
Building & Other Structures	126,793	82,734	(44,059)
Infrastructure - Stormwater	150,021	266,683	116,662
Infrastructure - Streetscapes	468,561	560,781	92,220
Infrastructure - Parks & Reserves	60,114	58,663	(1,451)
Land	451,478	501,441	49,963
Right-of-Use Assets	258	258	-
Plant & Equipment	13,901	13,901	-
Total	1,271,126	1,484,461	213,335

Overall, this represents an increase in gross asset values of \$213.3 million. Whilst this shows a significant uplift in stormwater and streetscapes asset classes, the unit rates applied are considered reasonable when compared to the contract renewals currently experienced by Council and are within ranges used by other council's. Underlying reasons for this uplift are the inclusion of project costs in the unit rates and the move to a Fair Value method whereby a greater proportion of the assets are now recorded at Current Replacement Cost.

The table below outlines the combined depreciation impact of the external revaluation and the application of the proposed economic useful lives:

Depreciation Impact	2021-22 \$000
Building & Other Structures	169
Infrastructure - Stormwater	1,214
Infrastructure - Streetscapes	1,584
Infrastructure - Parks & Reserves	273
Land	-
Right-of-Use Assets	-
Plant & Equipment	-
Total	3,240

Management has commenced consideration of impacts to the Annual Business Plan and is working with Council to understand its preferences in this regard.

Future Action

Management will keep the Committee updated on impacts on the Annual Business Plan and Long Term Financial Plan arising from the asset revaluation.

To moderate the financial and community impacts of external revaluations into the future, Management proposes to revalue asset classes on a cyclical 5 year rolling basis. Under this approach:

- Each asset class will be externally revalued at least once every five years by an external valuer.
- Annual indexing (using the Local Government Price Index) or a desktop revaluation (using unit rates from current contracts) will be applied internally every other year.
- Useful lives will continue to be reviewed annually.

Attachment 3 outlines the proposed cyclical revaluation schedule which has taken into account the following considerations:

- Due to the extensive revaluation undertaken for 2021/22 and the ongoing uncertainty of the impact of COVID-19, no asset class will be externally revalued in 2022/23.
- Parks and Reserves will be prioritised in year 2 to determine if the current uplift in current contract rates is permanent or a temporary impact of COVID-19 stimulus.
- Buildings and Other Structures will also be prioritised in year 2 given the significance of the 2021/22 valuation adjustment and the potential impact of COVID-19 market values.
- Infrastructure assets will be revalued in the latter 2 years of the revaluation cycle given Management's ability to apply a desktop revaluation in the other years.
- Land will be the last asset class due to its valuation having no impact on rates as a non-depreciable asset class.



City of Playford

Valuation of Council Assets

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Valuation Report

Version: Final v1.0
Date: Friday, 14 January 2022
Valuation: Financial Reporting + Risk Management
Contact: Martin Burns - Project Manager
Office: South Australia

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**Acknowledgement of Country**

In the spirit of reconciliation Liquid Pacific, as valuers of land, acknowledge the Traditional Custodians of country throughout Australia and their connections to land, sea and community. Specifically, we recognise the Kaurna people as the traditional custodians of the area now known as Playford Council. We pay our respect to their elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today

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City of Playford

Valuation Report – 1 July 2021

1.0 INTRODUCTION

This valuation has been prepared under instructions from the City of Playford (Council) to determine the fair value of fixed assets for financial reporting and reinstatement value for risk management purposes. Our instructions cover the valuation of Council's land and building improvements as defined by appendices to this report. The subject properties comprised a portfolio of metropolitan operational and community assets and associated support facilities located throughout the local government area.

In addition, Council has requested a review of its schedule of 'Unit' rates. These rates reflect the replacement cost per unit of measure to replace nominated civil infrastructure assets. Where the replacement cost is defined as the cost as new. These assets have not been valued by Liquid Pacific at fair value; rather our contribution is to provide the cost input and assess useful lives. As such, this report deals primarily with the asset classes, land, and buildings.

1.1 Valuation Summary

The majority of assets were valued using the cost approach to valuation and where market inputs were observable, the comparison of sales and income approaches to valuation were utilised. Assets were defined as being either Level 2 or Level 3 inputs in accordance with Australian Accounting Standard, AASB13, Fair Value. No assets were deemed to be Level 1.

Table 1 - Summary

Valuation Framework		
Instructing Entity		City of Playford
Purpose of Valuation		Financial Reporting & Risk Management
Date of Valuation		1 July 2021
Fair Valuation	Buildings - Level 2	\$29,790,077
	Buildings - Level 3	\$47,059,716
	Land	\$498,871,000
Insurance Value	Buildings	\$173,473,045
Valuation Methodology	Primary Method	Cost Approach
	Secondary Method	Comparison of Sales Income

* Building values include site improvements

** Values are exclusive of GST

On receipt of this report, the Instructing Party acknowledges and agrees to the definitions and qualifications set-out within this document.



City of Playford

Valuation Report – 1 July 2021

1.2 Valuation Category

Instructions required the inspection of all assets and the analysis of the relevant valuation influencing factors (inputs). As a result of the Australian Property Institute redefining the nomenclature associated with the definition of valuation, and what constitutes a valuation, this project may be appropriately classified as a Tier 1 Analysis - Full Valuation.

1.3 Assumptions

In providing our advice we have made certain assumptions about the properties within the portfolio and their legal composition if put to market. The following assumptions hold true unless they have been specifically addressed elsewhere in this report:

- a) The properties are saleable and marketable assets on their own legal title and could be put to market as at the date of valuation.
- b) Sites are not contaminated.
- c) No buildings, site improvements or access points encroach on the boundaries of properties.
- d) The entity is a going concern without any intention or need to liquidate or otherwise wind up its operations or undertake a transaction on adverse terms.
- e) All assets are operating in full compliance with the legislative and industry regulations to which they are expected to comply.
- f) All improvements have been constructed in accordance with relevant legislative and other regulatory requirements and have been approved for development by the appropriate planning authorities and can be replaced under the current planning regulations which overlay the site(s).
- g) The properties are not subject to any orders, encumbrances, easements or any other interests other than those registered against the property title.

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City of Playford

Valuation Report – 1 July 2021



1.4 Extraordinary Matters

COVID-19

The real property market has been subject to a high degree of uncertainty due to the COVID-19 Pandemic. Valuation is an evidence-based process and singular transactions in the market can take up to three months before they are publicly registered. Further, to define market trends can take many months or even years after an event to enable a correct interpretation.

As this valuation is relevant as at 1 July 2021 it falls into the tail-end of the pandemic cycle for that time. And, whilst markets have fluctuated, real estate asset values are holding at, or exceeding pre-COVID levels, suggesting no impairment is warranted. Nonetheless, it is our opinion there is a risk asset values remain exposed to systematic volatility as a result of COVID-19, and recommend an impairment of 10% across this portfolio.

As at the reporting date, we are fully aware the pandemic has not run its full course. In theory, events subsequent to the valuation date should be ignored, and have been for the purpose of this report.

Valuation Uncertainty

The Australian Property Institute (API), in response to the current COVID-19 pandemic, has released a new valuation protocol – 'Significant Valuation Uncertainty'. We have attached this document for your perusal and wish to draw your attention to the causes of market uncertainty described therein. This valuation should be viewed in the context of the API Protocol.

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City of Playford

Valuation Report – 1 July 2021



2.0 VALUATION DATE

Valuations for fair value are operative as at 1 July 2021. Values for insurance are operative as at 1 July 2021 and current until 30 June 2022.

Taking into consideration the current pandemic, but assuming no future legal, regulatory, or physical changes will occur to Council's portfolio or surrounding development, fair value opinions formulated before the valuation are considered relevant up to the date of valuation. However, the values set out herein cannot be relied upon after the date of valuation and for any other purpose.

We strongly recommend if values are to be adopted after the expiration of the relevant period a review of the current market be undertaken to assess potential changes in the supply and demand for the assets and the impacts (if any) these may have on asset values.

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City of Playford

Valuation Report – 1 July 2021

3.0 VALUATION THEORY

Liquid Pacific has been guided in its valuation methodology by reference to the following relevant policies and guidelines

Table 2 – Table of Authorities

Authority	Regulation/Policy	Reference
Australian Accounting Standards Board	Standard	AASB 116 – Property, Plant and Equipment
	Standard	AASB 13 – Fair Value Measurement
	Standard	AASB 5 – Non-current assets held for Sale and Discontinued operations
	Standard	AASB 140 – Investment Property
	Standard	AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors
	Standard	AASB 136 – Impairment
	UIG	1030 - Depreciation of Long-Lived Physical Assets, including Infrastructure Assets: Condition-Based Depreciation and Other Related Methods
International Valuation Standards Council	Valuation and Property Standards	IVS 400 - Real Property Interests
Australian Property Institute	Valuation and Property Standards	ANZVTIP 8 – Valuations of Real Property, Plant & Equipment for Use in Australian Financial Reports
	Valuation and Property Standards	Guidance Note - AVGN 2 - Valuations for Insurance Purposes
Institute of Public Works Engineering Australia	Guideline	Australian Infrastructure Financial Management Guidelines
South Australia Government	Legislation	Local Government Act and Regulations



City of Playford

Valuation Report – 1 July 2021

3.1 Fair Value

AASB 13 defines 'Fair Value' as:

"... the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

In determining Fair Value, there is a presumption that:

- ❖ the entity is a going concern without intention or need to liquidate or otherwise wind up its operations or undertake a transaction on adverse terms'
- ❖ the asset is exchanged after an adequate period of marketing to obtain its best price, and
- ❖ Fair value is measured having regard to the highest and best use of the asset for which market participants would be prepared to pay.

Further, AASB 13 stresses fair value should be derived having consideration to market influences.

"Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability)."

Please note: No values or opinions presented in this report, associated appendices or addendums constitute an accounting estimate as defined by Australian Accounting Standards and Australian Audit Standards

The valuation approach to define fair value is dependent on the degree to which a market assists in substantiating the value of an asset. For assets that have been recognised as having relevant markets, Liquid adopted evidence from these markets. Assets held for sale or considered surplus to requirements have also been valued with reference to recent market transactions less disposal costs (i.e., market value less costs to sell).

The Australia Property Institute⁽¹⁾ describes the primary approaches by which assets may be valued in the marketplace as being:

⁽¹⁾ Australia and New Zealand Valuation and Property Standards 7th Ed. 2012



City of Playford

Valuation Report – 1 July 2021

3.1.1 Sales Comparison Approach

This comparative approach considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. In general, a property being valued (a subject property) is compared with sales of similar properties that have been transacted in the market. Listings and offerings may also be considered.

3.1.2 Income Capitalisation Approach

This comparative approach considers income and expense data relating to the property being valued and estimates value through a capitalisation process. Capitalisation relates income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both. In general, the principle of substitution holds that the income stream which produces the highest return commensurate with a given level of risk leads to the most probable value figure.

3.1.3 Cost Approach

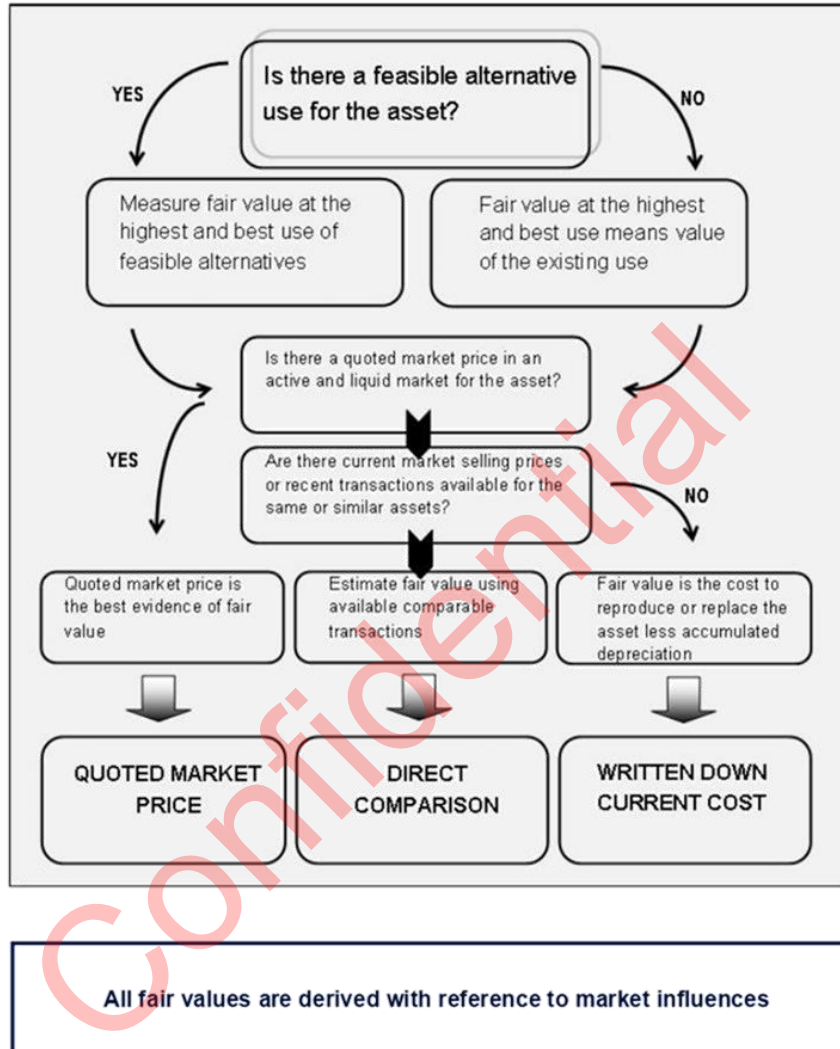
In the absence of reliable markets, this approach seeks to emulate a comparative approach. The approach estimates a market value using the economic principle that a buyer will pay no more for an asset than the cost to obtain a new asset of equal utility, whether by purchase or by construction less any allowances for age, obsolescence, undue time, inconvenience, risk and other factors market participants (hypothetical or otherwise) may consider at the time of valuation. Often the asset being valued will be less attractive than the modern equivalent because of these factors and a depreciation adjustment is required to the replacement cost as new to reflect this. The cost approach does not apply to land. Summation is the process of adding the depreciated replacement cost of improvements to the market value of the land they occupy.

We wish to stress; the cost approach is not widely accepted in the valuation industry as a reliable method to determine the market value or fair value of an asset and is only used in extreme circumstances where no readily available market evidence exists.



LiquiD made reference to the following fair value decision tree for this valuation project;

Figure 1 - Fair Value Decision Tree





City of Playford

Valuation Report – 1 July 2021

3.2 Market Value

In theory, no difference exists between the international definition of market value as prescribed by the International Valuation Standards Council (IVSC) and fair value as defined by Australia Accounting Standards. Market value is defined by the IVSC as:

Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

IVS 104 p18 30.1

Market value and fair value are a function of an exit price, not an entry price, and for the purpose of each definition, they are assumed to be the same (i.e., there cannot be two fair values).

For assets that have been recognised as having relevant markets, Liquid adopted evidence from these markets. Assets held for sale or considered surplus to requirements have also been valued with reference to recent market transactions less disposal costs (i.e., market value less costs to sell).

3.3 Market Rent

The International Valuation Standards Council (IVSC) defines Market Rent as;

Market Rent is the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

IVS 104 p21 40.1

3.4 Replacement Cost

For the purpose of this report, replacement cost is defined as;

"The cost to replace an asset by similar property in a condition equal to its condition when new."

In all cases, for buildings and site improvements, cost represents the construction cost. Replacement cost for valuation should not be confused with replacement cost or current cost as used in accounting concepts.



City of Playford

Valuation Report – 1 July 2021

3.5 Insurance Value

Insurance Valuations were conducted in accordance with industry standards, the Insurance Council of Australia and the Australian Property Institute's Guidance Note - AVGN 2 - Valuations for Insurance Purposes and calculated on a 'Replacement with New Value' defined as;

"Declared values represent the actual costs of replacement or reinstatement of assets, assuming a total loss; by similar property in a condition equal to its condition when new."

We wish to highlight that in our schedule of insurable values we *have not* made provision for the likely cost increases during and up to the last day of the policy year. The following steps were performed by Liquid Pacific in calculating Council's sums insured.

3.5.1 Replacement with New Value

The cost of reinstatement of improvements, which is the value to replace an asset with a similar property in a condition equal to its condition when new. Sums insured are calculated at the time of valuation and consideration is given to any extra costs that would be incurred to comply with current building regulations. Our reinstatement figure includes an allowance for professional fees and preliminary costs.

3.5.2 Projected Replacement with New Value

Escalates the replacement with new value having regard to the likely projected cost increases during the estimated demolition, lead time and rebuilding periods.

3.5.3 Demolition and Removal of Debris

The cost of clearing a site and the removal of debris in the event of a loss, assuming there is no salvage value.

Insurance values include all items which form part of the building services installations, such as heating and cooling equipment, lifts, sprinklers, lighting, power to distribution sub-boards and landlord's fixtures and fittings. It includes power reticulation other than that servicing manufacturing plant and equipment and any tenancy areas

Our estimate of insurance value does not include:

- GST,
- plant, machinery, tools, furniture and fittings,
- external underground works beyond the boundary of the buildings such as ground drainage,
- tenancy fitouts,

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- in the event of a loss, temporary protection of undamaged property,
- temporary repairs to a property,
- costs and expenses incurred for the purpose of extinguishing a fire at or in the vicinity of the property insured and/or threatening to include the property,
- costs associated with making the property safe after a loss,
- property of others for which the insured is not legally liable,
- trade or advertising signs and logos,
- professional fees incurred preparing a claim after a loss,
- interest and finance charges during reconstruction,
- renting alternative accommodation, relocation expenses, loss of rental income,
- land and unmined or unrecovered oil, gas and mineral deposits,

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4.0 ASSET DESCRIPTION

Fair valuations have been conducted on the basis of freehold title, defined as an estate in fee simple. An estate in fee simple is an interest in property that is unconditional and represents the broadest ownership interest recognised by law.

To qualify, a freehold estate must possess the characteristics of;

- (1) Immobility, in that the property must be either land, or some interest derived from or affixed to land, and
- (2) have indeterminate duration.

Further, this valuation is concerned with the various asset classes comprising the 'property', where property is defined by the Australian Property Institute as:

"Real property encompasses all the rights, interests, and benefits related to the ownership of real estate."

And,

"... real estate encompasses the land itself, all things naturally occurring on the land, and all things attached to the land, such as buildings and site improvements."

Liquid Pacific has further described assets as follows.

Table 3 - Asset Class Descriptions

Asset Class	Description
Buildings	Something that is built, as for human habitation, a structure. This category also includes sundry structures being those that are not necessarily designed for human occupation but serve to enhance the use of the primary asset (i.e., shed).
Land	An estate in fee simple assuming that any improvements thereon, the benefit of which is unexhausted at the time of valuation, had not been made

The properties subject to valuation comprised a portfolio of metropolitan operational and community assets and associated support facilities located throughout the Council's local government area. Assets varied significantly in age, condition, scope and location.

Assets included:

- Administration
- Sporting Facilities
- Operational Assets (i.e., works depot)
- Structures

Further asset details are included in the appendices to this report.



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4.1 Heritage Assets

The primary impact on the value of an asset which has been heritage listed is to potentially limit the use to which the asset may be put and thereby prevent an asset from reaching a hypothetical higher and best use.

Heritage assets, whilst unique in their nature, are not necessarily limited to a pre-defined valuation methodology as a result of their uniqueness. That a heritage building is used or can be utilised for say, office accommodation allows the valuation of the asset to be assessed by the direct comparison of sales or income approach, even though the asset may in fact have a cost to replace many times greater than its modern equivalent. However, the greater the uniqueness of an asset in terms of its use (existing or past) the more aligned an asset's economic life will be to its remaining physical life.

We identified twelve (12) assets which have been listed on the Local Heritage Register but none on the State Heritage Register. These comprised the following sites.

Table 4 – Heritage Assets

Click Heritage No for Details	Address	Details	Class	Council Reference
13243	10 Goodman Road ELIZABETH	Grandstand- Elizabeth Oval	Local	E:8
13244	15 Goodman Road ELIZABETH	Playford Gardens	Local	E:9
13298	Lot 150 Playford Boulevard ELIZABETH	Clock Tower	Local	E:19
13242	10 Playford Boulevard ELIZABETH	Shedley Theatre	Local	E:5
13303	4 Kettering Road ELIZABETH SOUTH	Water Tower	Local	E:57
13257	Lot 10 Blacktop Road ONE TREE HILL	Institute & War Memorial	Local	OTH:002
13261	Lot 1 Cornishmans Hill Road ONE TREE HILL	Uleybury School Museum	Local	OTH:007
13280	Lot 4 Uley Road ONE TREE HILL	Uley Cemetery & Chapel Site	Local	ULE:004
13267	Lot 347 Argent Road PENFIELD	Zoar Cemetery	Local	PEN:001
13272	Lot 1 Augusta Square SMITHFIELD	Augusta Square	Local	SMI:005
13289	Lot 130 Old Port Wakefield Road VIRGINIA	Virginia Institute	Local	VIR:005
13288	Lot 255 Old Port Wakefield Road VIRGINIA	Virginia Oval	Local	VIR:008

The values of the above assets are not impacted by their heritage listing; however, the underlying land values may be.



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4.2 Site Contamination

A search of the SA Environment Protection Authority's (EPA), Contamination Site Index indicates no council property is a registered listed site. A further search of the EPA register for environmental authorisations, orders and applications does not show existing or past entries against the subject properties.

For the purpose of this valuation, no site is deemed to be contaminated. If this assumption is incorrect, this valuation should be voided and the valuer redirected to undertake a new valuation of the relevant assets, taking into account such matters.

4.3 Asbestos

According to the Australian Federal Government's Asbestos Safety and Eradication Agency, improvements constructed before 1990 are likely to contain asbestos material. Having regard to the age of some of Council's improvements and the observed building materials used in construction, it is likely the portfolio comprises asbestos of some type within buildings and/or infrastructure fabric.

Notwithstanding the above, our valuation has made no allowance for the presence of asbestos, its condition or costs to remediate or remove. If it is necessary to remediate or remove asbestos to ensure the safe continued use of any property, then our opinion of value is voided, and the valuer should be instructed to undertake a new valuation of the affected assets addressing these matters.

4.4 Native Title

A search of the National Native Title Tribunal database of applications, determinations and land-use agreements has not identified a claim or settlement over any land held by the Council.

However, for certainty, we recommend Council consult with an indigenous land rights specialist to determine with accuracy the interests of local indigenous peoples.

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5.0 METHODOLOGY

The Council's instructions required land and building assets be inspected for the purpose of conducting this valuation project. Further, that a sample of the infrastructure assets be inspected to audit existing condition criteria. In undertaking valuations, Liquid has relied upon information available from subscriber databases, local and regulatory sources and the Council in assisting with the recognition, quantification and calculation of asset values.

Assets were valued with reference to their existing use, and few exhibited a 'feasible' higher and better use alternative. In determining the appropriate valuation methodology, Liquid Pacific made reference to the following factors.

5.1 Asset Tenure

Council has advised the assets subject to this valuation are under their care and control. We cannot verify this statement without purchasing the relevant land titles from the registrar of lands. However, a search of ownership name did produce some 2,281 land records (appended) which comprised a range of property types not required to be valued (i.e., public roads). Some or all of the assets in this valuation may be recorded against these land references.

For the purpose of this project, we have assumed there is no impediment to Council obtaining the future economic benefits of the assets valued herein. Again, we stress, we have not sighted documentation (land titles) to define with certainty Council's right to accrue economic benefits and should it be shown any asset is not under the ownership or care and control of Council, we recommend an amendment to values and this valuation report.

5.2 Asset Sui Generis

In determining values for assets, it is necessary to reference markets to identify potential supply and demand influences. Not all assets are homogeneous in nature and dependent on the asset class these influencing factors will vary, even within the same asset class.

The impact market forces have in deriving values may also vary dependent on the specialty of the asset. To assist in determining the extent to which an asset can be valued by market forces we made reference, inter alia, to the following:

- (i) identify whether a market exists for which the asset could possibly be traded, and
- (ii) whether there is sufficient evidence of the asset or similar assets being traded in that market from which a reliable value can be determined.

If any of the above parameters were not met then an asset was considered unique and further market analysis was undertaken to determining the extent of specialisation.



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In relation to the Council’s fixed asset base, Liquid Pacific considered the majority of assets within the portfolio were unique. However, those assets utilised for office, retail, residential or similar accommodation; or for which potential existed for the asset to be readily adapted to such uses, were treated as non- specialised.

In accordance with AASB 13 reporting disclosure requirements we have provided an opinion as to the input level for each asset within the portfolio. An explanation of how this was achieved is set out below.

5.3 Hierarchical Input

AASB13 categorises the degree by which valuations are derived from market influences as **valuation inputs**. An asset’s characteristics and the market forces which determine its fair value, comprise ‘*observable*’ and ‘*non-observable*’ inputs. These inputs are described as a ‘*fair value hierarchy*’ where the most relevant observable inputs are classified as ‘*Level 1 inputs*’ and the least relevant as ‘*Level 3 inputs*’. Effectively, input levels reflect the dependence on market evidence used to establish the fair value (i.e., transactions of similar assets).

An entity shall determine appropriate classes of assets and liabilities on the basis of . . . the level of the fair value hierarchy within which the fair value measurement is categorised.

AASB13 Para 94 (b)

Assets valued with reference to market transactions where categorised as having Level 2 inputs, assets valued at depreciated replacement cost were categorised as having level 3 inputs. No Council assets were valued using Level 1 inputs. The following table further describes the value hierarchy and the allocation of Council’s assets to the relevant input levels.

Table 5 - Hierarchical Value Inputs

Priority	Level	Description	Asset Class
	1	Unadjusted quoted prices are available in active markets for identical assets and liabilities, and these should be used to derive Fair Value	N.A.
	2	Comprises other observable inputs not included within Level 1 of the fair value hierarchy.	Buildings, Land
	3	Comprises unobservable inputs (including the entity’s own data, which are adjusted if necessary to reflect the assumptions market participants would use in the circumstances).	Buildings



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5.4 Input Sources

In deriving values contained herein Liquid Pacific obtained information from a number of sources as follows:

Table 6 – Input Sources

Source	Agency	Information	Level	
Commonwealth Government	Australian Bureau of Statistics	Australian Bureau of Statistics - Residential Property Price Index (ABS 6464)	2	3
		Producer Price Indexes (ABS 6427)	2	3
	Environment	Australian Heritage Places Inventory	2	3
	National Native Title Tribunal	Native Title Claims	2	3
Local Government	Council	Zoning data	2	3
Client	Procurement/Contracts	Actual project construction and acquisition costs	x	3
Independent	Australian Construction Industry Forum	Forecasts for non-residential building (11/2016)	2	3
	Builders/Architects	Various construction projects	x	3
	Published Materials	Rawlinson's Australian Construction Handbook 2020 (Edition 38)	x	3
		Cordell's - HIA Construction Industry Update + Outlook Report	x	3
State Government	DPTI	Property sales data	2	x
		Valuer General's property information records	2	3
		Local Environmental Plan	2	3
		Environment Protection Authority	2	3

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6.0 FINANCIAL

Council has several properties which are subject to lease or license agreements or memorandums of understanding to occupy. These rights to occupy are predominantly community-based service provisions and do not appear to be struck at market rates. In addition, it is assumed the agreements can be terminated on short notice.

Where commercial terms have been struck, the income derived for these assets has been taken into consideration in our formulation of fair value. For the purpose of this valuation, other than the commercially struck lease agreements, we have assumed no properties or other assets are subject to third party interests.

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7.0 UNIT RATES

Liquid Pacific undertook a comprehensive review of Council's unit rate schedule to update costs per unit of measure. For the purpose of this part of the project requirement, cost was defined as 'replacement cost'. There is no formal definition of replacement cost¹ other than its similarity to reinstatement cost where both share the following meaning: *the cost to replace an asset represents the value to replace that asset with a similar item in a condition equal to its condition when new.* (Refer section 3.4)

Where a cost for an existing asset was not obtainable because the asset no longer exists and cannot be acquired, a cost for a modern equivalent asset that provided the same or similar utility was utilised.

Cost Source

Unit rates costs were derived by reference to suppliers' catalogues, direct quotes and indexation (where no quotes could be obtained without a formal submission to supply). At Council's request, sources excluded current tender costs, current suppliers and nominated future suppliers.

Subsequent to the production of the unit cost schedule, Council sought to smooth the unit rate data by incorporating existing cost schedules and recently quoted project costs. This process is considered appropriate given the diverse range of costs for some items and the constraints on Liquid Pacific's range of cost sources.

Cost Components

Unit rates derived for 1 July 2021 may differ significantly from unit rates in the Council's register. Where applicable, Council has requested unit rates include project costs. These additional costs typically reflect civil construction costs and associated costs of undertaking works to replace assets, such as professional fees, insurance costs, costs of meeting work safety regulations, traffic management and other ancillary service provisions.

Project costs have been derived by reference to Council's own project experiences and anecdotal information. Typically, these costs range between 20% to 30% of the item/construction cost, where such costs would be incurred as part of a project which had scale and impacted external systems (i.e., replacing a section of road).

Unit rates were based upon the measures set-out in the Council's existing asset register. For assets that are continuous in nature and measured upon an area rate rather than by item, the costs were based upon an approximated average of the measure of all register entries.

¹ Replacement Cost in its common use is different to the definition of 'replacement cost' which appears in AASB13.

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Useful Life

Useful life is the estimated economic life span of an asset and should not be confused with the remaining economic life of an asset. For the purpose of determining the economic useful life of assets within the unit rate schedule, Liquid Pacific made reference to its own observations and experience with such items; manufacturers design specifications, and suppliers' anecdotal references as it they related to purpose and location.

Brownfield and Greenfield Costs

In determining a replacement cost input for use in the cost approach to valuation, it is standard practice to adopt a Greenfield Cost. Greenfield costs are defined as the costs to construct on land that has not previously been developed, i.e., a bare site. It is assumed when adopting a Greenfield cost, it reflects all the costs a market participant might be expected to incur in replacing an asset that cannot be purchased in the marketplace. Assets that cannot be readily purchased in the marketplace are typically referred to as specialised assets.

Brownfield costs are those costs incurred to replace an asset on a site that is already developed with the same or other assets. These costs would reflect the extra costs associated with removing existing assets and making good the site for development.

Dependent on the type of asset being valued, the brownfield costs can be either more or less than Greenfield costs, but rarely would the two be the same. An extreme example of the difference between the two types of cost would be the additional costs incurred (Brownfield) to remediate a contaminated site for development when compared to a 'greenfield' uncontaminated site.

Council has requested brownfield costs be used for calculating unit rate values. For the purpose of this advice, Brownfield costs are based upon sites assumed to occupy the same footprint as the existing assets for which the costs are applicable. We stress, Greenfield costs have been used for use in buildings and other structures.

A full schedule of unit rates is appended to this report.



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8.0 ASSET CONDITION

Condition ratings were pre-defined by Council as set-out in the table below.

Table 7 – Council's Condition Assessment

Condition	Description
0	Not Applicable
1	As New
2	Minor Deterioration
3	Fair Condition
4	Poor Condition
5	Requires Renewal
9	Not Classified

Liquid Pacific undertook inspections of all buildings and associated site improvements to determine the condition of these assets.

Buildings

Our inspection of the building portfolio and subsequent analysis demonstrated the following outcomes.

Table 8 – Building Condition Analysis

Condition	Proportion	Replacement Cost
1	7.40%	\$10,729,974
2	25.80%	\$37,409,909
3	37.80%	\$54,809,866
4	21.60%	\$31,319,923
5	7.40%	\$10,729,974
	100.00%	\$144,999,646

Infrastructure

For infrastructure assets, a sample was inspected, where assets were accessible. These inspections took place between March 2021 and July 2021.

Council advised all infrastructure assets were originally assessed by staff for condition in January 2021. Based on the Council's existing condition ratings we have developed the following profile for the infrastructure asset base.

The fair value of Council's infrastructure assets is based upon Council's own condition ratings, and we understand are derived using Council's asset management system.



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Table 9 – Infrastructure Condition Analysis

Transport		
Condition	Proportion	Cost (\$m)
1	42%	\$265.58
2	39%	\$214.69
3	15%	\$76.65
4	2%	\$16.67
5	1%	\$3.45
		\$577.02
Water Capture & Delivery		
Condition	Proportion	Cost (\$m)
1	55%	\$111.60
2	7%	\$13.76
3	37%	\$81.81
4	1%	\$1.74
5	0%	\$0.29
		\$209.20
Park Assets		
Condition	Proportion	Cost (\$m)
1	48%	\$25.93
2	24%	\$0.55
3	16%	\$0.23
4	5%	\$3.76
5	7%	\$3.22
		\$33.70
Streetscape		
Condition	Proportion	Cost (\$m)
1	30%	\$34.30
2	32%	\$37.25
3	27%	\$33.01
4	6%	\$4.72
5	3%	\$0.69
		\$109.96

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9.0 VALUE RATIONALE

All land and building assets have been valued in accordance with International Valuation Standards and Australian Accounting Standards. A description of the relevant market influences and the calculation of fair value is further described below.

9.1 Depreciation

In adopting a cost approach to the valuation of buildings and site improvements, depreciation was derived by making reference to the functional, economic, technical and physical obsolescence of each asset to determine its remaining life. This is an estimate which is intended to reflect market expectations for utility, derived in part from a variety of property types.

For this valuation project a straight-line method of depreciation has been adopted in line with Government policy. This methodology assumes the value of the asset is consumed at an even rate throughout the asset's life. However, where an asset has failed to maintain that assumption either through accelerated technical obsolescence, condition or unexpected detriments to the asset's functionality (fit for purpose) then we have adjusted the remaining life of the asset accordingly.

Effective economic lives were determined with reference to Council's own operational policies, to manufacturers design lives, industry expectations of the functional and technical performance of assets in the markets in which they operate and in comparison to widely adopted local and state government useful lives.

Table 10 - Effective Lives

Asset Class	Category	Examples	Effective Life (yrs)
Land			Indefinite
Buildings	Fixed Solid	Halls, chambers, etc	60 – 80
	Framed	Transportable, etc	50
	Shed and sundry	Tool shed	40
	Site Improvements	Fencing, monuments	20 – 80
Infrastructure*	Road Networks	Road base, pavement, seal	25 – 80
	Stormwater	Pipes, headwalls, drainage	80 -100
	Other	Bridges, Fencing, Crossings	40 - 80

* Infrastructure comprises the unit rate schedule for which there are some 600 effective life estimates.



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9.2 Market Analysis

Markets and sub-markets were identified in an effort to determine the relevance and availability of transactions which would reflect the inherent characteristics of the asset base. In determining asset values, we made reference to each asset's unique characteristics, some of which fall within the categories listed below:

Table 11 - Asset Variables

Variable	Description
Site Area	Traditionally, diminishing returns exist for larger parcels whereby values reduce per unit of site area as the site area increases.
Improvements	The size, utility, condition and the contemporary nature of improvements are fundamentals in deriving the added value of buildings and services to the site.
Topography	Impacts value due to costs associated with construction (i.e., either levelling the site or constructing on a sloping parcel).
Dimensions and Shape	Land that is irregular in shape and/or has a small frontage can have its value adversely affected, as purchasers perceive deterioration in the utility of the asset.
Zoning	Each zone has associated permissible land-uses. Supply and demand reflected by population and availability of appropriately zoned land contributes to value and ultimately returns to investors.
Location	The micro-location (i.e., exposure to traffic, vehicular and pedestrian) as well as the macro (i.e., access to airports, major transport routes, etc) will impact a property's value. More often, a purchaser's desire to obtain a position which benefits their business can drive selling prices.
Access	Ease of access is a fundamental factor in the value of a property, particularly when the potential income derived from a land-use is reliant on access by customers to the property.

Where assets have been considered as restricted, the restriction on those assets has been factored in deriving a fair value for the asset. Typically, such restrictions require the unfettered fair value of the asset be adjusted to reflect those restrictions. For the purpose of deriving fair value there is an assumption all assets can be sold (i.e., achieve an exit price).

For community land and land that is subject to land use agreements LiquiD Pacific has treated each asset as individual in nature and Council has the ability to revoke the land from these restrictions. Based on a three (3) year consultation and revocation period, we have reduced the relevant land values by some 12%.

Appended to this report is a schedule of land sales referenced for the purpose of determining land value.



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9.3 Asset Management Value

Fair value is a market derived value determined by broad reference to the current supply and demand characteristics exhibited by market participants. Fair value is an accounting concept which mimics the valuation profession's definition of market value and it does not necessarily meet the requirements for all asset management needs, in particular the requirement to forecast asset renewals for those assets which closely reflect market forces.

Council has requested, for those assets which have a market value derived by reference to transactions of the same or similar assets, that a depreciated replacement cost be adopted, where depreciation does not reflect economic obsolescence. We refer to this as an 'Asset Management Value' or 'Absolute Value', where the value is devoid of economic influence.

In the majority of cases (if not all) those assets for which an asset's fair value differs from its asset management value are within the 'building and site improvements' category of assets. The appended schedule of land and building values identifies which assets have dual values.

9.4 Assets Held for Sale

The Council has advised, as at the date of valuation, there were no properties within the portfolio of properties valued, which were being held for sale. AASB 5 "Non-current Assets Held for Sale and Discontinued Operations" requires:

- (a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and *fair value less costs to sell*, and depreciation on such assets to cease; and
- (b) assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income.

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9.5 Highest and Best Use

The concept of highest and best use has its foundation in the maximisation of the utility of an asset, more often reflected as a use which achieves, or could possibly achieve, the highest financial return in the market at time of analysis.

The International Valuation Standards Council further clarifies highest and best use as:

“...the most probable use of the asset that is physically possible, appropriately justified, legally permissible, financially feasible, and which results in the highest value.”²

In determining highest and best use, it is a requirement to consider the economic relationship that exists between land and buildings. From our analysis, we have found the majority of assets are operating at their highest and best use.

9.6 Impairment

An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

At the date of valuation, the impact of the COVID-19 pandemic was yet to be fully realised. Anecdotally, the valuation industry expected real estate values to remain stable in the short term but to be impacted in the medium term. With the benefit of hindsight, the impact of COVID-19 appears to be short-lived, though uncertainty in the marketplace remains.

Fair values reflect future economic benefits, and it is our opinion the COVID pandemic heightens the risk profile of owning assets of a ‘specialised’ nature, similar to those of Local Government. That estimate of risk is difficult to assess, however, having regard to this market uncertainty, we consider values set-out in following sections could vary by as much as 10% on realisation. The estimate of 10% was based upon estimates of reduced utility as an impact of COVID over the next five years, as follows:

Yr	1	2	3	4	5
% Full Utility	85%	85%	90%	95%	100%

Where full utility is pre-COVID.

As with our opinions of value, there is no requirement to adopt an impairment measure

² API Professional Practice Manual 7th Ed 2012



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9.7 Value Reconciliation

Council previously valued land and buildings as at 1 July 2016 and 1 July 2019. We are unaware of the extent to which this portfolio has changed since the previous valuation date and thus cannot make comment on whether the quantity of the portfolio has increased or decreased significantly in that time. A review of the Council's 2020 annual report and Liquid Pacific's valuation outcomes indicates the following:

Table 12 – Land Value Movements

Land	Date	Cost	Acc Dep	Fair Value
Annual Report	30/06/2020	\$451,434,000	\$0	\$451,434,000
Valuation	01/07/2021	\$498,871,000	\$0	\$498,871,000

Land	Date	Cost	Acc Dep	Fair Value
Annual Report	30/06/2020	0.00%	0%	0.00%
Valuation	01/07/2021	10.51%	0%	10.51%

Table 13 – Building Value Movements

Buildings	Date	Cost	Acc Dep	Fair Value
Annual Report	30/06/2020	\$151,150,000	\$29,597,000	\$121,553,000
Valuation	01/07/2021	\$144,999,646	\$68,149,853	\$76,849,793

Building	Date	Cost	Acc Dep	Fair Value
Annual Report	30/06/2020	0.00%	0.00%	0.00%
Valuation	01/07/2021	-4.07%	130.26%	-36.78%

Percentage increase /decreases based on the variance from Council's 2020 annual report

The most significant of variations occurs within the building portfolio. In undertaking the 2021 valuation Liquid Pacific consolidated the Council's existing building register into eight major components and allocated effective lives against each. We consider this process has significantly reduced otherwise extended lives for component items and in turn has caused a reduction in the fair value of the building class.

We note our valuation results tend to fall into line with valuations undertaken prior to the 1 July 2016 project.

For infrastructure, Liquid Pacific has only reviewed the existing cost base and effective (useful) lives. These inputs may have an impact on the fair value of these items.



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10.0 VALUATION

Having regard to the above, Liquid Pacific is of the opinion the fair value and insurable value of the City of Playford’s land and buildings (as identified in appendices) as at 1 July 2021 is:

Table 1+ – Portfolio Summary

Portfolio Summary				
Asset Category	Gross Value	Accumulated Depreciation	Fair Value	Insurance
Land	\$498,871,000	\$0	\$498,871,000	\$0
Buildings	\$144,999,646	\$68,149,853	\$76,849,793	\$173,473,045
Total	\$643,870,646	\$68,149,853	\$575,720,793	\$173,473,045
Hierarchy Values				
Level 1	\$0	\$0	\$0	\$0
Level 2	\$565,778,900	\$37,117,823	\$528,661,077	\$79,850,800
Level 3	\$78,091,746	\$31,032,030	\$47,059,716	\$93,622,245
Total	\$643,870,646	\$68,149,853	\$575,720,793	\$173,473,045

*All values are exclusive of GST

Valuation advice provided by Liquid Pacific Asset Consultants

Martin Burns
 Authorised Representative

Director: Martin Burns Liquid Pacific
 Chartered Valuer, RICS,
 Certified Practising Valuer, AAPI



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DEFINITIONS & QUALIFICATIONS

This valuation remains the property of Liquid Pacific. Values herein are certified for use by the client for the purposes of establishing fair value and insurance value (where applicable) and only for the current financial reporting period. Any values (including fair values, insurance values, asset quantities, total and remaining life estimates) established by Liquid Pacific for this project cannot be transferred to or relied upon by other parties for any other purpose, including and especially value(s) or any entity seeking to undertake a valuation of the asset base to confirm or update asset values.

Fair Value

For the purposes of this valuation Fair Value is defined as:

"... the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

Market Value

For the purposes of this valuation Market Value is defined as:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

Insurance Value

For the purposes of this valuation Insurance Value is defined as:

"The actual costs of replacement or reinstatement of assets, assuming a total loss, by similar property in a condition equal to; but not more extensive than its condition when new."

Scope

This document may contain information which is directly derived from outside sources without verification by Liquid Pacific Asset Consultants including but not limited to as constructed building plans, contamination registers and expert reports. Where the content of this report has been derived in whole or in part from sources other than Liquid Pacific Asset Consultants, we do not warrant or represent that such information is accurate

We have not carried out a structural survey of the improvements, and any opinion given as to the condition of any improvements on the property is not given in the capacity as an expert. This report is not a structural survey. We have not examined the improvements for signs of timber infestation. This report does not make any allowance for contamination or pollution of the land which may have occurred as a result of past usage, with the exception of those noted in the body of the report. Consequently, should any of these matters be found to exist, the report should be referred back to Liquid Pacific for reappraisal.

Valuations conducted at 'Fair Value' have been done so for statutory reporting purposes only and in the majority of cases under the assumption of continuing use whereby the client has no intention to cease operations or liquidate. Valuations contained herein are not to be relied upon for any other purpose than to meet the reporting requirements of the entity as set-out in Australia Accounting Standards. Liquid Pacific accepts no liability for use of the enclosed 'Fair Values' for any other purpose whatsoever.

Market Forces

Real estate values vary from time to time in response to changing market circumstances and it should therefore be noted that this valuation is based on available information leading up to the date of valuation. No warranty can be given as to the maintenance of this value into the future. It is recommended that the valuation be reviewed periodically.



City of Playford

Valuation Report – 1 July 2021

Information

Assumptions are a necessary part of this valuation. Liquid Pacific adopts assumptions because some matters are not capable of accurate calculation, or fall outside the scope of our expertise, or instructions. The risk that any of the assumptions adopted in this document may be incorrect should be taken into account. Whilst reasonable care is taken to ensure that assumptions are soundly based, Liquid Pacific does not warrant or represent that the assumptions on which this valuation is based are accurate, correct, or particularly reflect Liquid Pacific's professional opinion.

This document contains information which is directly derived from other sources without verification by us including but not limited to tenancy schedules, planning documents and environmental or other expert reports. Further, the information is not adopted by Liquid Pacific as our own, even where it is used in our calculations. Where the content of this document has been derived, in whole or in part, from outside sources, Liquid Pacific does not warrant or represent that such information is accurate or correct. To the extent that this document includes any statement as to a future matter, that statement is provided as an estimate and/or opinion based on the information known to Liquid Pacific at the date of this document. Liquid Pacific does not warrant that such statements are accurate or correct. Whilst reasonable efforts are made to eliminate sales from our analysis that do not conform with the definition of value contained herein, Liquid Pacific cannot warrant the veracity of sales upon which our judgments are based.

Goods and Services Tax

Goods and Services Tax (GST) became law in July 1999 and commenced operation on the 1st of July 2000. As at this date rental payments for non-residential leases generally became subject to GST except were deferred under transitional provisions. The sale of property may also be subject to GST, the amount of tax payable being subject to the tax status of the parties, available input tax credits and the operation of the Margin Scheme and Transitional Arrangements. We advise that Liquid Pacific have made no allowance in our valuation for any impact of the GST on passing or imputed rentals paid and/or received by the parties. Where this valuation is based on analysis of recent market transactions it is unclear whether the market is influenced by GST. This valuation has been calculated on a GST exclusive basis.

Restrictions

This report and its findings have been presented to the Instructing Party for the sole purpose of delivering a valuation outcome. All information utilised to derive the valuation outcome provided in this report and which supports or is incidental to the valuation conclusion does not form part of the service provision and may not be relied upon by the Instructing Party for any other purposes. The contents of this report may not be used or relied upon by the Instructing Party for any purpose until clear authority is provided in writing by an authorised member of Liquid Pacific. In addition, neither the whole nor any part of this report, including restatement of values nor any reference thereto may be included in any published document, circular or statement or published in any way without the written approval of Liquid Pacific as to the form and context in which it may appear. Upon release, this report is for the use of and may be relied upon only by the Instructing Party. No other party is entitled to use or rely on the whole or any part of the contents of this report and Liquid Pacific shall accept no liability to any party that does so. If this report and its findings are provided to meet financial reporting purposes, then this valuation may only be relied upon to fulfil those regulatory requirements and cannot be relied upon for any other purpose (i.e., acquisition, purchase, etc). For all valuation advice this report's findings may be relied upon by the Instructing Party to make decisions regarding the assets the subject of the analysis, provided that the Instructing Party adopts prudent practices and reasonable due diligence.

Insurers Mandatory Clauses

This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relative short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value. Without the general scope of the above comment, we do not assume responsibility or accept any liability where this valuation is relied upon after the expiration of 3 months from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation.



City of Playford

Valuation Report – 1 July 2021

(If applicable) This valuation is prepared on the assumption that the lender as referred to in the valuation report (and no other) may rely on the valuation for mortgage finance purposes and the lender has compiled with its own lending guidelines as well as prudent finance industry lending practices and has considered all prudent aspects of credit risk for any potential borrower, including the borrower's liability to service and repay any mortgage loan. Further, the valuation is prepared on the assumption that the lender is providing mortgage finance at a conservative and prudent loan to value ratio.

Please note: No values or opinions presented in this report, associated appendices or addendums constitute an accounting estimate as defined by Australian Accounting Standards and Australian Audit Standards

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APPENDICES

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Australian Property Institute Limited
Property Institute of New Zealand
New Zealand Institute of Valuers

VALUATION PROTOCOL – SIGNIFICANT VALUATION UNCERTAINTY

Reference Valuation Protocol – Significant Valuation Uncertainty
Effective Date 1 July 2020
Owner Acting General Manager – Standards and Compliance

Australian Property Institute
6 Campion Street
Deakin ACT 2600
ACN 608 309 128

Telephone: 02 6282 2411
Facsimile: 02 6285 2194
Email: national@api.org.au
Website: www.api.org.au



Valuation Protocol – Significant Valuation Uncertainty

Purpose

This valuation protocol deals with the concept of significant Valuation Uncertainty and is relevant to all API, PINZ and NZIV Members who undertake valuations (Valuers). It replaces the previous protocols published on 27 and 29 March 2020.

This protocol includes:

1. What is Valuation Uncertainty?
2. How do you assess significance or materiality?
3. Requirements to disclosure in accordance with IVS
4. A sample interim COVID-19 significant Valuation Uncertainty limitation/warning disclosure statement

Commencement

The effective date for this protocol is 1 July 2020. Early adoption is permitted and encouraged.

Status of this Valuation Protocol

This valuation protocol is not mandatory but is intended to provide guidance to Members. This valuation protocol does not constitute legal advice.

Reference Material

The IVSC paper “*Dealing with valuation uncertainty at times of market unrest*” is available at <https://www.ivsc.org/files/file/view/id/1719>



What is Valuation Uncertainty?

While market risk may be thought of as a measure of future uncertainties that may result in an increase or decrease in the price of an asset, valuation uncertainty is only concerned with uncertainties that arise as part of the process of estimating value on a specific date.

Most valuations will contain some element of uncertainty. Valuation Uncertainty can be defined as:

The possibility that the Valuer's professional opinion as to the Market Value of the asset may differ from the price that could be achieved in a transfer of the asset as at the valuation date, assuming all other market conditions and variables remain constant.

There are three broad categories of Valuation Uncertainty:

1. Market Uncertainty,
2. Model Uncertainty; and
3. Input Uncertainty.

For a further explanation of the above categories, please refer to Appendix 1, Explanatory Notes of this Protocol.

The valuation process, including the investigation and analysis of market evidence remains the same as for times when significant market uncertainty is not deemed to be present. It remains incumbent on the valuer to fully investigate and understand the prevailing market trends to support the assessment and reporting of market value as at the date of valuation.

As per IVS, Valuers must decide whether the Valuation Uncertainty is significant and therefore is required to be disclosed in the report/advice. Any significant uncertainty clause included in a report is a disclosure.

Re-issue or Assignment of Valuations during a Period of Market Uncertainty

Members are cautioned regarding risks of re-issuing or assignment of valuations during a period of Market Uncertainty given there may have been a material change of circumstances. If assigning or re-issuing a valuation Members should alert their clients to any material change in circumstances and recommend a revaluation if considered necessary.

Fair Value Assessments for Financial Reporting during a Period of Market Uncertainty

Users of valuations for financial reporting of fair value are encouraged to have revaluations undertaken so that issues such as impairment or changes in carrying values are appropriately considered.



How to Assess Significance or Materiality?

The Glossary of the IVS at paragraph 20.11 states :

“Assessing significance and materiality require professional judgement. However, that judgement should be made in the following context:

- Aspects of a valuation (including inputs, assumptions, special assumptions, and methods and approaches applied) are considered to be *significant/material* if their application and/or impact on the valuation could reasonably be expected to influence the economic or other decisions of users of the valuation; and judgements about *materiality* are made in light of the overall valuation engagement and are affected by the size and nature of the *subject* asset.”

According to IVSC;

“The existence of significant uncertainty does not mean a valuation cannot be undertaken, but it does mean that significant assumptions within the valuation approach and methodology should be disclosed within the valuation report.”

Members are advised that different regions and sectors of markets may respond differently to major events. For example, as a consequence of COVID-19, there may be a significant decline in transactional activity in a particular asset class resulting in increased/significant market and hence valuation uncertainty, whereas in another asset class markets may continue to be active (albeit possibly at reduced transaction volumes). Some locations/regions may experience a contraction in market activity, but not markets in other locations/regions.

In those markets where the Valuer deems that the market continues to function, and where there are transactions which provide reliable evidence of value, significant market and valuation uncertainty may not exist.

Disclosure of market and valuation uncertainty is only required where it is significant and not normal market uncertainty.

Notwithstanding the above, Valuers should be aware of the requirements of their professional indemnity insurance policy which may require inclusion of certain clauses and disclosure statements.



IVS Valuation Report Disclosure Requirement

In accordance with IVS 103 Reporting, the Valuer should include in any report or advice a clear and accurate description of any significant uncertainty that directly impacts the valuation and its outcome. This is a requirement under IVS 103 Reporting paragraphs 10.1 and 10.2 which state:

“10.1 It is essential that the valuation report communicates the information necessary for a proper understanding of the valuation or valuation review. A report must provide the intended users with a clear understanding of the valuation.

10.2 To provide useful information, the report must set out a clear and accurate description of the scope of the assignment, its purpose and intended use (including any limitations on that use) and disclosure of any assumptions, special assumptions (IVS 104 Bases of Value, para 200.4), significant uncertainty or limiting conditions that directly affect the valuation.”

Sample Disclosure Statement for Valuation Reports

Where there is evidence of significant market uncertainty at the date of valuation, the API, PINZ and NZIV Members must include a disclosure relating to significant Valuation Uncertainty in their valuation reports.

A sample disclosure statement that could be included in valuation reports reflecting the COVID-19 impact is contained below.

Members should review any disclosure statements regularly to ensure that they reflect the prevailing conditions at the date of valuation and the specific circumstances relevant to the asset being valued.

“The market is being impacted by the uncertainty caused by the COVID-19 pandemic. As at the date of valuation we consider that there is market uncertainty resulting in significant valuation uncertainty.

This valuation is therefore reported on the basis of ‘significant valuation uncertainty’. As a result, less certainty exists than normal and a higher degree of caution should be attached to our valuation than normally would be the case. Given the unknown future impact that COVID-19 might have on markets, we recommend that the user(s) of this report review this valuation periodically.

This valuation is current at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that the Valuer could not reasonably have been aware of as at the date of valuation). We do not accept responsibility or liability for any losses arising from such subsequent changes in value.”



Comments or Feedback

If there are any comments or feedback, please do not hesitate to contact the API via standards@api.org.au or PINZ via standards@property.org.nz.

The API, PINZ and NZIV are committed to the promotion of best practice within the property industry and welcomes feedback to help this goal be achieved.

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Appendix 1 | Explanatory Notes

Causes of Valuation Uncertainty

There are several potential causes of valuation uncertainty. These explanatory notes will consider the following three broad categories.

1. Market Uncertainty,
2. Model Uncertainty, and
3. Input Uncertainty.

Model and Input Uncertainty arise from the valuation process and may be measurable. Market Uncertainty, on the other hand, arises as a result of events which are external to the valuation process and is not typically measurable at the valuation date.

These causes of valuation uncertainty are not mutually exclusive. For example, market disruption may affect the availability of relevant data which, in turn, may create uncertainty as to the most appropriate valuation methodology. Interdependence and correlation between the causes of uncertainty are therefore likely to exist and account should be taken of this during the valuation process.

1. Market Uncertainty

Market Uncertainty comes about when a market, as at the valuation date, is disrupted by current or very recent events such as sudden economic, political crises and natural disasters.

The event(s) that cause market uncertainty may be both macroeconomic and micro-economic. Macroeconomic would include the 2008 financial crisis. COVID-19 initially could be seen to be a health crisis but in time may have macroeconomic implications. Microeconomic disruption could include, for example, a change to a law or regulation which resets or disrupts a market sector.

In the real estate market, both macro or microeconomic event(s) may result in valuation uncertainty as the only evidence available to be considered by the Valuer is most likely to have taken place before the event occurred and the impact of which was not reflected in market evidence. The impact on sale prices and volumes will not be known until the market has stabilised and a new normal is in place.

Additionally, the API cautions Members in the use of desktop products based on potentially old Automated Valuation Models (AVM) data during times of market uncertainty.

It is critical that market uncertainty is not confused with market risk. Market risk is the risk that an asset may experience a reduction in value over time as a result of changing market conditions after the valuation date.



Market uncertainty is not measurable as the uncertainty arises from the inability to observe and reconcile the impact of the event(s) on market prices as at the valuation date.

The extent of the impact is unknown at this time and is therefore considered to represent market uncertainty as at the date of preparation of this protocol.

2. Model Uncertainty

Model Uncertainty arises from the actual valuation model (or methodology) utilised by the Valuer. There may be situations where different valuation models (methodologies) are used to provide an indication of value, and that the different models produce a different outcome. It is then incumbent on the Valuer to select the most appropriate model. This can result in model uncertainty as the selection of the most appropriate model may of itself be a source of uncertainty.

The Valuers role is not to forecast the worst-case scenario. It is also not a stress test. The Valuer should, as far as reasonably possible, report on reasonable and likely alternative assumptions. The objective is not to provide a forecast of possible fluctuations in the reported value at future dates but to provide information about the variability of the value at the valuation date.

3. Input Uncertainty

Input uncertainty arises where there are a number of equally reasonable or feasible inputs or assumptions, that the Valuer can utilise, and their impact on the outcome of the valuation can be measured by applying reasonably alternative inputs. For example, if the inputs are based on historical data, then the assumptions and methods made to adjust the data to current market conditions applicable at the valuation date can be a source of uncertainty.

Asset Revaluation Cycle

Year of implementation 2021-22				Rolling 5 year cycle										
Category	Revaluation	2021-22		Year 1		Year 2		Year 3		Year 4		Year 5		
		Current Reval Date	Reval Method	Next Reval Date	Reval Method	Current Reval Date	Reval Method	Next Reval Date	Reval Method	Current Reval Date	Reval Method	Current Reval Date	Reval Method	
Land	Fair Vale	1/07/2021	External	1/07/2022	Index	1/07/2023	Index	1/07/2024	Index	1/07/2025	Index	1/07/2026	External	
Building & Other Structures	Fair Vale	1/07/2021	External	1/07/2022	Index	1/07/2023	External	1/07/2024	Index	1/07/2025	Index	1/07/2026	Index	
Infrastructure - Stormwater	Fair Vale	1/07/2021	External	1/07/2022	Internal Replacement Cost	1/07/2023	Internal Replacement Cost	1/07/2024	External	1/07/2025	Internal Replacement Cost	1/07/2026	Internal Replacement Cost	
Infrastructure - Streetscape	Fair Vale	1/07/2021	External	1/07/2022	Internal Replacement Cost	1/07/2023	Internal Replacement Cost	1/07/2024	Internal Replacement Cost	1/07/2025	External	1/07/2026	Internal Replacement Cost	
Infrastructure - Parks & Reserves	Fair Vale	1/07/2021	External	1/07/2022	Internal Replacement Cost	1/07/2023	External	1/07/2024	Internal Replacement Cost	1/07/2025	Internal Replacement Cost	1/07/2026	Internal Replacement Cost	
Right-of-use Assets	Carried at Cost	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Plant & Equipment	Carried at Cost	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	

Useful life and impairment to be undertaken annually as per AASB116

Any impairment would need to be reassessed each year and reversed when evidence supports the asset is no longer impaired

Index - apply current LGIP

Internal Replacement Cost - apply current unit rates as per current contract prices

External - External valuer assess

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C. COMMITTEE TO DECIDE HOW LONG ITEM 8.1 IS TO BE KEPT IN CONFIDENCE

Purpose

To resolve how long agenda item 8.1 is to be kept confidential.

STAFF RECOMMENDATION

Pursuant to Section 91(7) of the Local Government Act 1999, the Committee orders that the following aspects of Item 8.1 be kept confidential in accordance with Committee's reasons to deal with this item in confidence pursuant to Section 90(3)(b) of the Local Government Act 1999:

- Report for Item 8.1
- Attachment(s) for Item 8.1
- Minutes for Item 8.1

This order shall operate until the next scheduled annual review of confidential items by Council at which time this order will be reviewed and determined in accordance with Section 91(9)(a) of the Local Government Act 1999.

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