This is a copy of the discussion questions on which staff consulted with users of public sector financial statements, annotated with summary of feedback received. Staff also consulted with Local Government Associations, which are member groups consisting of preparers of local government entities' financial statements who are also users of those financial statements. In addition, some responses were prepared in consultation with preparers, auditors or valuers.

Table 1 and 2 have been added to summarise the comments received. Comments were received from:

- Users of local government entities' financial statements – Offices of Local Government, Local Government Grant Commissions and Local Government Associations (8 out of 24 entities responded);
- Users of State, Territory and Commonwealth Government entities' financial statements – Parliamentary Public Accounts Committees and the Productivity Commission (3 out of 12 entities responded); and
- Other users of public sector financial data, including public policy advisers, macroeconomic analysts, a credit rating agency and the Australian Bureau of Statistics (ABS) (6 out of 13 entities responded).

Commentators are not named, because comments were elicited on an informal confidential basis. When deliberating the tentatively proposed disclosures about restricted land in the September 2020 meeting, the Board considered comments from some of these stakeholders who responded to Questions 5–9 below (see Agenda Paper 7.2 of that meeting). Those comments have been repeated in the Tables below to provide a complete summary of the feedback on the proposed disclosures.

Australian Government
Australian Accounting Standards Board

Discussion

Purpose of discussion

The purpose of this discussion is for staff of the Australian Accounting Standards Board (AASB) to obtain your opinion on whether it is more important for public sector entities' financial statements to reflect the current value of its **non-financial assets** (such as land, buildings and infrastructure) **held primarily for their service potential** (rather than to generate net cash inflows) at:

(a) the asset's current service potential; or
(b) the asset's current cash-generating ability.

This topic is the subject of the questions below specifically in respect of **land restricted for a public-sector-specific use** (eg land restricted for use as a public hospital and zoned for public use) and consequently the prices that can be charged for its outputs are so restricted that it could not generate a commercial return on investment if replaced today.

The reason why AASB staff want to obtain your view on this matter is because most such restricted land held by public sector entities is:

- currently valued based on the land's current cash-generating ability, by deducting an adjustment from the market value of equivalent unrestricted land to reflect the public-sector-specific restricted use; and
- as a result, the values of such restricted land might be seen as understated in public sector entities' financial statements because the values do not appropriately reflect the land's service potential.

The AASB has been requested by constituents to provide guidance on this issue. The outcome of this discussion will contribute to informing the AASB whether and how to address the request to provide the guidance.

[**Note: further background information is included in the Appendix for your information.**]

Questions regarding how the current value of restricted land should be measured in financial statements

1. Would it be more useful to you if public sector entities' financial statements reflected:
   (a) restricted land's current service potential (normally represented best by the price the entity would currently have to pay in the market to replace the land's capacity to provide needed services); or
   (b) the amount of net cash inflows that restricted land currently is able to generate under the restricted use directly (ie excluding cash grants or appropriations provided to subsidise its services)?
2. If your answer to Question 1 is "(a)", do you think current public sector entities' financial statements appropriately reflect the service potential of those entities' restricted land?
3. If your answer to Question 1 is "(b)", which of the following would provide the more relevant information to you about the cash inflows the restricted land is able to generate in a hypothetical sale[1]:
   (a) the amount the land would be sold for on a **stand-alone basis** without any complementary assets that help the land maximise its cash-generating ability; or
   (b) the amount the land would be sold for as **part of a bundle of complementary assets** that help the land maximise its cash-generating ability, similarly to the principles for measuring the value of assets as part of a business combination?
4. If your answer to Question 1 is "(b)" do you also think the values of buildings and other improvements on the land that are also restricted for a public-sector-specific purpose should reflect the amount of net cash inflows that they currently are able to generate under the restricted use? If not, please provide your reason(s).

Questions regarding information to be disclosed about restricted land in financial statements

5. Whether your answer to Question 1 is (a) or (b), would the following information about restricted land be useful to you if it was disclosed in the financial statements:
   (a) the current market buying price of equivalent unrestricted land[2];
   (b) the adjustment deducted from (a) in measuring the value of the restricted land recognised in the entity's balance sheet[3];
   (c) valuers take into consideration many variables and unobservable inputs measuring with the adjustment in 5 (b) (such as the risk that rezoning to the same permitted use as adjacent land will not occur), would **quantitative information** about those unobservable inputs be useful to you if it were disclosed in the financial statements[4]? In which ways would you find this information useful?
6. Would the information in Question 5 be more useful to you if it is disclosed:

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1 Because the land has not been sold at the measurement date, its market selling price is determined by assuming a hypothetical sale based on current market conditions at the measurement date.

2 'Equivalent unrestricted land' is a parcel of land in the same proximity as the parcel of land being measured, capable of providing the same services (or utility) as the parcel of land being measured, and not restricted for the public-sector-specific purpose as that applying to the parcel of land being measured.

3 This adjustment would be limited to the effects of restriction for a public-sector-specific purpose, and therefore would exclude the effects of physical differences between the land being measured and the equivalent unrestricted land (such as the land being measured being flood-prone or having more limited access), which are unrelated to the restriction for a public-sector-specific purpose (instead they are merely physical differences between a reference asset that is different and the asset being measured: the objective of disclosing the effects of restrictions for a public-sector-specific purpose on the measurement of land is narrower than showing each ingredient in the valuation process for the land being measured).

4 Narrative information about unobservable inputs are already disclosed in financial statements.

(a) for each class of land, which often involves disclosure only **in aggregate** for all restricted land of an entity; or

(b) **separately for each subclass of land** (eg land under roads, land under hospitals)?

Would the usefulness of disclosing this information for numerous subclass of land be likely to be outweighed by the additional volume and complexity of disclosures in the financial statements?

7. In relation to Question 6, if a public sector entity held a large number of parcels of restricted land and the probability about rezoning to the same permitted use as adjacent land varied widely amongst a class or subclass of land (eg from 10% to 90%), would it be useful to you if the financial statements disclosed that, for example, "the probability factors range from 10% to 90%"?

   If not, would it provide useful information if the entity disclosed more granular information about probability factors and the amounts to which those factors relate? If so, what is your preference regarding the type(s) of more granular information to be disclosed?

8. If restricted land is measured at fair value and that amount is less than the land's historical cost because of the restriction's effect on the land's ability to generate cash inflows, would it be useful to you if the land's historical cost were disclosed in the financial statements by way of note? If so, would it be more useful to you if disclosure of historical costs were made:

   (a) only in the period in which an adjustment is first deducted to reflect a public-sector-specific restricted use imposed on the land since it was acquired; or

   (b) in each subsequent reporting period since the land was acquired?

9. Would disclosure about the historical cost of other types of property, plant and equipment that are measured at fair value be useful to you? In which ways would you find this information useful?

Table 1: Overview of responses

Note: Some respondents appear to have a different understanding of the term 'service potential' than how staff used the term in the context of measuring asset values. For the purpose of staff analysis, even if a respondent had answered (a) in Question 1, staff have included the tally in Question 1(b) – Financial statements should reflect the amount of net cash inflows, if a respondent had mentioned in its response:

- **the financial statements should not reflect the highest value for restricted land due to a public-sector-specific restriction; or**
- **it would be appropriate to deduct an adjustment from the value of the land to reflect a public-sector-specific restriction.**

Response	**Group 1: Users of local government entities' financial statements**	**Group 2: Users of State, Territory and Commonwealth government entities' financial statements**	**Group 3: Other users of public sector financial statements data**
Number of entities contacted	24	12	13
Number of respondents	8	3	6
Measurement of restricted land			
Q1 – Should financial statements reflect restricted land's current service potential or the capacity to generate net cash inflows?	Of the 8 respondents • 4 – reflect service potential • 4 – reflect capacity to generate net cash inflows	Of the 3 respondents • 1 – reflect service potential • 1 – reflect capacity to generate net cash inflows • 1 respondent did not express a view	Of the 6 respondents • 6 – reflect capacity to generate net cash inflows
Q2 –Do current financial statements appropriately reflect the service potential of restricted land?	Of the 4 respondents who selected Option Q1(a) [i.e. reflect service potential]: • 1 – Yes • 2 – No • 1 respondent did not express a view	• 1 respondent commented that it is unclear in the current financial statements whether the service potential of restricted land is appropriately reflected • 2 respondents did not express a view	NA
Q3 –Should cash-generating capacity reflect net cash inflows from assets hypothetically sold either: on a standalone basis; or as part of a bundle of complementary assets?	Of the 4 respondents who selected Option 1(b) [i.e. reflect cash-generating capacity]: • 1 – Bundle of assets • 2 – Standalone basis, but unlikely to make a difference • 1 did not express a view	No respondents expressed a view	No respondents expressed a view
Q4 – Should the values of restricted buildings (and other improvements) on restricted land also reflect the amount of net cash inflows they currently are able to generate under the restricted use?	• 1 – Yes • 2 – No • 5 respondents did not express a view	No respondents expressed a view	No respondents expressed a view
Quantitative disclosures about restricted land			
	3 of the 8 respondents did not express a view on Q5–Q7.	1 of the 3 respondents did not express a view on Q5–Q7.	4 of the 6 respondents did not express a view on Q5–Q7.

Response	Group 1: Users of local government entities' financial statements	Group 2: Users of State, Territory and Commonwealth government entities' financial statements	Group 3: Other users of public sector financial statements data
Q5 – Would the quantitative disclosures about restricted land be useful? **Q6** – Would the quantitative information be more useful if disclosure per **class of land** or per **subclass of land?**	• 1 – Yes; per subclass of land • 2 – No; narrative information about the range of adjustments at an aggregated level would be preferable • 2 – Disclosures would only have very minor interest. Disclosures either per class of land or per sub-class of land would add unwarranted complexity in financial statements	• 1 – Yes; per subclass of land, but limited to parcels of land above a certain material monetary threshold • 1 – quantitative disclosures not useful but qualitative disclosure per subclass of land might be useful	• 1 – Yes; at an aggregated level • 1 – Not useful
Q7 – Would more granular information about probability factors and the amounts to which those factors relate be useful?	• 1 – Yes • 4 – No	• 1 – yes; disclosure of the rationale behind the probability calculations (and including variables and weights placed on each variable) would be useful • 1 – No	NA
Disclosure of historical cost			
	3 of the 8 respondents did not express a view on Q8–Q9.	1 of the 3 respondents did not express a view on Q8–Q9.	4 of the 6 respondents did not express a view on Q5–Q7.
Q8 – Would disclosure of the historical cost of restricted land be useful? Should disclosures be made only in the period in which an adjustment is first deducted, or in each subsequent reporting period?	• 1 – Yes; in each subsequent reporting period • 2 – Potentially; only in the period in which an adjustment is first deducted, but seems excessive and potentially onerous to prepare • 2 – historical cost disclosures in each subsequent reporting period would be mildly useful	• 2 – Yes; only in the period in which an adjustment is first deducted	The other 2 respondents were not asked to express a view on Q8–Q9 because the consultation with these respondents occurred before the Board's tentative proposal to consider disclosures about the historical cost of restricted land.
Q9 – Would disclosure about the historical cost of other types of property, plant and equipment (PPE) measured at fair value be useful?	• 3 – Yes • 2 – No	• 2 – No	NA

Table 2: Information about the respondents and additional feedback provided by respondents

Group 1: Users of local government entities' financial statements
4 of the 8 respondents in Group 1 [Respondents A – D] consider financial statements should reflect restricted land's current service potential
Respondent A Respondent A represents a Local Government Association, which sought information from the Local Government Finance Professionals of its jurisdiction (a body representing preparers of public sector entities' financial statements), and provided the following comments: • Rather than assuming fair value is the appropriate value for public sector assets, it might be more helpful to consider a broader question – *How can public sector (asset) values be measured*? – Stating a position on this question would also inform asset management and procurement practices and reporting. • The concept of service potential is not clearly defined, and there seems to be an implied assumption that service potential can only be determined in monetary terms. • It would be useful if the amount paid to valuers annually and the frequency of the valuation cycle was disclosed. This information would help establish the reliability of the information contained in financial statements and provide an indication that public assets are being appropriately managed on behalf of the community. • While Respondent A considered that quantitative information would be more useful if disclosed per each subclass of land, it would be important to consider the cost of providing this information and the potential benefits that it would yield. • Historical cost represents a more reliable and verifiable measurement of 'cost' (to the Government) when compared with fair value, which relies on valuation techniques incorporating assumptions.
Respondent B Respondent B represents a Local Governance Association, the objectives of which are good governance for local governments. Its members do not consider themselves to be direct users of local governments' financial statements. Respondent B would prefer a valuation method based on the current service potential of the asset, provided that the methodology was clear and simple to apply and does not render obscure valuations that are not useful for strategic planning. Information about assets' current service potential might be useful because of a recently enacted requirement for local governments to prepare a 10-year asset management plan. However, Respondent B qualified its response and acknowledged the argument that since many restricted assets cannot be liquidated by local governments, measuring assets at their current service potential might be an intellectual exercise of no particular public value.
Respondent C and Respondent D Respondent C and Respondent D provided a combined response from the Office of Local Government and the Local Government Grants Commission in its jurisdiction with no further details other than those summarised in the Table 1 above.

4 of the 8 respondents in Group 1 [Respondents E – H] consider financial statements should reflect the restricted land's capacity to generate net cash inflows
Respondent E Respondent E represents the Office of Local Government in a jurisdiction. • Most data Respondent E uses come from the ABS and Local Government Grant Commission; Respondent E does not use financial statements directly. • Respondent E commented that the balance sheet of public sector entities should not be overstated by reflecting asset values that cannot be realised.
Respondent F Respondent F represents the Office of Local Government in a jurisdiction. Respondent F provided the following comments: • They distinguish land that has Crown reserve (reserved land) from restricted land that is freehold (which local governments have the ability to sell). • Since 2013, reserved land has not been recognised by local governments, because they do not control that land, which they only manage on behalf of the State Government. The State Government has the right to sell reserved land and would recognise any gains or losses from the land's sale. Improvements on reserved land are recognised at fair value. • In consultation with the Office of the Auditor-General, the Office of Local Government is in the process of developing amendments to the financial management regulation that would prescribe measuring right-of-use assets arising under leases of reserved land (road reserves and other reserves) at cost, which is effectively nil value. Improvements on such land will continue to be measured at fair value. • Respondent F does not think any value would be obtained for local governments and the users of their financial statements by measuring reserved land at fair value. • Respondent F considers that freehold restricted land should be measured at fair value; however, any caveats on the land title (e.g. caveats are often found on the title of land being used for an aged care facility) should be taken into account in the measurement of such land. • When analysing the performance of local governments, Respondent F would usually focus on the 7 ratios (5 of which are based on audited data) that local governments are required to report. • There is usually no cost or income associated with management of land under roads as local governments cannot charge the public for using a local road. Therefore, the information that might be important to a user of financial statements would be on the costs that would be incurred in maintaining improvements on roads.
Respondent G and Respondent H Respondent G and Respondent H provided a combined response from the Office of Local Government and the Local Government Grants Commission in its jurisdiction. They provided the following comments: • The current approach of deducting an adjustment from the market value of equivalent unrestricted land to reflect the public-sector-specific restricted use is likely to better match community expectations and comprehension. • Given financial statements is largely a record of historical transactions and balances, it appears more logical to measure land in the public sector based on actual use during a financial year. Measuring restricted land based on a potential future alternative use is unlikely to aid users of financial statements. • In the local government context, reflecting information about the cash inflows the restricted land is able to generate on a stand-alone basis would be more useful. In the cases of land under roads and public parks it is unlikely there would be a bundle of complementary assets that would significantly impact the value of the land.

- It is not necessary that improvements on land reflect the amount of net cash inflows they are able to generate. Buildings and other improvements on the land can be more easily valued by reference to current replacement costs. Buildings and improvements are more likely to be replaced, whereas land in many cases (e.g. when used as a road) is unlikely to change from its current use.
- Unless the suggested disclosures in Question 5 are made at an individual asset level, which would be onerous and impractical, they would not be useful. Therefore, narrative commentary about the range of adjustments at an aggregated level would be preferable to the suggested quantitative disclosures. Disclosure of more granular detail is not supported.
- Historical cost information could be useful but appears to be excessive and potentially onerous.

Group 2: Users of State, Territory and Commonwealth government entities' financial statements

1 of the 3 respondents in Group 2 [Respondent A] considers financial statements should reflect restricted land's current service potential

Respondent A

Respondent A represents the Public Accounts Committee in a jurisdiction. The staff of Respondent A provided the following informal preliminary views, which have yet to be endorsed by Respondent A's governing body:

- It would be more useful if public sector entities' financial statements reflected restricted land's current service potential. This is assuming that current service potential is the market value of the land. Financial statements should reflect the market value of the land because any self-imposed restrictions or restrictions that can be removed through rezoning are irrelevant to users of the financial statements.
- The current financial statements do not differentiate the values between restricted land and other land. Therefore, it is unclear which method is used to report restricted land and difficult to determine whether financial statements appropriately reflect the service potential of the restricted land.
- The disclosures in Question 5 would provide useful information because they would provide an insight into Government spending and would enable the assessment of whether the land purchased was overvalued or undervalued. At present, it is not clear what proportion of land has been deducted to reflect restrictions.
- The disclosures in Question 5 would be beneficial to enhance comparability across governments regarding elements of quantitative information used to derive the value of restricted land. Publishing this information would also benefit financial modellers who could utilise the quantitative information for inputs to their financial models. However, detailed quantitative information is not considered necessary, an overview of the quantitative information utilised would suffice.

1 of the 3 respondents in Group 2 [Respondent B] considers financial statements should reflect restricted land's capacity to generate net cash inflows.

Respondent C did not express a view whether financial statements should reflect restricted land's current service potential or its capacity to generate net cash inflows.

Respondent B

Respondent B represents the Public Accounts Committee in a jurisdiction, which sought information from the Auditor-General, the Valuer-General and the Chief Financial Officer of a number of public entities in its jurisdiction. Respondent B provided the following comments:

- The highest value of restricted assets is not always achievable as there is rarely a market for hypothetical sales of such restricted assets and these assets are not always readily replaceable.
- Its jurisdiction currently uses the market approach to measure specialised land, including national parks, reserves and conservation areas and adjusts for the community service obligation to reflect

the specialised nature of the land being valued and the associated restrictions. Respondent B is of the view that such valuations need to continue to be assessed on a case-by-case basis.

- Respondent B also commented that guidance issued by valuers should specify uniform discounts on restricted land as a matter of course.

Respondent C

Respondent C, whose main focus is on recurrent government expenditure rather than capital stocks or capital expenditure, provided the following comments:

- Respondent C considers itself as an indirect user of public sector entities' financial statements because the data they receive are supplied by jurisdictions in data collection sheets completed in accordance with a data collection manual, which may include specific accounting rules. They also focus on central agencies rather than individual entities.
- The key concerns Respondent C has about public sector entities' financial data is whether they are comparable across jurisdictions.
- Since the main expenditure focus is on recurrent government expenditure, limited data are collected on the amount of capital expenditure (not generally reported) and the value of assets. The value of land and purchases or sales of land are usually not reported because land is not a depreciable asset (i.e. it does not give rise to a recurrent expense). Information about depreciation of assets is considered because it is a component of recurrent expenditure.

Group 3: Other users of public sector financial statement data

All 6 respondents in Group 3 consider financial statements should reflect restricted land's capacity to generate net cash inflows.

None of the 6 respondents in this group considers themselves to be a user of public sector entities' financial statements (as opposed to financial data). These respondents provided the following comments:

- 5 of the 6 respondents said their work involves analysis of aggregated financial data usually provided by the ABS at the Whole-of-Government level. They do not refer to individual entities' financial statements. Consequently, 4 of the 6 respondents did not express views on Q5–Q9 regarding disclosures.
- All of the 6 respondents said they are interested in expenditure and not interested in movements in balance sheet values. Non-financial assets information is not an area of focus for them.
- In respect of Question 1, all of the 6 respondents said they are interested in the value of assets that could be sold to support budget outcomes and debt repayment. Given the likelihood of selling restricted assets in a majority of cases is very low, they are concerned that any other measure might inadvertently overestimate the value of the assets.
- 2 respondents said they focus on recurrent government expenditure rather than capital expenditure, and they are interested in how much the Government has invested in an industry (e.g. health and transport) across the sectors and across time. They are also interested in analysing how Government performs against its policies and how it performs in a transaction compared with the business case.
- In respect of disclosures in Question 5, one respondent commented that they would be useful to ensure public sector land are measured consistently over time. The disclosures would also be useful to compilers of the respondent's data if analysing the overall level of discounting in land valuation. To limit the burden of data provision, it might be more appropriate to align the level of disaggregation with the information readily available to reporting entities as an output from their existing valuation processes.

Background to Questions about the Measurement of Restricted Land and Related Disclosures

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AASB's Fair Value Measurement for Not-for-Profit Entities project

Since 2014, most public sector entities (both for-profit and not-for-profit entities) have been measuring their property, plant and equipment at fair value in accordance with Accounting Standard AASB 13 *Fair Value Measurement*, rather than at cost. AASB 13 adopts IFRS 13 *Fair Value Measurement*, which is an Accounting Standard issued by the International Accounting Standards Board (IASB) written for for-profit entities (however, AASB 13 exempts not-for-profit public sector entities from some of the more detailed disclosure requirements in IFRS 13).

The Australian Accounting Standards Board (AASB) is progressing its *Fair Value Measurement for Not-for-Profit Entities* project in response to constituents' requests for not-for-profit entity-specific guidance to assist such entities to apply the principles of AASB 13 in the not-for-profit context.

Fair value is defined in AASB 13 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." A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its "highest and best use" or by selling it to another market participant that would use the asset in its highest and best use.

"Highest and best use" is "the use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used".

Issue regarding restricted land

A key issue on which guidance has been requested is how to measure the fair value of land restricted for a public-sector-specific purpose ('restricted land'). AASB outreach to date has shown that different methodologies are used to measure the fair value of restricted land. A majority of public sector entities seem to estimate the fair value of restricted land by assuming a hypothetical sale of land with the restrictions and, to reflect the effect of the restrictions, measure the land's fair value at an amount less than the market value of equivalent unrestricted land. Some argue that this methodology understates the service potential of the land. This is discussed below.

Various public sector entities buy land in a specific location to fulfil their mission of delivering community services. In buying that land, they need to compete in the marketplace against potential buyers for commercial and private uses of that land. Typically, those public sector entities then build public hospitals, public schools, roads, shrines or other public facilities on that land, to provide services to beneficiaries at no charge or a heavily subsidised charge. Sometimes they simply dedicate the land for use as a public park.

Often, the special use of that land for a community use is formalised by the government imposing a legal restriction (eg zoning regulation) on the land's use by the agency. Because of those legal restrictions, many agencies measure the land at a significantly reduced value, compared with the price they needed to pay to buy the land (or the price they would currently need to pay to buy unrestricted land today).[5]

Those entities include a significant reduction in the fair value measurement because they value the land only from the perspective of what a potential commercial or private purchaser of the land would be prepared to pay (reflecting the restricted use of the land). However, from the viewpoint of the public sector entity that holds the land (or another public sector entity bidding for that land), the restriction does not reduce the land's value, because it bought it primarily with its restricted use in mind. Arguably, that value is its current service potential, ie its current ability to deliver needed services to beneficiaries (members of the public). If the public sector entity's use of the land is taken into account, the land's highest and best use is almost always its existing use. However, many public sector entities effectively exclude from fair value measurements of such land the price they would need to pay to acquire the land to use it in its existing use. In effect, they assume that the potential buyer of the land would never be a public sector entity. Some argue that this interpretation of how 'fair value' should be measured causes:

- the restricted land's purchase to always be depicted as economically irrational; and
- the public sector entity's need to acquire the land's service potential to be ignored—the land is valued only for its utility to potential buyers in the private sector, even though the restrictions often mean the land is of limited utility to them and they would not be interested in acquiring the land's service potential in its existing public sector use.

Therefore, the community's investment in the scarce resource (land) is reported as having been reduced because the land is restricted for a community use. Some argue that this obscures the stewardship of the scarce resource of behalf of the community at large. For the government as a whole, the restriction was self-imposed, ie the restriction locked up scarce resources for their service potential to the community. Some say it is anomalous that such self-imposed restrictions are treated as reducing the land's value. However, some disagree, arguing that, even if a restriction is self-imposed, community expectations can make it very difficult to remove the restriction.

Some argue instead that faithfully representing an asset's fair value (selling price) requires the asset to be measured at the amount a potential commercial or private purchaser would be prepared to pay for the asset. They consider this treatment is appropriate because they think the most useful current value measure of restricted land would reflect the amount of net cash inflows that the land currently is able to generate directly under the restricted use. They think users of financial statements would find it confusing if current values meant something different from current cash-generating value. In essence, they think that holding an asset primarily for its service potential should not result in a different current value measurement than if the asset were held primarily to generate net cash inflows.

Another aspect of this debate is that public sector entities that measure the fair value of restricted land at an amount less than its current market buying price generally measure restricted buildings and other restricted improvements on that land at their current replacement cost (current market buying price) without a deduction for the effect of the public-sector-specific restriction. Some argue that it is inconsistent to deduct an amount for the restriction in relation to land but not the restricted improvements upon that land.

Understanding the information needs of users of public sector entities' financial statements regarding restricted non-financial assets would inform the AASB the best way to resolve this debate and to assist its decision on the not-for-profit entity-specific guidance on fair value measurement.

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5 For example, valuation guidance in Victoria recommends that public sector entities deduct an amount of 20% – 30% for land under public hospitals or public schools and 60% – 70% for State Parks. In addition, some public sector entities measure restricted land such as inner city parkland by reference to prices of undeveloped rural land.