



27 June 2022

Australian Accounting Standards Board  
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MELBOURNE VIC 8007

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Dear Sir/Madam

**Submission on draft ED320**

Please find attached submission from Blacktown City Council regarding the draft ED320. We look forward to your consideration to our submission.

Should you have any questions please do not hesitate to contact our Chief Financial Officer, Steven Harris, on 9839 6460 or [steven.harris@blacktown.nsw.gov.au](mailto:steven.harris@blacktown.nsw.gov.au)

Yours faithfully



Wayne Rogers  
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**Connect - Create - Celebrate**

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# Draft ED320 Submission

10 June 2022

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## Introduction

This submission has been prepared following the release of ED320 and the Australian Accounting Standards Board (AASB) request for feedback.

We note that the Exposure Draft proposes implementation guidance in respect of non-financial assets which are not held primarily for the purpose of generating net cash inflows, our feedback is in relation to:

- a. the market participant assumptions to use in measuring the asset's fair value
- b. the asset's highest and best use
- c. the application of the cost approach if used to measure the asset's fair value.

We also note that, prior to the release of the Exposure Draft, many stakeholders provided feedback to the Australian Accounting Standards Board (AASB) regarding divergent practices by not-for-profit public sector entities in applying the principles in AASB 13 Fair Value Measurement in measuring the fair value of non-financial assets. In particular, those stakeholders asked the AASB to provide guidance on how to measure the fair value of non-financial assets not held primarily for their ability to generate net cash inflows.

As such, the goal of this Exposure Draft is to update AASB 13 Fair Value Measurement to remove any ambiguity, and that adopted practices should be consistent across the jurisdictions.

The Exposure Draft provides guidance on a range of issues. Our response is focussed on the valuation of community land for which the purpose of use is restricted by legislation, and which is covered to some extent in all 3 of the specific matters for comment requested by the AASB.

In regard to the valuation of community land, we **fully support** the guidance provided by ED320 which clarifies that the valuation of restricted assets:

*As per the Basis for Conclusion BC62 in ED320:*

- a. *would not take into account a restriction that is specific to the entity holding the asset, ie would not transfer to market participants in a hypothetical sale transaction (eg the restriction on the use of land in the IASB's example); but*
- b. *would take into account the effect of restrictions that would transfer to market participants in a hypothetical sale transaction (eg the easement restriction in the IASB's example).*

While the ED320 provides guidance in paragraphs BC62, we are however concerned that the wording of paragraph F9 is quite broad:

*“Paragraph 29 states that an entity’s current use of a non-financial asset is presumed to be its highest and best use,.... the presumption that the asset’s current use is its highest and best use is rebutted when, and only when, the appropriate level of the entity’s management is committed at the measurement date to a plan to sell the asset or to use the asset for an alternative purpose”*

Therefore, F9 is open to interpretation such that the value is to be discounted unless the asset is marked for sale and does not specifically reference some key points covered by the Basis for Conclusion; BC61 and BC62 in ED320. As such we are concerned that the Audit Office of NSW may continue to enforce accounting policies in accordance to their interpretation of AASB13 Fair Value Measurement as described in paragraph F9 in ED320. If so, such practices would result in extremely detrimental consequences for council in the coming years.

We would therefore recommend paragraph F being further strengthened by including the contents of BC61 and BC62 in the F9 – F13 (Highest and best use) so that there is no ambiguity about the need to only take into account the restrictions that would pass from the seller to the hypothetical buyer.

### **Council’s position**

In the past Council has raised with the Audit Office of NSW our view that no additional discounts should be applied to land simply because it is to be used for a community purpose. However, the Audit Office of NSW has adopted an extremely rigid view, which is not being applied by Queensland and South Australian government authorities, that all land must be discounted. As a result of this rigid stance, Council has previously been required by the Audit Office of NSW to write-down the value of land by over \$420 million despite the value being recorded at the transactional value.

Of great concern to Council is that we will acquire approximately \$1.5 billion of community land over the next 15 years. This is funded from Section 7.11 developer contributions to support the rapid growth of the North West Growth Area (NWGA). In the past, discounting mandated by the Audit Office of NSW was accounted for by debiting our Asset Revaluation Reserve. However, unless the Audit Office of NSW alter their interpretation, we will need to write-off approximately \$1.35 billion of these purchases to the financial statements over the next 10 years, which will impact Council’s capacity to borrow and meet our long term financial plan targets.

We believe that the interpretation adopted by the Audit Office of NSW of discounting land value for community purposes based on Valuer General’s discounted valuation would now be technically incorrect. However, our previous discussions with the Audit Office of NSW do not provide us with certainty it will change its stance based on the existing content of the F paragraphs. Unless any ambiguity is removed, we are concerned that we will still be required to adopt accounting policies and practices which believe have misstated the truth of our financial performance.

We are concerned that unless the F paragraphs specifically cover the conclusions covered in the BC paragraphs and that these are supported by some specific illustrative examples, that the Audit Office of NSW will continue to disregard their contents and will retain a position requiring discounting.

We further acknowledge that the Australian Accounting Standards Board considers some aspects of AASB 13 Fair Value Measurement already being clear and not requiring further guidance. However, our experience is that despite the contents of the existing BCs, unless those specific issues are better referenced in the F paragraphs there is a very high risk that inconsistent application and interpretation will not change.

## Example that highlights our concerns

Council is currently acquiring significant number of properties as community land to support the rapid growth of the North West Growth Area (NWGA). For the 2019/20 financial year Council acquired around \$52.4 million of community and we project over the next 15 years we will acquire around a further \$1.5 billion of community land. This land will be used to build the local infrastructure that will service over 250,000 new residents.

Council is nominated as the acquisition authority by the NSW Government through the Department of Planning and Environment's precinct planning process. Blacktown City Council has 12 of the 16 precincts in the NWGA, with more precincts for growth than any other council in NSW.

As the acquisition authority, Council must acquire land in accordance with the *Land Acquisition (Just Terms Compensation) Act 1991* (the Act). This means that we are required to pay market rates for all land purchased. The determination of appropriate market rates for each acquisition is obtained by an independent valuation from an accredited valuer, who will consider the highest and best use for the parcel of land, taking into account its underlying zoning, and other attributes such as environmental and flooding constraints.

Land owners will engage their own valuer and between Council and the land owner's valuers market value is agreed. If the 2 parties cannot agree, the matter escalates to the Valuer General for determination of the market value. The Act allows the landowner to appeal the Valuer General's determination but Council, as the acquisition authority cannot appeal the amount. This consistently leads to overinflated prices for land and artificially sets a value of land for future purchases that is distorted.

For the 2019/20 financial year, we acquired land at an average rate of \$450 per square metre. This varied from a low of \$300 per square metre for R2 zoned land and up to \$800 per square metre for R3 zoned land. In addition, we incur significant further costs relating to the obtaining of independent valuation advice, contamination advice and legal services. On a typical acquisition these costs can total around \$20,000. This does not include the additional costs of technical reports such as hydrology, ecological or planning reports.

Despite spending significant amounts acquiring this land, the Audit Office of NSW has adopted the view that the recognised fair value of community land should be derived from discounting the value to take into account the purpose of the land acquisition and this valuation to be provided by the Valuer General.

When purchasing a piece of land for community purposes, once re-zoned it will be recorded based on the Valuer General's discounted valuation. On average the valuations have been discounted by approximately 90% from the market price. If the practice of discounting was to continue, over the next 15 years, given that we no longer have sufficient Asset Revaluation reserve remaining, we would need to write down \$1.5 billion of acquisitions to \$150 million and record an operating loss of \$1.35 billion.

The Audit Office of NSW's insistence on a highly discounted value was not taken by Queensland Audit Office and Auditor General's Department of South Australia. Despite previously raising the issue with the Audit Office of NSW and pointing out the AASBs 2019 tentative decisions, the Audit Office of NSW has been unwavering in its requirements to apply discounts.

## Recommendations

To ensure that there is no ambiguity and to ensure consistency across all jurisdictions we strongly recommend:

- the F9 – F13 paragraphs be enhanced to include the same content as set out in BC61.  
*BC61, the Board noted that the fair value measurement of an asset:*
  - a. *would not take into account a restriction that is specific to the entity holding the asset, ie would not transfer to market participants in a hypothetical sale transaction (eg the restriction on the use of land in the IASB's example); but*
  - b. *would take into account the effect of restrictions that would transfer to market participants in a hypothetical sale transaction (eg the easement restriction in the IASB's example).*
- The illustrative examples include 2 examples for community land which we believe should not be discounted but recorded at the market price paid or would be paid if council had to acquire it from a third-party. Specifically:
  - Land acquired at market value and converted to community land
  - Land contributed to Council as part of a development to be used for community benefit.

Should you have any questions on the information contained in this letter, please contact our Chief Financial Officer, Steven Harris on 02 9839 6460.