



20th April 2015

Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne VIC 3000

Dear Sir/Madam

Subject:AASB Tentative Agenda Decision: Asset Residual Values

I refer to the AASB's tentative decision on Residual Values (Feb 2015) as it relates to Local Government Infrastructure Assets & in particular the re-use/recycling of part of an infrastructure at its replacement date and thereby lower future replacement costs.

Willoughby City Council would like to register its view that the AASB tentative decision would appear unfairly narrow in its conclusions regarding Residual Value (as defined in AASB 116).

Under AASB 116, Residual Value is defined as:

*"the estimated amount that an entity would **currently obtain** from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life".*

Regarding the "re-use/recycling" of part of an infrastructure asset that is being replaced, Council believes that the benefit from "re-use/recycling" DOES fit within the current definition of "Residual Value" as per AASB 116:

1. An "estimated amount" can be determined in \$terms (based on the difference between the assets complete replacement cost & recycled replacement cost),
2. An entity will "currently obtain" the "amount" by paying a reduced cost of replacement (ie. cost savings have value & are "obtained" by the entity when achieved by keeping the extra cash not outlaid),
3. The "amount" obtained is clearly the result of the "disposal" of the asset - being its replacement/refurbishment with a new asset.



In fact it is felt that the current definition of "Residual Value" as per ASSB 116 is in fact readily applicable to the "cost savings" a Council can earn/utilise by reusing or recycling (or taking early replacement) action that utilises part of the existing asset (as opposed to deferring replacement until the asset fails & requires total replacement).

Should the AASB's tentative decision be formalised, the impact on Local Government will be large as Council's will need to significantly expand their asset registers to include both a short-life and a long-life component for most existing components. This will create significant complexities and associated costs and risks in Councils trying to reconcile their asset management systems to their financial accounting systems.

Council staff have furthermore read the dissenting submissions on the AASB's website from APV and Coalface Consulting Accountants (arguably both local government experts in their respective fields), and hope that the AASB Board take these two comprehensive submissions plus our own into account and as a result review their tentative decision on residual values once again.

If the AASB does not want such an extended "recycling/re-use" residual value to flow on to For Profit entities, we question why the AASB would not enunciate a Not-for-profit Aus paragraph to clarify the residual value definition for Not-for-profit entities only.

Council would also like to put to the AASB Board that if they are unwilling to extend the definition of residual values to include a recycling/re-use aspect, that they consider in the face of the dissenting submissions (from industry experts & participants) to have the matter reviewed by the IASB's Technical Panel.

Yours sincerely



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