



TEMORA SHIRE COUNCIL

Our reference:

ELS:F/02/01

13 April 2015

email to: standard@asb.gov.au

Subject: **Asset Residual Values**

We refer to the AASB's tentative decision on Residual Values (Feb 2015) as it relates 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.

We would like to register our view that the AASB tentative decision is 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, we believe 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.

As such we feel the current definition of "Residual Value" as per AASB 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).

We 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.

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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.

We 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 faithfully

A handwritten signature in black ink, appearing to read 'GC Lavelle', written in a cursive style.

GC Lavelle
GENERAL MANAGER