8 December, 2004

MEMORANDUM

TO: Council
FROM: Daniel Flaherty, Manager, Financial Services Division

SUBJECT: Library Revaluation

The purpose of this paper is to:

• Canvas alternative valuation options for the university Library Collection (library collection) and:
• Recommend a library valuation approach for the 2004 University Annual Financial Statements

Preface

The library collection has two categories of assets, namely, monographs\(^1\) and serials\(^2\).

The library collection was first valued in 1993 using a written down current cost valuation methodology with subsequent additions recoded at cost. For the year ending December 2003, the library collection had a written-down value of $67.870 million.

Under Australian Accounting Standard 1041 *Revaluation of Non-Current Assets*, the University is required to value its non-current assets at either cost or fair value. The South Australian Department of Treasury and Finance Accounting Policy Statement No. 3, *Valuation of Non-Current Assets*, prohibits the cost option, so the University is required to value its non-current assets at fair value. APS 3 defines fair value as generally written down current cost.

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\(^1\) Monographs include text books and research texts. In consultation with senior Library staff it was decided that using one useful life for both texts and research texts was a fair and reasonable method.

\(^2\) Serials also referred to as a periodical, or a journal, is a continuing publication issued in successive parts.
The transitional provisions of AASB 1041 require that the University revalue its Library collection no later than 30 June 2005. As a result, a decision was made to review the value and useful life of each category of asset in the library collection.

Valuation of University libraries is notoriously difficult as there is no market and it appears there is no agreement on useful lives of library materials when practices across Australian Universities are examined.

An independent report prepared by Mr B West and Mr G Carnegie\(^3\) found, that in 2002, Flinders University’s library collection was significant to total assets (23.4\%) and was the 7\(^{th}\) highest valued collection of Australian universities. The library collection has a higher value than the collections of number of other universities, such as Macquarie University, the University of Adelaide, La Trobe University and Griffith University. All these universities have annual turnovers exceeding $300 million, compared to Flinders’ turnover of less than $200 million.

It was agreed that Flinders University would seek to work collaboratively with the University of Adelaide on this review to encourage commonality within the higher education sector in South Australia. Please note that the University of South Australia is not considered comparable as it is a multi-campus university and is an amalgamation of the South Australian Institute of Technology and the South Australian College of Advanced Education, hence their library collection is not research by nature.

Flinders University and the University of Adelaide have focused on the following matters:

- the appropriate valuation methodologies for each asset category; and
- the depreciation rates and methodologies for each asset category.

Although, Flinders has advanced further into the review process than the University of Adelaide, the University of Adelaide did indicate that it would adopt a similar approach to Flinders.

**Presentation & Discussion**

Currently, the library collection valuation process used in 1993 was written down current cost as follows:

- Calculate the current average purchase price for each category of assets;
- Reduce the average purchase price by the rate of depreciation currently applied for each year for each asset category.
- Multiply the number of holdings in each year by the average depreciated purchase price applicable for that year.

Lengthy discussions have been held with senior Library staff over a period of time and the overall view is that this revaluation method is still reasonable, given the price rises experienced over the last few years. Further evidence in support of the method of valuation outlined above, is that when the University buys older serials, the prices paid are equal to or greater than, the written-down value.

It was agreed that the current method of valuation would remain. What is of more importance is the useful life (depreciation) of each category.

The current useful live of the collection is:
- **Monographs**: 40 years (2.5% depreciation per annum)
- **Serials**: 50 years (2% depreciation per annum)

Traditionally, a long useful life has been given to each category, due to the fact that Flinders is a research university and keeps research materials for a long period of time. Flinders is part of a national alliance of six universities called Innovative Research Universities Australia (IRU Australia). An analysis was done on the useful life of each asset category for all IRU’s library collection. This is illustrated in table 1.

<table>
<thead>
<tr>
<th>Monographs</th>
<th>Griffith</th>
<th>La Trobe</th>
<th>Macquarie</th>
<th>Murdoch $^4$</th>
<th>Newcastle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>15 years</td>
<td>10 years</td>
<td>5 years</td>
<td>Up to 4 years</td>
<td>5 years</td>
</tr>
<tr>
<td>(6.7%)</td>
<td>(10%)</td>
<td>(20%)</td>
<td>(≤ 22%)</td>
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</table>

The table clearly shows that Flinders estimate of useful lives is considerably above those of any other comparable university. This means that Flinders could have a similar collection to another university, but would have a much higher asset valuation.

Flinders’ Senior Library staff have indicated a preference of giving monographs a useful life of 10 years (10%) and serials 20 years (5%), however, they note that La Trobe University’s collection is of similar nature to Flinders’ and that La Trobe uses 10 years for both monographs and serials. They are not uncomfortable in adopting La Trobe’s approach in order to achieve a better level of consistency in financial reporting.

Table 2 compares the library collection value using the current method, the senior Library staff preference and the La Trobe method.

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$^4$ Rolling depreciation is used, whereby acquisitions in the fourth year preceding the reporting year are charged to depreciation. This is used by all Western Australian Universities.

$^5$ Annual depreciation rate using straight line
As illustrated in figure 2, there is no material difference to the University Operating Result as the depreciation expense for any of the above methods is reasonably static.

What is noticeably different is the total written down value of the collection when we apply different useful lives on the assets. As you can see in table 2 when the useful life of monographs is reduced to 10 years (10%) and serials to 20 years (5%) the written down value of the collection is reduced to $45,373,285. This is a $22,523,715 decrement to the library collection. When we adopt the La Trobe University model the written down value is reduced to $22,193,531, this is a decrement of $45,703,469.

Transitional Arrangements\(^6\) under Accounting Standard AASB 1041, allow any decrement arising upon revaluation of non-current assets to their fair value can be debited directly to retained profits. Therefore, any write-down in the library collection will not affect the University’s Operating Result.

**Recommendation**

It is recommended that the La Trobe University model ie. 10 years useful life for monographs and serials is applied to the library collection. This will give the library collection a ‘fair value’ of $22,193,531 and puts Flinders in line with comparable universities in Australia.

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\(^6\) AASB 1041 revaluation of Non-Current Assets paragraph 8.5(b)(ii)