CHAPTER 4

Non-current assets

4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.1 Introduction

Adaptation and interpretation for the public sector context

4.1.1.1 The following adaptations and interpretation of IAS 16 for the public sector context apply.

Recognition and measurement

- Infrastructure assets, community assets (except for community assets where the valuation option has been adopted, in accordance with Section 4.10 of the Code) and assets under construction (excluding investment property – see Section 4.4) shall be measured at historical cost; the option given in IAS 16 to measure the carrying amount of these classes of assets at fair value has been withdrawn. Infrastructure assets or community assets (except for community assets where the valuation option has been adopted, in accordance with Section 4.10 of the Code) shall also not be measured at current value.
- All other classes of asset shall be measured at current value (or in the case of heritage assets, valuation, in accordance with Section 4.10 of the Code). If there is no market-based evidence of current value because of the specialist nature of the asset and the asset is rarely sold, authorities may need to estimate current value using a depreciated replacement cost approach. The current value of council dwellings shall be measured using existing use value – social housing (EUV–SH).
- Where an asset is not held for the purpose of generating cash flows, **value in use** is the present value of the asset’s remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

- An authority shall not implement the requirements of the Code in relation to accounting for the depreciation of significant components of an asset and the derecognition of old components and recognition of new components retrospectively. These requirements shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.
- For the avoidance of doubt, a 'short period' for the revaluation of a class of assets is interpreted to mean that assets are normally revalued once every five years for each class of assets, provided that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period.
- For property, plant and equipment within this section of the Code the option in IAS 16 for the treatment of accumulated depreciation and impairment where the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset is withdrawn.

Depreciation

- The Code includes an interpretation for infrastructure assets at paragraph 4.1.2.44 indicating that it may be appropriate for the pattern of consumption of economic benefits to be reflected by means of weighted average useful lives of the relative parts of the asset.

Derecognition

- The Code includes a temporary adaptation in paragraph 4.1.2.51 for the avoidance of doubt, for infrastructure assets, that when parts of an asset are replaced or restored the carrying amount of the derecognised part may be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed. This adaptation will support the reported net book values of infrastructure assets. This adaptation is included from the 2010/11 Code to the 2022/23 Code. This adaptation commences from the move to the IFRS-based Code.

Definitions

- For this section of the Code, current value (for land and buildings) is to be interpreted as the amount that would be exchanged for the asset in its existing use. This requirement is met by providing a valuation on the basis of existing use value (EUV) in accordance with UK VPGA 6 and UK VPGA 4[26] of the Royal Institution of Chartered Surveyors (RICS) *Valuation – Global Standards 2017: UK national supplement*[27].

Disclosure requirements

- Paragraph 4.1.2.4 d) is adapted temporarily so that local authorities do not need to report the gross book value and accumulated depreciation for infrastructure assets. This adaptation is included from the 2010/11 Code to the 2022/23 Code. This adaptation commences from the move to the IFRS-based Code.

Depreciation

4.1.2.40 Land and buildings are separate assets and shall be accounted for separately, even when they are acquired together. Depreciation applies to all property, plant and equipment, whether held at historical cost or revalued amount, with two exceptions:

- land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, ie quarries and landfill sites), and
- heritage and community assets that have an indefinite life.

4.1.2.41 An asset shall not be depreciated until it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of:

- the date that the asset is classified as held for sale in accordance with Section 4.9 of the Code (also see IFRS 5), and
- the date the asset is derecognised.

4.1.2.42 The only other ground for not charging depreciation is when the residual value of an asset is equal to or greater than the asset's carrying amount. Repairs and maintenance do not remove the need to depreciate an asset.

4.1.2.43 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset that has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods. The requirement for componentisation for depreciation purposes shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.

4.1.2.44 The depreciation charge shall be based on the depreciable amount allocated over the useful life of the asset, using a depreciation method that reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed. For infrastructure assets a weighted average useful life for its parts (eg carriageways, footways and cycle tracks and structures) may appropriately reflect this pattern.

4.1.2.45 The depreciation charge for each period shall be recognised in surplus or deficit on the provision of services unless it is included in the carrying amount of another asset. General Fund service revenue accounts, central support services, departments or directorates, trading accounts and the Housing Revenue Account shall be charged with depreciation.

4.1.2.46 The residual value, useful life and depreciation method shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates in relation to residual value and/or useful life and/or there has been a significant change in the pattern of consumption of the future economic benefits or service potential, the changes shall be accounted for as a change in an accounting estimate (as opposed to a change in accounting policy) in accordance with Chapter 3 of the Code (also see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). The requirement to review the residual value, useful life and depreciation method at least at each financial year shall be in addition to the valuations at intervals of no more than five years (see paragraphs 4.1.2.37 to 4.1.2.38).

4.1.2.47 To determine whether an item of property, plant and equipment is impaired, local authorities shall refer to Section 4.7 of the Code (also see IAS 36 *Impairment of Assets*).

Derecognition

4.1.2.49 The carrying amount of an item of property, plant and equipment shall be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

4.1.2.50 The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in surplus or deficit on the provision of services when the item is derecognised (unless Section 4.2 of the Code requires otherwise on a sale and leaseback).

4.1.2.51 As set out in paragraph 4.1.2.21, the carrying amount of a replaced or restored part of the asset is derecognised, with the carrying amount of the new component being recognised subject to the recognition principles as set out in paragraph 4.1.2.18 being met. For the avoidance of doubt, for infrastructure assets from the introduction of the IFRS based Code to the 2022/23 Code the carrying amount of the part of the asset derecognised may be a zero amount because parts of infrastructure assets are rarely replaced before the part has been fully consumed and should, on average, be fully depreciated at the date of replacement. This recognition and derecognition takes place regardless of whether the replaced part had been depreciated separately.

4.1.2.52 If it is not practicable to determine the carrying amount of the replaced part, authorities may use the cost of the new part as an indication of what the cost of the replaced part was at the time it was acquired or constructed (adjusted for depreciation and impairment, if required).

4.1.4 Disclosure requirements

4.1.4.1 Where authorities conclude that following the requirements of this section of the Code results in accounting entries that are immaterial, authorities need not follow this section of the Code and include the de minimis level within the disclosure of accounting policies (see Section 3.4).

4.1.4.2 Disclosure of accounting policies in relation to property, plant and equipment is required, where these accounting policies are significant to the authority's financial statements (see Section 3.4). An authority shall disclose information within these accounting policies that helps users to understand the valuation techniques used to develop the current value measurements for significant categories of property, plant and equipment.

4.1.4.3 Having regard to paragraph 3.4.2.27 of the Presentation of Financial Statements section of the Code, which permits authorities not to provide a specific disclosure if information is not material, authorities shall disclose the following notes in relation to property, plant and equipment:

1) The financial statements shall disclose, for each class of property, plant and equipment:

   a) the measurement bases used for determining the gross carrying amount

   b) the depreciation methods used

   c) the useful lives or the depreciation rates used

   d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period, and

   (From 1 April 2010 to financial year's commencing 1 April 2022 local authorities are not required to report gross book value and accumulated depreciation for infrastructure assets. This adaptation is included from the 2010/11 Code to the 2022/23 Code. This adaptation commences from the move to the IFRS-based Code.)

~~d)~~e) a reconciliation of the carrying amount at the beginning and end of the period[35] showing:

i) additions (including donated assets)

ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Section 4.9 of the Code and other disposals

iii) increases or decreases resulting from revaluations under Section 4.1 of the Code and from impairment losses recognised or reversed in other comprehensive income and expenditure and taken to the revaluation reserve in accordance with Section 4.7 of the Code

iv) impairment losses recognised in surplus or deficit on the provision of services in accordance with Section 4.7 of the Code

v) impairment losses reversed in surplus or deficit on the provision of services in accordance with Section 4.7 of the Code

vi) depreciation, and

vii) other changes.

2) The financial statements shall also disclose the amount of contractual commitments for the acquisition of property, plant and equipment.

3) In accordance with Section 3.3 of the Code, an authority discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

a) residual values

b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment

c) useful lives, and

d) depreciation methods.

4) If items of property, plant and equipment are stated at revalued amounts, subject to the application of paragraphs 2.1.2.14 to 2.1.2.17 to ensure that material information is not obscured the following shall be disclosed:

a) the effective date of the revaluation

b) whether an in-house or external valuer was involved, and

c) the methods and significant assumptions applied in estimating the items’ current values.

5) The financial statements shall disclose a summary of capital expenditure during the reporting period, including assets acquired under finance leases, analysed for each category of assets, together with the sources of finance and the capital financing requirement.