4.1 PROPERTY, PLANT AND EQUIPMENT

4.1.1 Introduction

4.1.1.1 Authorities shall account for tangible fixed assets in accordance with IAS 16 Property, Plant and Equipment, except where interpretations or adaptations to fit the public sector are detailed in the Code.

4.1.1.2 IPSAS 17 Property, Plant and Equipment is based on IAS 16, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies, ie the basis for determining fair value and introducing the concept of ‘service potential’.

4.1.1.3 This section of the Code does not cover property, plant and equipment classified as Non-current Assets Held for Sale and Discontinued Operations in accordance with section 4.9 of the Code (also see IFRS 5). IAS 16 also refers to other areas where the Standard does not apply; however, these areas may not be common, if relevant at all, within authorities, ie exploration for and evaluation of mineral resources. Authorities should refer to IAS 16 for these areas. Tangible heritage assets are accounted for in accordance with this section of the Code subject to the specific requirements of section 4.10 of the Code.

4.1.1.4 Property, plant and equipment classified as finance leases under section 4.2 of the Code (also see IAS 17) shall follow section 2 in terms of recognition, however in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed in this section.

4.1.1.5 The section of the Code does not apply to investment property (including investment property under construction) classified under section 4.4 of the Code (also see IAS 40).

Adaptation and interpretation for the public sector context

4.1.1.6 The following adaptations of IAS 16 for the public sector context apply.

Recognition and measurement:

- Infrastructure, community assets (except 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 of the Code) 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cost; the option given in IAS 16 to measure the carrying amount of these classes of assets at fair value has been withdrawn. Local authorities may, however, chose to measure transport infrastructure assets as defined in the scope of the Code of Practice for Transport Infrastructure Assets at

1 Transport infrastructure assets are taken to mean the network of highways, footways and cycleways and the structures, lighting and other assets that are directly associated with them.
depreciated replacement cost in accordance with the requirements of that Code. However, if they chose to adopt this option those transport infrastructure assets must be held as a separate class of assets. For authorities choosing to voluntarily adopt this measurement base, any infrastructure assets outside the scope and definition of transport infrastructure assets will continue to be measured at historical cost.

- All other classes of asset shall be measured at fair value (or in the case of heritage assets, valuation, in accordance with 4.10 of the Code). If there is no market-based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold, authorities may need to estimate fair value using a depreciated replacement cost approach. The fair 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.

Definitions:

- For this section of the Code, fair value (for land and buildings) is to be interpreted as the amount that would be paid 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 UKPS 1.3 of the RICS Valuation Standards. The fair value of surplus assets shall be based on the existing use value of the asset, applying the same assumptions relating to the level of usage, etc as those in the most recent revaluation as an operational asset.

### 4.1.2 Accounting Requirements

**Definitions**

- **Carrying amount** is the amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

- **Class of property, plant and equipment** is a grouping of assets of a similar nature and use in an entity’s operations. The following classes of property, plant and equipment are used in the Code:
  - Operational assets
  - Council dwellings (ie dwellings within the Housing Revenue Account).
  - Other land and buildings.
- Vehicles, plant, furniture and equipment.
- Infrastructure assets (inalienable assets, expenditure on which is only recoverable by continued use of the asset created, ie there is no prospect of sale or alternative use; examples include highways, structural maintenance of highways, footpaths, bridges, permanent ways, coastal defences, water and drainage (note - where authorities have chosen to voluntarily adopt the measurement requirements of the Code of Practice on Transport Infrastructure Assets, this should be treated as a separate class of assets)).
- Community assets (ie assets that an authority intends to hold in perpetuity, that have no determinable useful life and which may, in addition, have restrictions on their disposal). The definition of community assets no longer includes items that are now accounted for as heritage assets.

Non-operational assets
- Surplus assets (ie assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties under section 4.4 of the Code or non-current assets held for sale under section 4.9 of the Code).
- Assets under construction.

4.1.2.3 Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of acquisition or construction.

4.1.2.4 Depreciable amount is the cost of an asset, or other amount substituted for cost, less residual value.

4.1.2.5 Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

4.1.2.6 Depreciated replacement cost (DRC) is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. Where DRC is used as the valuation methodology, authorities should use the ‘instant build’ approach at the valuation date and the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.

4.1.2.7 Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

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2 The Royal Institution of Chartered Surveyors Valuation Information Paper Number 10 The Depreciated Replacement Cost Method of Valuation for Financial Reporting provides guidance on this matter.
4.1.2.8 Existing Use Value–Social Housing (EUV–SH) is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, in an arm’s-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following further assumptions that:

- the property will continue to be let by a body and used for social housing
- at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor’s ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body’s requirements
- properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession
- any subsequent sale would be subject to all of the above assumptions.

4.1.2.9 Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s-length transaction. For this section of the Code, fair value (for land and buildings) is to be interpreted as the amount that would be paid 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 UKPS 1.3 of the RICS Valuation Standards.

4.1.2.10 Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (ie b/f from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

4.1.2.11 Property, plant and equipment are tangible assets (ie assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

4.1.2.12 Qualified valuer is a person conducting the valuations who holds a recognised and relevant professional qualification and having sufficient current local and national knowledge of the particular market, and the skills and understanding to undertake the valuation competently.

4.1.2.13 Residual value of an asset is 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.

4.1.2.14 Useful life is the period which an asset is expected to be available for use by an entity.

4.1.2.15 Further definitions, including definitions of entity-specific value and recoverable amount are contained in IAS 16.
Measurement after recognition

4.1.2.28 Infrastructure and assets under construction (excluding investment property – see section 4.4 of the Code) shall be measured at depreciated historical cost). An authority may measure community assets at either valuation (in accordance with section 4.10 of the Code) or historical cost. An authority may measure transport infrastructure assets at depreciated replacement cost in accordance with the measurement requirements of the Code of Practice on Transport Infrastructure Assets.

4.1.2.29 All other classes of asset shall be measured at fair value. If there is no market-based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold, authorities may need to estimate fair value using a DRC approach. The fair value of council dwellings shall be measured using EUV–SH. EUV–SH and DRC are methods of valuation that are based on fair value with additional special assumptions for each of the respective methods.

4.1.2.30 Authorities may elect to adopt a depreciated historical cost basis as a proxy for fair value for non-property assets that have short useful lives or low values (or both). For depreciated historical cost to be considered as a proxy for fair value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset class.

4.1.2.31 Classes of assets whose fair value can be measured reliably shall be carried at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment. When an asset is re-valued, any accumulated depreciation and impairment at the date of valuation shall be eliminated against the gross carrying amount of the asset and the net amount restated to the re-valued amount of the asset. Where authorities use the alternative method of proportionately restating any accumulated depreciation and impairment at the date of valuation, they should refer to IAS 16.

4.1.2.32 Where the carrying amount of property, plant and equipment is increased as a result of a revaluation, the increase shall be recognised in the Revaluation Reserve, unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset (see section 4.7 of the Code) or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

4.1.2.33 A revaluation gain shall be used to reverse a previous revaluation decrease recognised in Surplus or Deficit on the Provision of Services on the same asset. In the same way as the treatment of a reversal of a previous impairment loss (see section 4.7 of the Code), the reversal of a revaluation decrease previously recognised in Surplus or Deficit on the Provision of Services shall not exceed the increase that would reinstate the carrying amount that would have been determined (net of amortisation or depreciation) had no revaluation decrease been recognised for the asset in prior years. Any excess above the carrying amount that would have been determined (net of amortisation or depreciation)
had no revaluation decrease been recognised for the asset in prior years shall be treated as a revaluation gain and credited to the Revaluation Reserve.

4.1.2.34 Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, ie a significant decline in an asset’s carrying amount during the period that is not specific to the asset or the authority (as opposed to an impairment which is covered in section 4.7 of the Code), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (ie up to its depreciated historical cost) and thereafter in Surplus or Deficit on the Provision of Services.

4.1.2.35 Where assets are re-valued (ie the carrying amount is based on fair value), valuations shall be carried out at intervals of no more than five years. Valuations may be carried out on a rolling basis or once every five years.

4.1.2.36 The fair value of land and buildings shall be undertaken by professionally qualified valuers.

4.1.4 Disclosure Requirements

4.1.4.1 Where authorities conclude that following the requirements of this section of the Code result 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 of the Code).

4.1.4.2 Disclosure of accounting policies in relation to property, plant and equipment is required (see section 3.4 of the Code).

4.1.4.3 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, 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
   e) a reconciliation of the carrying amount at the beginning and end of the period showing:
      i) additions
      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 chapter four, section 1 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.

f) where authorities have chosen to measure transport infrastructure assets at depreciated replacement cost in accordance with the Code of Practice on Transport Infrastructure Assets an authority shall state that fact and shall also include a separate disclosure note of that class of assets in accordance with the requirements of note (e) but on a depreciated historical cost basis.

2) The financial statements shall also disclose:

a) the amount of contractual commitments for the acquisition of property, plant and equipment, and

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, 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’ fair values.

5) Summary of capital expenditure during the reporting period, including assets acquired under finance leases, analysed for each category of fixed assets, together with the sources of finance and capital financing requirement.

4.1.4.4 Paragraph 4.1.2.2 of the Code sets out the classes of property, plant and equipment used in the Code, ie council dwellings, other land and buildings, vehicles, plant, furniture and equipment, infrastructure assets (transport infrastructure assets, where an authority has chosen to measure those assets in accordance with the requirements of the Code of Practice on Transport Infrastructure Assets), community assets, assets
under construction and surplus assets (those assets that are surplus to service needs but that do not meet the criteria to be classified as either investment property or assets held for sale). Authorities shall disclose the information set out in paragraph 4.1.4.3 on this basis.

4.1.4.5 An authority may elect (but is not required) to make disclosures in respect of community assets in accordance with section 4.10 of the Code (heritage assets) rather than in accordance with this section of the Code. An authority may elect (but is not required) to separately disclose those community assets reported in the Balance Sheet that it holds on trust.

4.1.5 Statutory Disclosure Requirements

4.1.5.1 There are no statutory disclosures required in relation to property, plant and equipment.

4.1.6 Changes since the 2010/2011 Code

4.1.6.1 Additional guidance on the classes of property, plant and equipment to be disclosed has been included. The Code permits (but does not require) authorities to measure transport infrastructure assets at depreciated replacement cost in accordance with measurement requirements of the Code of Practice on Transport Infrastructure Assets.

4.1.6.2 The Code now permits (but does not require) authorities to measure community assets at valuation and to make disclosures as if community assets were heritage assets. Authorities may therefore choose to use the same accounting base for community assets and heritage assets.

4.1.6.3 The statutory accounting requirements in respect of the HRA and Major Repairs Reserve have been clarified.