HM TREASURY

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Financial Reporting Advisory Board Paper

IFRS 13 Fair Value Measurement- Response to Exposure Draft (13)01

Issue:	The FRAB is asked to consider the responses to the Exposure Draft on IFRS 13 Fair Value Measurement and comment on the final proposals for adoption. Specifically: • Removing the adaptation proposed in the Exposure Draft on geographical location but providing additional guidance in the FReM; and • Delaying the implementation date from 1 April 2014 to 1 April 2015 with guidance for the practical implications on first time adoption.
Impact on guidance:	The proposed changes to the FReM are in Appendix 2.
IAS/IFRS adaptation?	No. The proposed adaptation in the ED has been removed following consultation.
Impact on WGA?	Yes
IPSAS compliant?	No. Prior to the release of IFRS 13 and the changes to the definition of fair value, the IPSAS definition of fair value complied with IFRS definitions. However, the IPSASB have issued an Exposure Draft on the measurement of assets and liabilities in financial statements as part of the development of a Conceptual Framework for General Purpose Financial Reporting (GPFR) by Public Sector Entities which proposes an entry value perspective to address service potential.
Interpretation for the public sector context?	Yes the proposed changed to the FReM provide interpretation.
Impact on budgetary regime?	No but changes in asset values impact on depreciation charges.
Alignment with National Accounts	No
Impact on Estimates?	No but Estimates will need to account for changes in depreciation as a result of changes in asset values.
Recommendation:	The Board is asked to approve the proposed changes to the FReM, including the application guidance in the annex.
Timing:	Application for financial periods beginning on or after 1 April 2015.

Background

1. The Board has considered IFRS 13 on a number of occasions. Following extensive discussion and debate ED 13(01) was published in July 2013 and responses were requested by 13 September 2013. Responses have been considered carefully and this paper sets out the proposed approach to IFRS 13.

2. A summary of the responses received is included in appendix 1.

Summary

3. It is proposed that IFRS 13 is adopted in full with no adaptation but enhanced guidance in the FReM to explain the constraints that are likely to apply in the public sector.

4. The adaptation proposed in the Exposure Draft has been considered carefully following responses to the Consultation. For material classes of assets it is now felt IFRS 13 meets the public sector need without adaptation. There are significant constraints on accessing markets for many public sector entities and assets which need to be reflected in asset valuations but IFRS 13 already requires this.

5. Consultations supporting the adaptation did not always reflect the requirement already in IFRS 13 to reflect constraints on accessing markets. A number of consultation responses did not support the adaptation.

6. There are real practical difficulties in implementing IFRS 13 by 1 April 2014 as proposed in the ED. In particular the NHS, which calculates public dividend capital using asset values, needs more time to allow the budgetary impact to be resolved. It is therefore proposed IFRS 13 is adopted for accounting periods beginning on or after 1 April 2015.

7. It is important to note CIPFA is currently consulting on IFRS 13, including the adaptation proposed in our consultation but now removed. The deadline for responses is after the October FRAB meeting. Given the need to avoid significant differences between the FReM and The CIPFA Code, there will be a need for the Board to consider CIPFA’s conclusion in December.

Impact on disclosures in resource and other accounts

8. Consultation responses were generally in favour of IFRS 13 disclosure requirements in principle but recognised the need to aggregate disclosures where possible. The proposed amendments to the FReM support this approach.

IAS/IFRS compliance

9. The revised proposal is for full adoption without adaptation but with increased guidance to enhance how IFRS 13 should be applied in the public sector.

IPSAS compliance

10. Prior to the release of IFRS 13 and the changes to the definition of fair value, the IPSAS definition of fair value complied with IFRS definitions. However, the IPSASB has issued an Exposure Draft on the measurement of assets and liabilities in financial statements as part of the development of a Conceptual Framework for General Purpose Financial Reporting (GPFR) by Public Sector

Entities which proposes an entry value perspective to address service potential.

Transitional arrangements

11. There are no specific transitional arrangements proposed but adoption of the Standard is delayed until 1 April 2015. This is to allow time to plan for the implementation of IFRS 13 in terms of valuations required and the impact of changes to depreciation, public dividend capital and other costs calculated with reference to asset values.

12. Central government departments are required to value assets in accordance with IAS 16 to ensure that the Statement of Financial Position gives a true and fair view of the value of the assets at the reporting date.

13. IAS 16 states that when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. The FReM suggests appropriate approaches might include; annual valuations, quinquennial valuations or a rolling programme of valuations.

14. In practice many central government departments use a rolling programme of valuations so that all assets in the programme are revalued at least every five years. This does not remove the requirement to consider if any revalued asset differs materially in value from its carrying value at year end.

15. It is proposed that following the adoption of IFRS 13 in the FReM, Departments consider this change alongside all other indications of material movements in valuations. This will mean categories of assets where the basis for valuation will need to change as a result of IFRS 13, may need to be revalued earlier than planned. For example non- specialised buildings such as offices, with no restrictions on sale, may need to be revalued at alternative rather than exiting use. Entities will need to identify these classes of assets through discussions with valuers. Delaying adoption until 1 April 2015 will allow entities more time to identify assets with constraints and those where the value may change materially under IFRS 13.

16. In accordance with IFRS 13 application guidance, IFRS 13 shall be applied prospectively as of the beginning of the annual period in which it is initially applied. This is now stated explicitly in the proposed changes to the FReM. There will therefore be no prior period adjustments required due to adoption of IFRS 13.

Finance Leases

17. The Board is asked to comment on the implications of IFRS 13 for leased assets accounted for on balance sheet, including PFI schemes. Currently in the public sector these assets are usually revalued in the same way as owned assets are. Where these assets will not transfer to the lessee at the end of the lease they are depreciated over the lease period. When the assets are revalued they usually increase in value but the remaining useful economic life remains the same causing depreciation charges to increase.

18. IFRS 13 requires an entity to value assets with reference to the market it has access to. Given that the lessee does not have legal ownership and can therefore never sell the asset, should the lease be valued rather than the asset under IFRS 13?

Proposed text for the Government Financial Reporting Manual

19. See Appendix 2 for the proposed amendments to the FReM. The chapters included within this paper have only been updated for IFRS 13 and no other changes at this stage.

Impact on the budgetary regime

20. Although there is no change to the budgetary regime, changes to asset values are likely to impact on depreciation charges which will have a budgetary impact. Treasury is currently considering its response to the likely changes in depreciation as a result of adopting IFRS 13.

Summary and recommendation

21. The Board is asked to approve the adoption of IFRS 13 in full with no adaptation but with enhanced guidance in the FReM. Effective date 1 April 2015. The Board is asked to approve the amendments to the FReM.

HM Treasury
10 October 2013

Appendix 1

SUMMARY OF MAIN POINTS FROM CONSULTATION

Respondent	Summarised Response	HMT responses (where applicable)
BIS	• Agree with proposed amendments. • Agree with adaptation. Additional guidance may be required outside the FReM on which assets is within the scope of the adaptation. • Disclosures will require an increased administrative effort but with that will come a better understanding of the fair value of the assets on the balance sheet. • For asset rich bodies there may be the need for pragmatism or transitional arrangements to calculate fair value and supporting disclosures. • Agree with effective date but transitional arrangements may be required for specific entities. • Please clarify if 6.2.30 applies to all assets or just heritage assets. • Where will the guidance at appendix A be; in the FReM or on the website? • Is this a change in accounting policy or a change in estimate? • Can IFRS 13 be adopted early and if not can/ should notice of the change be disclosed in the 13/14 accounts?	• Application guidance now included as an Annex to the FReM. • No specific transitional arrangements proposed but implementation date delayed until accounting periods beginning on or after 1 April 2015 • This paragraph only applies to heritage assets • Application guidance will be included as an Annex to the FReM • IFRS 13 applies prospectively, no PPA will be required. Early adoption is not permitted. This is now explicit in the FReM. • Notice of the change can be disclosed in earlier Financial Statements if bodies see this as relevant.

	• Will revaluation reserves for assets that have changed profiles need to be removed? • Early notice of when the changes will be adopted is required in order to inform valuations.	• Historical revaluation reserves will not need to be removed following the introduction of IFRS 13.
CLG	• Proposed amendments to FReM are helpful but it would be helpful to update other areas of the FReM where IFRS13 is relevant. • It would be helpful to have additional guidance on the application of materiality in the case of IFRS 13. • It would be helpful if HMT would confirm that any changes arising from the adoption to the policy would be exempted from departmental budgets.	• The FReM will be updated in all relevant areas. • We do not propose to issue specific guidance on how to apply materiality to IFRS 13 but the principle of materiality applies to all standards. • Treasury is currently considering its response to the likely changes in depreciation as a result of adopting IFRS 13.
DECC	Confirmed no comments.	
DEFRA	• Does IAS 16 allow the use of indices? • FREM needs to be clearer. For example the distinctions for certain types of asset or a firmer link to guidance showing key interpretations for the public sector. • It would be helpful to provide template disclosures to be clear in the disclosures how IFRS 13 has been adapted for the public sector.	• IAS 16 paragraph 35a refers to the use of indices. Caution needs to applied when using indices however so that the correct indices are used in the correct circumstances. • Application guidance is now included as an Annex to the FReM. • Department Yellow is likely to have template disclosures.
Deloitte	• Disagree with adaptation. Geographical restrictions would be taken into account on an open market valuation without adaptation. Instead disclosures around the restrictions on such	• Adaptation now removed but application guidance is enhanced to consider a range of constraints that

	assets should be required. • It is correct for heritage assets to continue to be carried at cost. • Rather than exclude IFRS 13 disclosure requirements from WGA, it would be more useful to have a summarisation of the required disclosures with signposting to where the underlying detail can be found.	may apply in the public sector. • No disclosure requirement proposed for WGA given reporting requirements already in place it is not felt this is necessary. Signposting to where the underlying detail can be found is valid.
DH	• Agree with proposals. • Agree with adaptations because specialised assets and non-specialised assets that are constrained by the geographical requirements of the delivery of services in specific locations are major considerations in the NHS. • Proposed disclosure requirements would be lengthy and complex. It would be helpful to have some simpler, standardised example disclosures in the FReM which would give the user of accounts a clear understanding of how values for various categories have been arrived at, while avoiding excessive length and complexity. • NHS bodies will be subject to higher PDC dividends where asset values increase. These increased costs can be managed in Departmental budgets but it will not be possible to estimate these in advance of the first valuation cycle using the new standard. • Disagree with proposed effective date as 14/15 budgets are nearly finalised. Would propose 1 April 2015.	• There are sufficient constraints on key NHS assets delivering services to local populations for value in existing use (or DRC) to be the value under IFRS 13 applied without adaptation. Our understanding is that NHS and Foundation Trusts are not free to sell assets without external authority to do so. • Common view is that disclosures need to be aggregated. Example disclosures will be given in Department Yellow. • This has been raised by DH and Monitor. Proposed to delay adoption until 1 April 2015 to allow time for information to be gathered and funding mechanisms to be adjusted accordingly. • IFRS 13 will be implemented prospectively. No PPA will be required. This is now explicit in the revised

	• Is the new standard a change in accounting policy or change in estimation technique? Significant difference as a national PPA for this would be extremely onerous.	FReM.
FCO	• Disagree with the amendment to the FREM to reflect the principles of IFRS 13. Entry price is more appropriate than exit price as a basis for valuation in the public sector/ IPSASB offers greater flexibility and applicability to the public sector. • Where exit values are used this may result in large swings in value- some upwards and others downwards. • Using fair value measurement would not enhance understanding of the value to the department as FCO doesn't have the freedom to take advantage of market movements by selling a property and acquiring a cheaper asset in a different location. Some assets are of a "heritage nature" and would never be considered for resale. • The proposed approach will create inconsistent valuations, and thereby add nothing to the accountability or the decision making process. • The proposed disclosure requirements are burdensome and do not add value. It is not clear if IFRS 13 requires disclosure for foreign exchange hedges in relation to assets abroad in addition to IFRS 7. Further adaptation would be welcome and we are against any change to current practice. • The proposal may necessitate new valuation profiles (e.g. office accommodation), but this is likely to only apply to discrete types of asset. However it is not clear to what extent this inappropriate burden of revaluation and disclosure will impact. However, it is clear that it will not increase transparency. Indeed it is likely to	• Currently the FReM is aligned with IFRS rather than IPSASB although it is important to note there is a Memorandum of Understanding in place between the IASB and the IPSASB (through IFAC) • Specialised assets where there is no market could be valued using the income or DRC approach under IFRS 13. In the public sector DRC will be commonly used. Non specialised assets are currently valued using exit prices but ignoring alternative markets. It is accepted that highest and best use value may be more variable than value in existing use. • Valuing an asset at market value does not mean it has to be sold. The decision to sell is a separate process. Where entities genuinely do not have the freedom to sell an asset, highest and best use valuation would reflect there is no access to an alternative market. • It is hoped that through enhanced application guidance a reasonable level of consistency will be achieved. • Most responses to the consultation support the disclosure requirements but with aggregation.

	confuse. • The proposed distinction between specialised and non-specialised buildings exists across a spectrum and is not clear cut. Professional judgment will be required. For instance, the valuation of specialised plant and machinery must be adjusted for permanent excess capacity. The excess capacity in some specialised buildings may have practical alternative uses. However, it would need to be demonstrated that a feasible alternative use exists, and that the excess capacity would be permanent. Making a clear cut valuation profile in such circumstances would prove difficult, and liable to fluctuation over time. • It may be necessary to define a class of assets to include only fair value measurements that are in a single level of the fair value hierarchy. Certain assets will move between these classes as their methodology of valuation changes over time. This complicates the presentation of PPE, resulting in confusion for the reader, and does not improve decision making. • Implementation date should be delayed until Accounting Periods ending on or after 1 April 2015.	• Many specialist assets are currently valued at DRC. Under IFRS 13 they could be valued using the income or DRC approach but in the public sector it is likely DRC will be more commonly used. The situation described is not felt to be an issue arising from IFRS 13. • The amended proposal is for an implementation date of 1 April 2015.
Grant Thornton	• The principle of applying IFRS 13 to the public sector is right as accounting for assets at fair value provides information on the	

	stewardship function. • On the adaptation further clarification is required on what government policy means. Should only apply when there is a statutory restriction, not when determined by the entity itself. • Where there is a genuine statutory restriction it may be the asset should be treated as specialist and valued at the cost of replacing the service potential. Or the restriction could be treated as a level 3 input to adjust the market valuation. • Difficult to see how alternative valuations can be referred to as a proxy for fair value. • On heritage assets GT disagrees with proposed change to the FREM. FRS 30 should continue to be followed. • IFRS 13 disclosures may need to be aggregated to ensure they are kept to an appropriate level. • Changes to valuations should be explained in the accounts. • Agree non performance risk should be evaluated as zero for public sector bodies. • We agree with the implementation date of 1 April 2014. The FReM should confirm that this should be dealt with prospectively.	• It is agreed the constraint is only valid when not determined by the entity itself. This will be clarified in the application guidance. • Many assets with statutory restrictions may be specialist but not all. • No change on heritage assets intended. • Agree disclosures should be aggregated. This is now reflected in the FReM. • Agree changes as a result of IFRS 13 should be explained in the accounts at a high level. • The FReM now confirms IFRS 13 should be dealt with prospectively. Implementation date now proposed as 1 April 2015.
Homes and Communities Agency	• HCA holds significant land and property assets for the purposes of regeneration and development in accordance with statutory objectives.	

	• The majority of HCA non operational assets are treated for accounting purposes as property stock for disposal i.e. as inventory under IAS 2. • HCA has additional examples of public sector 'constrained assets' which are not covered by the ED. A strict interpretation of IFRS 13 Fair Value may present a value in excess of which the HCA can achieve within the constraints of its statutory objectives. • An asset sold for less than omv because of constraints will have to be impaired. • Assets that may achieve planning consent for change of use may be considered to be of higher value but supported policy is for a lower value use. • An asset's current highest value use may be different because of current economic conditions but selling it for this purpose would not accord with HCA's statutory objectives. • HCA supports the disclosure proposals unless they are commercially sensitive. • Agree with the effective date but further guidance needed in advance. • Suggest including the following guidance:	• A statutory objective may be considered a statutory restriction. Paragraph 19 of IFRS 13 states: The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and businesses within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and businesses within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities. • Under the proposal the constraint may prevent the asset being valued at alternative use so no impairment would be required. • If 'supported policy' is a statutory restriction this may mean that under the proposal the asset would not be valued at alternative use.

	Assets which are constrained by public sector statutory objectives (or a Government Policy Direction) should be valued incorporating these constraints at IFRS 13 Fair Value to enable the entity to obtain a true and fair view of the value of the asset at the reporting date. It is good practice to document and record the unconstrained value of the site at the reporting date to provide a clear reference value if or when constraints are fully or partially removed.	
HMRC	• What is the basis of valuing and reporting the fair value of property leased within PFI contracts where there is not a real residual interest in the value of the property. • Do alternative uses of leased properties need to be considered given those alternative uses cannot be realised? • Will intangible assets be reported at cost going forward if the ability to apply indices to value at modified historic cost has been removed? • For PFI it is not clear if it is the asset or the lease that should be valued but the lease has no market value.	• Residual interest is a factor in deciding whether a lease is on or off balance sheet. • Where any asset is required to be valued at fair value this will need to be in compliance with IFRS 13. The entity's access to the market needs to be considered. • No. The cost option for intangible assets is withdrawn. The FReM wording now reflects this. • This is currently under discussion and this paper asks The Board to comment.
Ministry of Justice	• Will the increased costs of valuing non specialised assets at market value be covered by HMT? • Does the removal from the FREM of using indices to revalue intangible assets mean the cost approach will be allowed and required going forward? • How should it be determined if assets can be classified as having short lives or low values? • IFRS 13 stipulates that its application is to be applied prospectively as of the beginning of the annual reporting period	• HMT does not cover the cost of changes in accounting standards but the response to the budget implications of changes to depreciation are currently being considered. • This was not intended and the previous wording has now been reinstated. • The classification of assets as having short lives or low values is a matter of judgement and will vary between entities.

	in which the IFRS is initially applied (i.e. no requirement to restate prior year figures). Will the proposed amendments also only require prospective adoption from 1 April 2014?	• IFRS 13 will be applied prospectively. No PPA will be required. This is now explicit in the FReM.
MoD	• The principles established in the guidance are not included in the proposed FReM text but they need to be in order to ensure consistency of application and assist agreement with auditors. • Assume no change to heritage assets. • It is unclear how land parcels associated with assets valued at DRC should be treated. Should it be at market value or based on the use the DRC are making of the land. • As far as disclosures are concerned it is not considered there would be many assets where fair value would be higher than EUV. • The implementation date may require a delay of up to two years to be achievable. Largely depends on how land parcels associated with assets valued at DRC will be treated.	• This is a common message and application guidance has now been included as an Annex to the FReM. • Correct. There is no change to heritage assets. • Where land is inextricably linked to a DRC asset it should be valued accordingly. Where the land is independent of the asset it should be valued at highest and best use in accordance with IFRS 13. • Implementation date now proposed as 1 April 2015.
Monitor	• The FReM should state explicitly that specialist assets would continue to be measured at DRC. • Non specialised assets should continue to be held at existing use. Market value does not reflect the purpose for which the NHS holds the assets or how they may be used. [update-Monitor have now informed us verbally they would like to remove this statement from their response to consultation].	• Valuers have specifically stated they don’t need to be told which methodology to use, just the basis. The standard provides sufficient guidance of what to do if there is no active market. • If there are restrictions on assets as set out in the guidance it may mean there is no access to the open market.

	• NHS FTs pay dividends to DH based on the value of net assets. Moving to market value is likely to increase dividends significantly for FTs with assets in the centre of large cities. This may disincentivise the locating of NHS facilities in certain locations. This may be counter to the wider objectives of the NHS. [Monitor now agree verbally this can be managed through pricing mechanisms such as the market forces factor].	• The impact on PDC has been raised by DH. They recognise it is an issue but one that can be managed by the Department. The issue is about having the information in time to adjust funding mechanisms.
NAO	• Concerned the title doesn't reflect the proposal to have an adaptation to the Standard. • Not clear if early adoption is permitted. • What are the plans for providing guidance to departments as to the accounting requirements for changes in carrying value as a result of the adoption? • Will guidance be provided on transitional arrangements where a cyclical approach to valuations has been traditionally adopted? • Have the budgetary implications of instances where the revised fair value is below historical cost and there is a resulting charge to the performance statement been considered? • Paragraph 20 states that "there is a public sector requirement for any portfolio asset currently used to deliver public services to be retained for the delivery of that portfolio's service delivery objectives wherever possible (high probability is not required)." We seek clarification on the following points: ○ Where does this requirement come from? Is it included in legislation and therefore is it proposed that this constitutes a legal constraint as envisaged by IFRS 13 over the disposal of such assets? ○ The Exposure Draft refers to lengthy consultations, fulfilment of regulatory obligations and possible	• The draft FReM is now explicit. The date for adoption is 1 April 2015 and early adoption is not permitted. • We do not plan to issue guidance on accounting requirements for changes in carrying value unless Departments identify the need for this. • Guidance is now included in the application guidance on the impact of first time adoption on valuation schedules. • Treasury is currently considering its response to the likely budget implications as a result of adopting IFRS 13. • There are examples where assets must be retained wherever possible. One example is schools where the Secretary of State has to give approval before publicly owned playing field and non playing field land is disposed of. This is a statutory requirement so the public entity owning the asset does not have access to the market. This is not an adaptation.

		Secretary of State approval as constraints for "certain types of in-use property assets" and therefore proposes that the existing use is the highest and best use. The Exposure Draft states that this is not an adaptation or interpretation but an understanding of the standard in application in the public sector. These constraints would normally relate to the provision of the service rather than the actual asset that is being used in the delivery of it. Do you have any specific examples where these constraints apply to a specific property? • Disagree with amendments to the FReM. ○ The wording proposed in the FReM at paragraph 6.2.5 differs from the situation/scenario set out in the narrative at paragraph 22. Paragraph 6.2.5 talks about assets used to deliver services in a restricted geographical area as described by government policy. Paragraph 22 does not make any reference to government policy as being a requirement and also refers to geographically restricted property assets. The narrative implies that it should be the property that is geographically restricted. Notwithstanding this we do not believe that this is an appropriate adaptation – see below ○ It is not clear how the guidance in Appendix A is going to be made available should these changes to the FReM be endorsed ○ The Guidance does not consider or provide any additional information in respect of geographically restricted assets ○ We suggest a slight amendment to paragraph 6.2.2 ……"where other standards permit **or require** an asset	IFRS 13 Paragraph 20 states that the entity must have access to the market. So fair values may differ for different entities. Comment- adaptation to be removed. It is now considered that constraints on access to markets in accordance with IFRS 13 without adaptation, is sufficient to reflect the fair value for public sector assets. • Application guidance now included as an Annex to the FReM. • Suggested amendment to 6.2.2 included.

	or liability…..” • We do not agree that proposed adaptation is appropriate or necessary. The situation described in the proposed FReM wording relates to services being required in a specific area. That does not make the assets geographically constrained. This is acknowledged in paragraph 24 which considers the disclosures required where the current use value differs considerably from the highest and best value and acknowledges that “this information can also support central government entities whose fair value disclosures may belie how an entity uses an asset…” • We have considered what assets could be considered geographically restricted assets. The examples identified were dams, bridges, flood defences, light houses etc. We would expect that these would fall within specialised assets or infrastructure assets and therefore would be valued at DRC. • The disclosure requirements of the standard are sufficient however we believe that preparers should be encouraged to consider aggregation of disclosures, where applicable. • Non performance risk is unlikely to be an issue at group level but might be at entity level e.g. a Foundation Trust in administration.	
Northern Ireland Office	• Agree with proposed amendment. Suggest omitting from 7.2.5 ‘where an active homogeneous market exists’. • Does paragraph 21 of the ED apply to office accommodation on government-owned estates? • Disclosure requirements may be particularly onerous for the	• Changes to paragraph now deleted. • It is not possible to say whether paragraph 21 applied to office accommodation on government-owned states or not. It would depend on the circumstances. If there are no external constraints on sale the entity does have access to the open market and the value should reflect that.

	public sector due to the specialism of assets for which market value is not a reflection of fair value. • The budgetary impacts need to be considered for example depreciation charges may increase for non specialised buildings being revalued upwards. • Additional guidance is needed for specialised assets, particularly at appendix A, note o. • Proposed timetable for implementation is too short given the need for a significant number of revaluations, the potential budgetary implications and other reorganisations on the same date.	• Departments will be encouraged to aggregate disclosures to keep them manageable. • Departments will need to assess and manage budgetary implications. It is being flagged as an impending change in the current review of 15/16 depreciation funding but there is no agreement for HMT to provide additional funding.
Valuation Profession (represented by the Public Sector Valuation Group, RICS, VOA and CIPFA)	• More prescriptive guidance on the basis for valuation would be helpful and ensure greater consistency. Valuers do not need guidance on the methodology to use. • FREM guidance is not detailed enough. Valuers need to know the basis of valuation to use in different circumstances. • Valuation profession have provided draft updated guidance aimed at Valuers.	• Application guidance now included as an Annex to the FReM. • Further supplementary guidance aimed specifically at valuers to be discussed further with the valuation approval once the application guidance is issued.
Wales Audit Office	• The ED suggests that whilst public sector assets held for purpose of service delivery should be valued on the basis of service potential, IFRS 13 requires the fair value of assets to be based on future inflows of economic benefit. The ED and the proposed amendments to the FReM attempt to reconcile these. However we consider that the approach outlined in the ED does not successfully achieve this reconciliation. • The ED's statement that the 'best and highest' use for	• If there is no access to alternative markets and the asset could only be sold retaining its existing use

	specialised assets and non-specialised assets subject to procedural or geographical constraints is represented by the current use of such assets. We do not consider that this is necessarily the case, and that MVfEU may be less than the 'highest and best' value from alternative use. MVfEU would not necessarily meet IFRS 13's 'highest and best use' criteria. • The ED's proposal for an adaptation of IFRS 13 such that non-specialised assets subject to geographical constraints are required to be valued on an MVfEU basis. Whilst we do not disagree with this approach in principle, we consider that the proposal lacks clarity regarding which assets would be subject to the adaption. • It appears to us that the ED is seeking to substantially maintain the valuation approach adopted by the FReM prior to the introduction of IFRS 13, but without incorporating in the FReM the adaptations to the underlying IFRS required to realise this aspiration. We consider that it would be more appropriate and transparent to formally adapt the requirements of IFRS 13 for the public sector context by stating that fair value should reflect the service potential of in use assets. We would therefore suggest that the FReM include adaptations requiring all in use property assets to be carried at market value for existing use. • An alternative approach would be to require both an open market value and a value for existing use to be determined for non-current assets. The balance sheet would record the highest value, thereby meeting the 'highest and best' requirements of IFRS 13, while the Notes disclose both values for each category of asset.	that is the highest and best use. • Adaptation no longer proposed. • The intention is not to maintain the status quo but to comply with IFRS unless there is good reason not to. • IFRS 13 does not allow the highest and best use valuations to reflect alternative use if the entity does not have access to those markets.

Appendix 2

FReM chapters addressed

The following table shows the topics addressed by these proposed amendments.

FReM Chapter	***Subject of amendments***
Chapter 6, Tangible Non-Current Assets	To include correct references to IFRS 13, and to reflect the language, principles and interpretations of IFRS 13.
Chapter 7, Intangible assets	To reflect the language, principles and interpretations of IFRS 13.
Chapter 14, Whole of Government Accounts	To include IFRS 13 in the table of applicable standards.
Annex	To provide application guidance to the public sector.

Introduction

An amendment to each of the following chapters is proposed:

- Chapter 6, *Tangible Non-Current Assets*
- Chapter 14, *Whole of Government Accounts*
- *New Annex, IFRS 13 application guidance*

These chapters have only been updated for IFRS 13 and not for the other changes being made elsewhere in the FReM at this stage.

Effective date of amendments

The effective date for the proposed amendments is 1 April 2015.

Proposed amendments

FReM amendments are proposed to reflect IFRS 13. As this is a new standard, there are no references to it in the FReM.

The proposed amendments reflect the measurement and disclosure requirements of IFRS 13. The amendments also give reporting entities flexibility in determining the definition of fair value for each class of asset and liability held.

6 Tangible non-current assets

Chapter 6 Contents

6.1 Introduction

6.1.1 This chapter identifies the accounting standards, their adaptations, interpretations and other requirements and guidance relating to tangible non-current assets, that reporting entities and reportable activities should apply when preparing their Statements of Financial Position. The chapter looks at each of the relevant accounting standards. Chapter 5 provides more detail on the disclosure requirements.

6.2.1 The following IFRS deal with accounting for tangible non-current assets:

IAS 16 *Property, Plant and Equipment*;

IAS 17 *Leases*;

SIC 15 *Operating Leases – Incentives*;

SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*;

IFRIC 4 *Determining whether an arrangement contains a lease*;

IFRIC 12 *Service Concession Arrangements*;

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*;

SIC 10 *Government Assistance – No Specific Relation to Operating Activities*;

IAS 23 *Borrowing Costs*;

IAS 40 *Investment Properties*;

IAS 41 *Agriculture*; ~~and~~

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; and

IFRS 13 Fair Value~~.~~

IFRS 13 Fair Value

Applicability

6.2.2 IFRS 13 applies to all situations in this manual where other standards permit or require an asset or liability to be measured at fair value.

Objectives of IFRS 13

6.2.3 The objectives of IFRS 13 are to define fair value, to set out a framework for measuring fair value and to set out the disclosure requirements for reporting entities relating to fair value measurement.

6.2.4 IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

6.2.5 Owing to the importance of IFRS 13 Application Guidance is included as an annex to this Manual.

6.2.6 IFRS 13 applies prospectively to entities covered by this Manual from 1 April 2015. Early adoption is not permitted***.***

IAS 16 Property, Plant and Equipment

Applicability

6.2.7 IAS 16 applies~~, as adapted in paragraph 6.2.5,~~ to all reporting entities covered by this Manual. Owing to their importance to the entities covered by the requirements of this Manual, separate guidance is included on:

- networked assets (paragraphs 6.2.~~9~~ 13 to 6.2.21~~17~~);
- donated assets (paragraphs 6.2.~~18~~ 22 to 6.2.~~22~~26);
- asset transfers (paragraph 6.2.~~23~~27); and
- heritage assets (paragraphs 6.2.~~24~~ 28 to 6.2.~~43~~47).

Objectives of IAS 16

6.2.8 A worked example of accounting for property, plant and equipment using modified historical cost accounting is provided on ~~this Manual's dedicated~~the gov.uk website.

6.2.9 The objective of IAS 16 is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

~~*Adaptation of IAS 16 for the public sector context*~~

~~6.2.10 For 'in use' non-specialised property assets fair value should be interpreted as market value for existing use. In the RICS Red Book, this is defined as 'market value on the assumption that property is sold as part of the continuing enterprise in occupation'.~~

Interpretations of IAS 16 for the public sector context

~~6.2.11~~6.2.10 In applying IAS 16, reporting entities should be aware of the following interpretations for the public sector context.

Recognition and measurement

a) All tangible non-current assets shall be carried at ~~valuation~~ fair value at the reporting ~~period~~ date – that is, the option given in IAS 16 to measure at cost has been withdrawn, as has the option to value only certain classes of assets;

b) It is not necessary to disclose the historical cost carrying amounts (where available) as required by IAS 16; and

c) The ‘value in use’ of a non-cash-generating asset 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.

~~Valuations~~ Fair Value

~~6.2.12~~6.2.11 In considering how best to apply the valuation requirements of IAS 16 and IFRS 13 so as to ensure that the Statement of Financial Position gives a true and fair view of the value of the assets at the reporting ~~period~~date, entities should consider the following guidance on property and non-property assets.

Property

Recognition and measurement

a) Entities should value their property using the most appropriate valuation methodology. Such methods might include:

- a quinquennial valuation supplemented by annual indexation and no interim professional valuation;
- annual valuations; or
- a rolling programme of valuations of properties (whether specialised or non-specialised);

b) It is for valuers, using the Royal Institution of Chartered Surveyors; (RICS) ‘Red Book’ (RICS Appraisal and Valuation Standards), and following discussions with the entity, to determine the most appropriate methodology for obtaining a fair value. Where a valuer, following discussion with the entity, determined that depreciated replacement cost (DRC) is the most appropriate, entities and their valuers should have regard to the guidance contained in the most recent RICS Red Book; ~~Valuation Information Paper No. 10 *The depreciated replacement cost (DRC) method of valuation for Financial Statements*[1] as supplemented by the more detailed guidance available on the gov.uk is Manual’s dedicated website;~~ ***[note we are working with the Valuation profession to ensure the appropriate up to date reference is included here]***

c) Where DRC is used as the valuation methodology, entities should normally value a modern equivalent asset in line with the Red Book. Any plans to value a reproduction of the existing asset instead should be discussed with the relevant authority (through sponsoring bodies where appropriate) to determine whether such an approach is appropriate to the entity’s circumstances;

d) Where DRC is used as the valuation methodology, entities should use the ‘instant build’ approach;

e) Where DRC is used as the valuation methodology, 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;

f) The cost of enhancements to existing assets (such as building of a new wing within an existing prison or adding a lane to a motorway) should be capitalised

~~[1] Contact the Royal Institution of Chartered Surveyors, 12 Great George Street, Parliament Square, London SW1P 3AD to obtain a copy of the latest guidance.~~

during the construction phase as an asset under construction. At the first valuation after the asset is brought into use, any write down of cost should be treated as an impairment and charged to the Statement of Comprehensive Net Expenditure.

Disclosure

g) Entities should:

- disclose in the accounting policies note the fact that assets are carried at fair value. Entities should also provide information about the approach to valuing their estates, including a statement (where applicable) that alternative sites have been used in DRC valuations;
- disclose in the notes on tangible non-current assets: the date of the last valuations of those property assets that are subject to revaluation, and the names and qualifications of the valuer; and
- discuss in the Management Commentary, where they hold extensive estates: their estate management strategy; the indicative alternative use values provided by the valuer as part of the routine valuation work, and what those alternative use values mean in terms of their estate management policy.
- As part of the Property, Plant and Equipment note entities are required, in the year the asset is acquired, to separately disclose the fair value of those assets funded by government grant, donation or lottery funding. Where the funder provides cash, rather than the physical assets, any difference between the cash provided and the fair value of the assets acquired should also be disclosed;

Non-property (excluding networked assets, donated assets and heritage assets)

Recognition and measurement

h) Entities may elect to adopt a depreciated historical cost basis as a proxy for fair value for 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.

i) Assets that are not covered by the above paragraph should be carried at fair value. Entities should value such assets using the most appropriate valuation methodology available (for example, appropriate indices); and

Disclosure

j) Entities should disclose the following in the notes to their accounts in relation to the valuation of non-property assets:

- in the accounting policies note: the fact that assets are carried at fair value; that depreciated historical cost is used as a proxy for fair value for named classes of assets (where appropriate) and the reasons why; information about any significant estimation techniques (where applicable); and

- in the notes on tangible non-current assets: the dates of the last valuations of any non-property assets that are subject to revaluation and the names and qualifications of the valuer.

Other requirements

~~6.2.13~~6.2.12 The following requirements should be observed by entities covered by this Manual.

a) Following the annual review of the useful lives of assets or asset categories required by IAS 16, entities should discuss any significant proposals to change these lives with the relevant authorities (through sponsoring bodies where appropriate) to ensure that the budgeting implications have been properly considered.

b) Entities might from time to time review their capitalisation thresholds or asset measurement methods. Any proposals for significant change to either must be discussed with the relevant authorities (through sponsoring bodies where appropriate) to ensure that the budgeting implications have been properly considered.

c) Entities should analyse their holdings of property, plant and equipment in accordance with 5.4.38.

Networked assets

~~6.2.14~~6.2.13 Networked assets comprise assets that form part of an integrated network servicing a significant geographical area. These assets usually display some or all of the following characteristics:

- they are part of a system or network;
- they are specialised in nature and do not have alternative uses;
- they are immovable; and
- they may be subject to constraints on disposal.

Examples of networked assets include road networks, sewer systems, water and power supply systems and communications networks.

Additional guidance in respect of the road network

Land, Structures and Communications

~~6.2.15~~6.2.14 Land, Structures and Communications will be accounted for following the guidance in IAS 16.

Road Surface

~~6.2.16~~6.2.15 The road surface asset managed by each of the highways authorities in England, Scotland, Wales and Northern Ireland will be recognised as a single asset by each such authority following the additional guidance in this manual.

~~6.2.17~~6.2.16 The road surface asset will be held at depreciated replacement cost based on service potential.

~~6.2.18~~6.2.17 Subsequent expenditure on the road surface will be capitalised where it enhances or replaces the service potential. Spending that does not replace or enhance service potential will be expensed.

~~6.2.19~~6.2.18 The annual depreciation charge for the road surface will be the value of the service potential replaced through the maintenance programme plus, or minus, any adjustment resulting from the annual condition survey. The value of maintenance work undertaken will be used as an indication of the value of the replaced part. Where the condition survey show that deterioration in the road surface exceeds the service potential replaced by the maintenance programme the additional deterioration will be taken to the Statement of Comprehensive Net Expenditure as part of the depreciation charge. Where the condition survey shows that deterioration in the road surface is less than the service potential replaced by the maintenance programme the depreciation charge will be reduced by the excess maintenance.

~~6.2.20~~6.2.19 The road surface will be subject to annual valuations as measured by suitable indices. Upward movements in value will be taken to the revaluation reserve and included in comprehensive net expenditure. Downward movements in value will be set against any credit balance held in the revaluation reserve until this credit is exhausted and thereafter to net operating cost.

~~6.2.21~~6.2.20 The road surface will be subject to an annual impairment review. Impairments will be recognised as required by IAS 36 Impairment of Assets as applied by the manual (see 8.2.4).

Other Infrastructure

~~6.2.22~~6.2.21 Where Bodies hold other networked assets the road surface accounting methodology detailed above may be used where it is appropriate to do so. However approval to use the road surface methodology should first be obtained from the relevant authority.

Donated assets

~~6.2.23~~6.2.22 Assets donated by third parties (see also paragraph 6.2.~~23~~27), either by gift of the asset or by way of funds to acquire assets (including national lottery-funded assets), and which meet the criterion in paragraph 6.2.~~19~~23, should be capitalised at fair value on receipt. ~~Where the value of the services provided by an asset will be less than the fair value of the asset because it is over-specified for its intended use, the lower value should be used.~~ The funding element should be recognised as income as required by IAS 20 as interpreted in this Manual as paragraph 6.2.~~71~~75. (b) refers.

~~6.2.24~~6.2.23 To qualify for treatment as a donated asset there should be no consideration given in return.

~~6.2.25~~6.2.24 Donated assets do not include:

(a) assets financed by grant-in-aid;

(b) the subsequent capitalised expenditure on a donated asset which is capitalised;

(c) assets constructed or contributed to by a developer to benefit the developer's business;

(d) assets accepted in lieu of tax.

These types of asset should be accounted for in accordance with IAS 16 in the same way as other assets of that general type.

~~6.2.26~~6.2.25 Donated assets should be revalued, depreciated and subject to impairment review in the same way as other non-current assets.

~~6.2.27~~6.2.26 Details of any restrictions or conditions imposed by the donor on the use of the donated asset should be disclosed in a note to the financial statements.

Asset transfers

~~6.2.28~~6.2.27 Entities (other than trading funds) may give or receive assets to/from another public sector body (including public sector bodies not covered by the requirements of this Manual) for no consideration. Assets acquired in this way will normally be recognized in accordance with IAS 20 as interpreted in this Manual at paragraph 6.2.~~71~~75. Entities should consult the relevant authority (through sponsoring bodies where appropriate) before entering into such a transaction.

Heritage assets

~~6.2.29~~6.2.28 A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of the heritage. Non-operational assets are those that are held primarily for this purpose. Operational heritage assets are those that, in addition to being held for their characteristics as part of the nation's heritage, are also used by the reporting entity for other activities or to provide other services (the most common example being buildings).

~~6.2.30~~6.2.29 All heritage assets should be accounted for in accordance with the requirements of this manual, which follows the principles of Financial Reporting Standard 30 - *Heritage Assets*.

~~6.2.31~~6.2.30 The reporting entity holding the asset should attest annually to the ongoing heritage credentials of its heritage assets. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, museum and gallery collections and works of art.

Interpretation of IAS 16 in respect of accounting for heritage assets

~~6.2.32~~6.2.31 In principle, heritage assets should be accounted for in the same way as any other asset under IAS 16. There are, however, certain characteristics associated with heritage assets that give rise to the need for interpretation of IAS 16.

Definition

a) Their value to government and the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market mechanism or price.

b) Established custom and, in many cases, primary statute and trustee obligations impose prohibitions or severe restrictions on disposal by sale.

c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates.

d) They may require significant maintenance expenditure so that they can continue to be enjoyed by future generations.

e) Their life might be measured in hundreds of years.

f) Antiques and other works of arts held by reporting entities outside the main collections should be classified as heritage assets only when they fulfil the above requirements. Otherwise, antiques and other works of art should be accounted for in the same way as other assets.

Recognition and measurement

~~6.2.33~~6.2.32 Operational heritage assets should be valued in the same way as other assets of that general type (buildings, for example).

Non-operational heritage assets should be valued subject to the requirements set out in paragraphs 6.2.~~29~~ 33 to 6.2.39~~5~~ below.

~~6.2.34~~6.2.33 Where information is available on the cost or fair value of heritage assets:

(i) they should be presented in the Statement of Financial Position separately from other tangible assets;

(ii) the Statement of Financial Position or the notes to the accounts should identify separately those classes of heritage assets being reported at cost and those at ~~valuation~~fair value; and

(iii) changes in the valuation should be recognised in the Other Comprehensive Expenditure section of the Statement of Comprehensive Net Expenditure, except impairment losses that should be recognised in accordance with chapter 8 of this Manual.

The accounting convention in this manual is to recognise non-current assets at fair value but, where exceptionally, it is not practicable to obtain a fair value, the heritage assets may be reported at historical cost.

~~6.2.35~~6.2.34 Where assets have previously been capitalised or are recently purchased, information on their cost or fair value will be available. Where this information is not available, and cannot be obtained at a cost commensurate with the benefits to users of the financial statements, the assets will not be recognised in the Statement of Financial Position and the disclosure required by this manual should be made.

~~6.2.36~~6.2.35 Valuations may be made by any method that is appropriate and relevant.

~~6.2.37~~6.2.36 There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are reported at valuation, the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current.

Depreciation and Impairment

~~6.2.38~~6.2.37 Depreciation is not required on heritage assets which have indefinite lives.

~~6.2.39~~6.2.38 The carrying amount of an asset should be reviewed where there is evidence of impairment, for example, where it has suffered physical deterioration or breakage or new doubts arise as to its authenticity. Any impairment recognised should be dealt with in accordance with the recognition and measurement requirements of IAS 36 - 'Impairment of Assets' in chapter 8.

Donations

~~6.2.40~~6.2.39 The receipt of donations of heritage assets should be recognised as income and taken through the Statement of Comprehensive Net Expenditure or recognised as deferred income in the Statement of Financial Position as required by paragraph 6.2.~~71~~75. Where exceptionally, it is not practicable to obtain a valuation for a donated heritage asset, the disclosures required by paragraph 6.2.~~41~~ 40 apply

Disclosures

~~6.2.41~~6.2.40 The disclosures required for heritage assets are set out below and apply to all heritage assets:

a) An entity's financial statements should contain an indication of the nature and scale of heritage assets held by the entity;

b) The financial statements should set out the entity's policy for the acquisition, preservation, management and disposal of heritage assets. This should include a description of the records maintained by the entity of its collection of heritage assets and information on the extent to which access to the assets is permitted. The information required by this paragraph may alternatively be provided in a document that is cross-referenced from the financial statements;

c) The accounting policies adopted for an entity's holding of heritage assets should be stated, including details of the measurement bases used;

d) For heritage assets that are not reported in the Statement of Financial Position, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets that are not reported in the Statement of Financial Position; and

e) The disclosures relating to assets that are not reported in the Statement of Financial Position should aim to ensure that, when read in the context of information about capitalised assets, the financial statements provide useful and relevant information about the entity's overall holding of heritage assets.

~~6.2.42~~6.2.41 Where heritage assets are reported in the Statement of Financial Position, the following should be disclosed:

(i) the carrying amount of heritage assets at the beginning of the financial period and at the Statement of Financial Position date, including an analysis between those classes or groups of heritage assets that are reported at cost and those that are reported at valuation; and

(ii) where assets are reported at valuation, sufficient information to assist in an understanding of the valuations being reported and their significance.

This should include:

(a) the date of the valuation;

(b) the methods used to produce the valuation;

(c) whether the valuation was carried out by external valuers and, where this is the case, the valuer's name and professional qualification, if any; and

(d) any significant limitations on the valuation.

~~6.2.43~~6.2.42 An example of a limitation to be disclosed under paragraph 6.2.~~37~~ 41 (ii) (d) would be where an asset has a particular provenance, the effect of which is not fully captured by valuation.

~~6.2.44~~6.2.43 Information that is available to the entity and is helpful in assessing the value of those heritage assets that are not reported in the entity's Statement of Financial Position should be disclosed.

~~6.2.45~~6.2.44 The financial statements should contain a summary of transactions relating to heritage assets disclosing, for the accounting period and each of the previous four accounting periods:

(a) the cost of acquisitions of heritage assets;

(b) the value of heritage assets acquired by donation;

(c) the carrying amount of heritage assets disposed of in the period and the proceeds received; and

(d) any impairment recognised in the period.

This summary should show separately transactions in assets that are reported in the Statement of Financial Position and those that are not.

~~6.2.46~~6.2.45 Where, exceptionally, it is not practicable to obtain a valuation of heritage assets acquired by donation, the reasons why should be stated. Disclosures should also be provided on the nature and extent of significant donations of heritage assets.

~~6.2.47~~6.2.46 The information required by paragraph 6.2.~~41~~ 45 may be supplemented by disclosure of other information, for example the sources of funding for acquisition of heritage assets, or expenditure on major restoration costs, but this is not required by this Manual.

~~6.2.48~~6.2.47 The disclosures required by paragraphs 6.2.~~36~~ 40 to 6.2.~~42~~ 46 may be presented in aggregate for groups or classes of heritage assets provided this aggregation does not obscure significant information. Separate disclosures should be provided for those assets reported at cost and those reported at valuation. Amounts in respect of assets that are not reported in the Statement of Financial Position should not be aggregated with amounts for assets that are recognised at cost or valuation.

IAS 17 Leases, SIC 15 Operating Leases – Incentives, SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease, IFRIC 4 Determining whether an Arrangement contains a Lease, IFRIC 12 Service Concession Arrangements and SIC 29 Service Concession Arrangements: Disclosures

Applicability

~~6.2.49~~6.2.48 IAS 17 and its interpretations apply in full to the reporting entities covered by this Manual.

Objectives of IAS 17

~~6.2.50~~6.2.49 The main objective of IAS 17 is to ensure that entities account for the substance of any leasing agreement or hire purchase contract. IAS 17 requires all leases to be classified as either a finance lease or an operating lease depending on the substance. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

SIC 15 consensus

~~6.2.51~~6.2.50 The consensus in SIC 15 is that all incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the nature of the incentive or the timing of payments.

SIC 27 consensus

~~6.2.52~~6.2.51 The consensus in SIC 27 is that a series of transactions that involve the legal form of a lease is linked. The series of transactions should be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole, reflecting the substance of the transaction.

IFRIC 4 consensus

~~6.2.53~~6.2.52 The consensus in IFRIC 4 is that the determination of whether an arrangement is, or contains, a lease should be based on the substance of the arrangement and requires an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to use the asset.

Accounting for PPP arrangements, including PFI contracts, under IFRS

Scope

~~6.2.54~~6.2.53 This section of the Manual deals with the accounting treatment of PPP arrangements, including PFI contracts, that meet the definition of service concession arrangements in IFRIC 12 Service Concession Arrangements. To be within the scope of IFRIC 12, the service concession arrangement must contractually oblige the private sector operator to provide the services related to the infrastructure to the public on behalf of the grantor (the public sector) (IFRIC 12.3). Contracts that do not involve the transfer or creation of an infrastructure asset for the purpose of the contract fall outside the scope of IFRIC 12, as do arrangements that do not involve the delivery of services to the public. Examples of infrastructure for public services are: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, telecommunication networks, permanent installations for military etc. operations, and non-current assets used for administrative purposes in delivering services to the public.

~~6.2.55~~6.2.54 The private sector operator will apply IFRIC 12 to those arrangements where:

a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and

b) the grantor controls – through beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

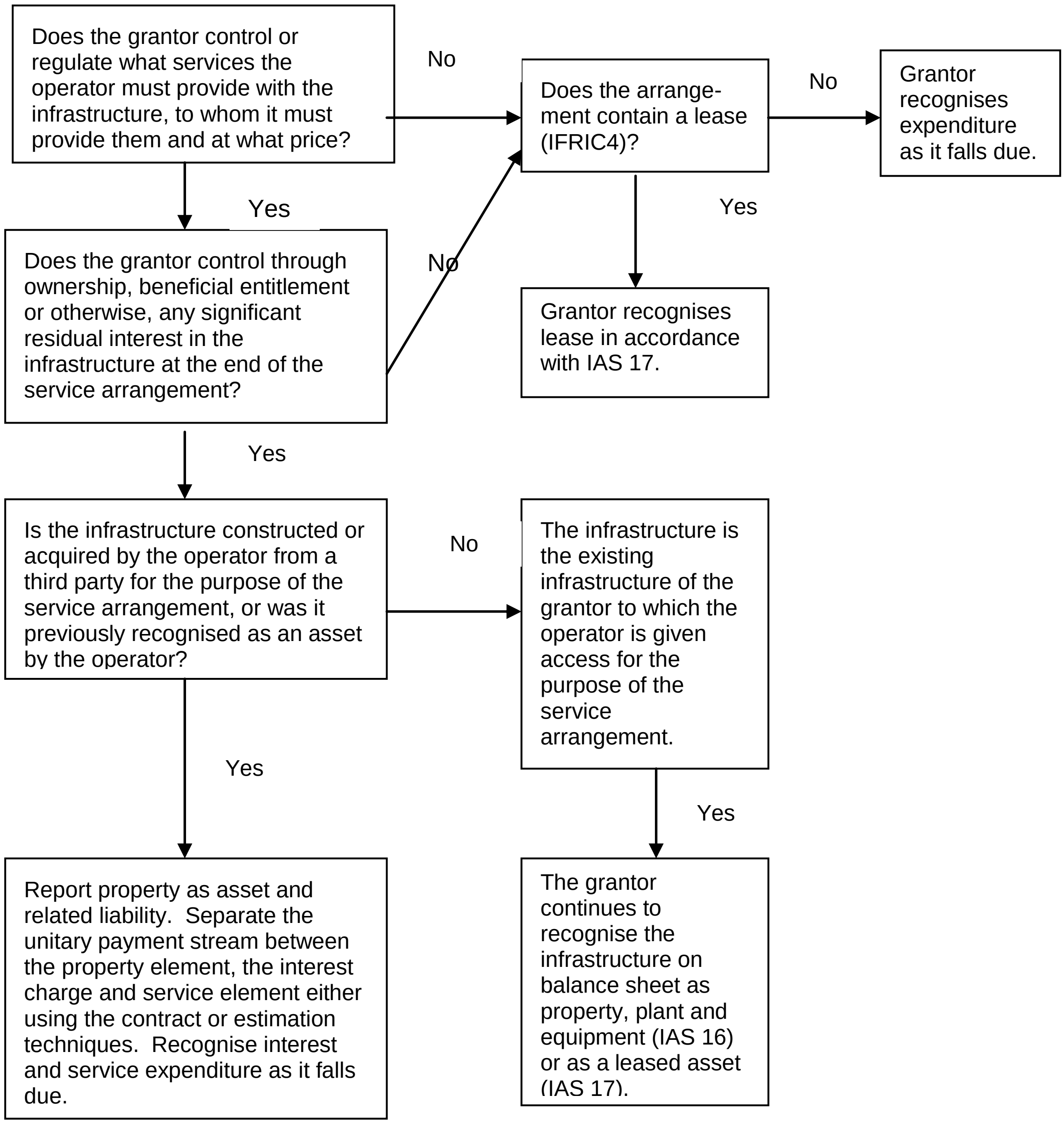
Where the infrastructure asset is used for its entire useful life, and there is little or no residual interest, the arrangement would fall within the scope of IFRIC 12 where the grantor controls or regulates the services as described in the first condition (see also IFRIC 12.6). Significant residual interest will exist where the grantor is contractually required to purchase the infrastructure asset at the end of the term of the arrangement.

~~6.2.56~~6.2.55 IFRIC 12 (Application Guidance paragraph 3) notes that, in determining the applicability of the first condition, non-substantive features (such as price capping that would apply only in remote circumstances) should be ignored and the substance of the arrangement considered.

~~6.2.57~~6.2.56 IFRIC 12, including the Appendices, Information Notes, Illustrative Examples and Basis for Conclusions, provides guidance on how to apply IFRS to service concession arrangements. IFRIC 12 does not create exceptions from other IFRS for transactions that are within service concession arrangements, other than as specifically stated in IFRIC 12. Issues not addressed explicitly in this section of the Manual should be resolved by reference to other IFRS. IFRIC 12 applies to:

- arrangements where the infrastructure is used for its entire useful life;
- infrastructure that the operator constructs or acquires from a third party; and
- infrastructure that the grantor provides to the operator for the purpose of the concession.

IFRIC 12 does not specify the accounting for infrastructure that was held and recognised as an asset by the operator prior to entering the arrangement (IFRIC 12.6-8). This is because the operator would de-recognise the asset under IAS 16. Paragraph 6.2.~~53~~ 57 interprets IFRIC 12 for the public sector by including an asset previously owned by the operator within the criteria for recognising the arrangement as a service concession. The flowchart overleaf will assist in determining the appropriate accounting treatment of PPP arrangements, including PFI contracts by public sector grantors.


Does the grantor control or regulate what services the operator must provide with the infrastructure, to whom it must provide them and at what price?
No
Does the arrange-ment contain a lease (IFRIC4)?
No
Grantor recognises expenditure as it falls due.
Yes
Yes
Does the grantor control through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement?
No
Grantor recognises lease in accordance with IAS 17.
Yes
Is the infrastructure constructed or acquired by the operator from a third party for the purpose of the service arrangement, or was it previously recognised as an asset by the operator?
No
The infrastructure is the existing infrastructure of the grantor to which the operator is given access for the purpose of the service arrangement.
Yes
Yes
Report property as asset and related liability. Separate the unitary payment stream between the property element, the interest charge and service element either using the contract or estimation techniques. Recognise interest and service expenditure as it falls due.
The grantor continues to recognise the infrastructure on balance sheet as property, plant and equipment (IAS 16) or as a leased asset (IAS 17).

Initial recognition and measurement of assets and liabilities in new arrangements and contracts

~~6.2.58~~6.2.57 Where there is infrastructure, whether previously owned by the contractor or the grantor, or constructed or acquired from a third party for the purpose of the service arrangement, and the grantor controls:

a) or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and

b) through beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement (or there is no residual interest),

then the PPP arrangement or PFI contract is a service concession within the meaning of IFRIC 12 from the grantor's viewpoint.

~~6.2.59~~6.2.58 The grantor should recognise the infrastructure as a non-current asset and value it in the same way as other non-current assets of that generic type. The asset will be recognised when:

a) it is probable that future economic benefits associated with the asset will flow to the organisation; and

b) the cost of the asset can be measured reliably.

The grantor should consider the asset recognition criteria, together with the specific terms and conditions of the binding arrangement, when determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. If the asset recognition criteria have been met a work-in-progress service concession asset and associated liability should be recognised. If not and the grantor makes contributions to the operator in advance of the asset coming into use, the grantor should account for those payments as prepayments.

~~6.2.60~~6.2.59 The asset will be measured in one of two ways:

a) where the contract is separable between the service element, the interest charge and the infrastructure asset (see also paragraph 6.2.~~56~~60), the asset will be initially measured following the guidance in IAS 17, with the service element and the interest charge recognised as incurred over the term of the concession arrangement (the subsequent measurement should be subject to the guidance of IAS 16); or

b) where there is a unitary payment stream that includes infrastructure and service elements that cannot be separated, the various elements will be separated using estimation techniques as set out in paragraph 6.2.~~57~~61.

~~6.2.61~~6.2.60 The grantor should separate out the service, interest and infrastructure elements. A contract may be separable in a variety of circumstances, including but not limited to the following:

a) the contract identifies an element of a payment stream that varies according to the availability of the property itself and another element that varies according to usage or performance of certain services;

b) different parts of the contract run for different periods or can be terminated separately. For example, an individual service element can be terminated without affecting the continuation of the rest of the contract; or

c) different parts of the contract can be renegotiated separately. For example, a service element is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.

~~6.2.62~~6.2.61 In situations where it is not possible to separate the contract due to commercial reality, the service element of the payments must be estimated, which could be achieved by obtaining information from the operator or by using the fair value approach. The fair value of the asset determines the amount to be recorded as an asset with an offsetting liability. The total unitary payment is then divided into three: the service charge element, repayment of the capital element of the contract obligation and the interest expense on it (using the interest rate implicit in the contract).

~~6.2.63~~6.2.62 For both existing and new contracts, where it is not practicable to determine the interest rate implicit in the contract, the grantor shall use its cost of capital rate (including inflation). It is expected that this situation would be rare. The rate should not be changed unless the infrastructure element or the whole of the contract is renegotiated.

~~6.2.64~~6.2.63 Entities covered by the requirements of this manual should use the Treasury discount rate for investment appraisal purposes (currently 3.5%) as their cost of capital rate. This rate is stated in real terms and must be adjusted for the inflation rate to arrive at the nominal rate. The nominal rate can be calculated using inflation rates given in the table 16 of the Treasury's Pocket Data Bank. The Pocket Data Bank can be found at: http://www.hm-treasury.gov.uk/data_indic_index.htm.

~~6.2.65~~6.2.64 Under either approach, the grantor will recognise a liability for the capital value of the contract. That liability does not include the interest charge and service elements, which are expensed annually to the Statement of Comprehensive Net Expenditure.

Initial recognition of existing arrangements which were off-balance sheet under UK GAAP

~~6.2.66~~6.2.65 On initial recognition of existing PPP arrangements or PFI contracts under this approach (that is, those arrangements or contracts that had previously been off-balance sheet), reporting entities should measure the non-current asset at the opening balance sheet date in the same way as other non-current assets of that generic type. The liability should be measured at its fair value at the balance sheet date, which will normally be the outstanding liability in respect of the property (that is, excluding the interest and service elements), discounted by the interest rate implicit in the contract.

Subsequent measurement

~~6.2.67~~6.2.66 Reporting entities should adopt an appropriate asset revaluation approach as set out earlier in this chapter. Liabilities will be measured using the appropriate discount rate, taking account of the reduction arising from the capital payments included in the unitary payment stream.

Income generated by the grantor from the service concession arrangements

~~6.2.68~~6.2.67 Revenue received under any revenue sharing provision in the service concession arrangement should be recognised when all the conditions as laid down in IAS 18 have been satisfied.

Consideration given by the grantor to the operator (guarantees made by the grantor as part of the arrangement)

~~6.2.69~~6.2.68 The grantor should recognise any guarantees to the operator that it will meet any shortfalls in revenue or repay the debt if the operator defaults in line with the requirements of IAS 32 and IAS 39.

Items provided to the operator by the grantor

~~6.2.70~~6.2.69 The grantor should derecognise a non-current asset provided to the operator (and not used in the arrangement) and recognise any consideration received at fair value. If the consideration received is in the form of a reduction in future payments, this should be recognised as an asset representing a reduction in the future liability (normally as a prepayment).

Disclosure

~~6.2.71~~6.2.70 The disclosure requirements in respect of PPP arrangements, including PFI contracts, are set out in chapter 5 of this manual.

SIC 29 Service Concession Arrangements: Disclosures

~~6.2.72~~6.2.71 The disclosure requirements of SIC 29 apply in full to the PPP arrangements as described in paragraph 6.2.~~49~~53.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance and SIC 10 Government Assistance – No Specific Relation to Operating Activities

Applicability

~~6.2.73~~6.2.72 IAS 20 and SIC 10 apply, as interpreted, to all reporting entities covered by this Manual.

Objective of IAS 20

~~6.2.74~~6.2.73 The objective of IAS 20 is to prescribe the accounting treatment for government grants and the disclosures about other government assistance.

SIC 10 consensus

~~6.2.75~~6.2.74 The consensus in SIC 10 is that government assistance to entities meets the definition of government grants even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants should not be credited directly to equity.

Interpretation of IAS 20 and SIC 10 for the public sector context

~~6.2.76~~6.2.75 In applying IAS 20 and SIC 10, entities should be aware of the following interpretations for the public sector context.

Recognition and measurement

a) The option provided in IAS 20 to offset a grant for acquisitions of an asset against the cost of the asset has been withdrawn.

b) The option provided in IAS 20 to defer grant income relating to an asset is restricted to income where the funder imposes a condition. Where assets are financed by government grant (not a grant from a sponsoring department to an NDPB) or donation (including lottery funding), the funding element is recognised as income and taken through the Statement of Comprehensive Net Expenditure. To defer this income, a condition imposed by the funder must be: a requirement that the future economic benefits embodied in the grant/donation are consumed as specified by the grantor/donor or must be returned to them, e.g. a grant that is conditional on the construction of an asset.

c) A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor if a specified future event does or does not occur (for example, a grant may need to be returned if the authority ceases to use the asset purchased with that grant for a purpose specified by the transferor). In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Statement of Comprehensive Net Expenditure.

Donated assets are within the scope of IAS 20

Other requirements

~~6.2.77~~6.2.76 The following requirements should be observed by entities covered by this Manual.

a) The notes to the financial statements should distinguish between grants from UK government entities and grants from the European Union.

b) As it is important for monitoring and control purposes, entities that receive grant-in-aid that is intended to finance both revenue and capital expenditure should analyse the grant-in-aid between its constituent parts, notwithstanding that it will be credited in total to the income and expenditure reserve.

Summary of accounting treatment of Parliamentary Supply and for grants from sponsoring Department to their NDPBs

~~6.2.78~~6.2.77 Parliamentary Supply (the parliamentary grant in Wales) does not fall within the meaning of government grants.

~~6.2.79~~6.2.78 Grants and grants-in-aid shall be accounted for as follows:

a) grants-in-aid, whether for revenue or capital purposes, are to be treated as contributions from controlling parties giving rise to a financial interest in the residual interest of the reporting entity, and are to be credited to general reserves and not, to income or deferred income;

b) where grants are subject to conditions such that non-compliance would result in the grant being repaid, the potential liability to repay, and the conditions to be met, should be disclosed in a note to the accounts;

c) the profit or loss on disposal of an asset financed by grant or grant-in-aid is taken to the Statement of Comprehensive Net Expenditure; and

d) grant-in-aid is provided to match the recipient's cash needs and is to be accounted for on a cash basis. Any exceptions to this treatment must be agreed by the sponsoring department and the relevant authority.

IAS 23 Borrowing Costs

Applicability

~~6.2.80~~6.2.79 IAS 23 applies as interpreted to all reporting entities covered by this Manual. However, IAS 23 does not apply where a qualifying asset is carried at fair value (IAS 23.4).

Objective of IAS 23

~~6.2.81~~6.2.80 The objective of IAS 23 is to prescribe the accounting treatment of borrowing costs. The Standard requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. All other borrowing costs should be recognised as an expense.

Interpretation of IAS 23 for the public sector context

~~6.2.82~~6.2.81 In applying IAS 23, reporting entities should be aware of the following interpretation for the public sector context.

Recognition

Borrowing costs in respect of qualifying assets held at fair value shall be expensed.

IAS 40 Investment Properties

Applicability

~~6.2.83~~6.2.82 IAS 40 applies in full to all reporting entities covered by this Manual that hold (or are constructing or developing) properties only for the purpose of earning rentals or for capital appreciation or both. If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for under IAS 16 and not IAS 40.

Objectives of IAS 40

~~6.2.84~~6.2.83 The objective of IAS 40 is to prescribe the accounting treatment for investment property and related disclosure requirements.

Interpretation of IAS 40 for the public sector context

~~6.2.85~~6.2.84 In applying IAS 40, reporting entities should be aware of the following interpretation for the public sector context.

Measurement after recognition

a) All investment property should be accounted for under the fair value model – that is, the option given in IAS 40 to adopt the cost model has been withdrawn.

IAS 41 Agriculture

Applicability

~~6.2.86~~6.2.85 IAS 41 applies in full to agricultural activities undertaken for commercial gain by any reporting entity covered by this Manual.

Objectives of IAS 41

~~6.2.87~~6.2.86 The objective of IAS 41 is to prescribe the accounting treatment, financial statement presentation and disclosures related to agricultural activity. Agricultural activity is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Applicability

~~6.2.88~~6.2.87 IFRS 5 applies in full, as interpreted, to all entities covered by the requirements of this Manual.

Objectives of IFRS 5

~~6.2.89~~6.2.88 The objectives of IFRS 5 are to specify that:

a) assets held for sale should be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on those assets should cease; and

b) assets held for sale should be presented separately, either on the face of the Statement of Financial Position or in the notes, and the results of discontinued operations should be presented separately in the Statement of Comprehensive Net Expenditure.

Interpretation of IFRS 5 for the public sector context

~~6.2.90~~6.2.89 The following interpretations of IFRS 5 defined terms apply:

a) in order to qualify as 'discontinued operations', the activities must cease completely: that is, responsibilities transferred from one part of the public sector to another (such as machinery of government changes) are not discontinued operations; and

b) the ‘value in use’ of a non-cash-generating asset 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.

7 Intangible assets

Chapter 7 Contents

Introduction

7.1.1 This chapter deals with accounting for intangible assets.

Accounting standards

7.1.2 The following accounting standards and Interpretations deal with accounting for intangible assets:

IAS 38 *Intangible Assets*

SIC 32 *Intangible Assets – Web Site Costs*

IFRS 6 *Exploration for and Evaluation of Mineral Resources* is not likely to be relevant and is not discussed further in this Manual. However, if it is applicable, it should be applied in full.

IAS 38 Intangible Assets and SIC 32 Intangible Assets – Web Site Costs

Applicability

7.2.2 IAS 38 and SIC 32 apply in full, as interpreted, to all reporting entities covered by this Manual.

Objectives of IAS 38

7.2.3 The objective of IAS 38 is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another standard. This standard requires an entity to recognise an intangible asset if, and only if, specific criteria are met. The standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets. When capitalising internally generated intangible assets, such as software, only directly attributable costs, including staff costs and staff-related costs, should be capitalised.

Interpretations of IAS 38 for the public sector context

7.2.4 Following the initial recognition of an intangible asset, for subsequent measurement IAS 38 permits the use of either the cost or revaluation model for each class of intangible asset. Where an active (homogeneous) market exists, intangible assets should be carried at fair value at the reporting period date – that is, the cost option given in IAS 38 has been withdrawn. Where no active market exists, entities should revalue the asset, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued using depreciated replacement cost. These measures are a proxy for fair value.

Other requirements

7.2.5 Entities should analyse their intangible assets in accordance with 5.4.39.

SIC 32 consensus

7.2.6 The consensus in SIC 32 is that an entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of IAS 38.

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme (and similar schemes)

<u>Allowances and Emissions</u>

7.2.7 Participation by reporting entities in the CRC Scheme gives rise to a liability related to emissions made. The liability is recognised for the obligation to deliver allowances to the CRC Registry equal to the emissions made. Purchased allowances give rise to an asset.

7.2.8 CRC Scheme assets are classified as either current or non-current intangible assets, or if held for the purpose of trading, as a current asset. The asset, whether classified as a current or as an intangible (current or non-current) asset shall be measured initially at cost.

7.2.9 Scheme assets in respect of allowances shall be revalued at fair value where there is evidence of an active market. Until there is evidence of an active market, scheme assets in respect of allowances shall be measured at cost, as a proxy for fair value.

Chapter 14 Contents

Introduction

14.1.1 The Treasury prepares Whole of Government Accounts (WGA) for the whole of the UK public sector (central government, local government and public corporations) under section 9 of the Government Resources and Accounts Act 2000. WGA is prepared under generally accepted accounting practice as defined in chapter 2 of this Manual.

14.1 2 The Government's aims in making the commitment to WGA were to provide improved data for fiscal planning, to increase transparency and to improve accountability to Parliament. WGA is requiring bodies within the public sector to prepare data on a consistent basis. It is thereby improving the comparability of financial data. WGA increases the completeness of public sector financial data through the inclusion of provisions, contingent liabilities etc. and is independently audited and certified by the Comptroller & Auditor General.

14.1.3 WGA has the ability to provide additional and complementary data to that in national accounts, (which is currently used for fiscal management), for use by government, Parliament and the taxpayer where the scope of the accounts is consistent with that of the national accounts.

14.1.4 This chapter considers the specific accounting and disclosure requirements adopted in the consolidated WGA as compared with the requirements for the financial statements of the reporting entities and reportable activities covered by this Manual.

Accounting standards applied to Whole of Government Accounts

14.2.1. This section summarises the applicability of accounting standards to WGA. Adaptations and interpretations of standards that apply to WGA are explained in the paragraphs below.

Accounting Standard	Adapted in other chapters	Interpreted in other chapters	Adapted for WGA	Interpreted in WGA
IAS 1 Presentation of Financial Statements	No	Yes	No	Yes
IAS 2 Inventories	Yes	Yes	Yes	Yes
IAS 7 Statement of Cash Flows	No	No	No	No
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	No	No	No	No
IAS 10 Events after the Reporting Period	No	Yes	No	No
IAS 11 Construction contracts	No	No	No	No
IAS 12 Income Taxes	No	No	No	No

IAS 16 Property, Plant and Equipment	Yes	Yes	Yes	Yes
IAS 17 Leases	No	No	No	No
IAS 18 Revenue	No	No	No	No
IAS 19 Employee benefits	Yes	Yes	No	Yes
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	No	Yes	No	Yes
IAS 21 The Effects of Changes in Foreign Exchange Rates	No	Yes	No	Yes
IAS 23 Borrowing costs	No	Yes	No	No
IAS 24 Related party disclosures	No	Yes	Yes	No
IAS 26 Accounting and Reporting by Retirement Benefit Plans	Yes	Yes	N/A	N/A
IAS 27 Consolidated and Separate Financial Statements	Yes	No	Yes	Yes
IAS 28 Investments in Associates	No	No	No	No
IAS 29 Financial Reporting in Hyperinflationary economies	No	Yes	No	Yes
IAS 31 Interest in Joint ventures	Yes	No	No	No
IAS 32 Financial Instruments: presentation	No	Yes	No	No
IAS 33 Earnings per share	No	No	No	No
IAS 34 Interim Financial Reporting	No	No	No	No
IAS 36 Impairment of Assets	Yes	Yes	Yes	Yes
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	No	Yes	No	Yes
IAS 38 Intangible assets	No	Yes	No	Yes
IAS 39 Financial Instruments; Recognition and Measurement	No	Yes	No	Yes
IAS 40 Investment property	No	Yes	No	Yes
IAS 41 Agriculture	No	No	No	No
IFRS 1 First time adoption of IFRS	No	Yes	N/A	N/A

IFRS 2 Share based payments	No	No	No	No
IFRS 3 Business combinations	No	No	No	No
IFRS 4 Insurance contracts	No	No	No	No
IFRS 5 Non-current assets held for sale and discontinued operations	No	Yes	No	Yes
IFRS 6 Exploration for and Evaluation of mineral resource	No	No	No	No
IFRS 7 Financial instruments: disclosure	No	No	No	No
IFRS 8 Operating segments	No	No	No	Yes
IFRS 13 Fair Value	No	No	No	No

IAS 1 Presentation of financial statements

14.2.2 Paragraphs 15 to 24 of IAS 1 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual. In other respects, IAS 1 is adopted in full.

IAS 2 Inventories

14.2.3 IAS 2 is adapted and interpreted for WGA in the same way that it is adapted for the financial statements of reporting entities covered by this Manual.

IAS 10 Events after the Reporting Period

14.2.4 The interpretation of IAS 10 required for annual accounts is not required for WGA, except that, the requirement that the financial statements be adjusted for significant transactions or events that occur between the date of the consolidated body's reporting date and the WGA reporting date will not apply.

IAS 16 Property, plant and equipment

14.2.5. IAS 16 is adapted and interpreted for WGA in the same way that it is adapted for the financial statements of reporting entities covered by this Manual, other than in regards to highways infrastructure assets held by local authorities which are recognised at historic cost and the detailed disclosure requirements in IAS 16 paragraphs 74(a) and 77 and FReM paragraphs 74(a) and 77 and FReM paragraph 6.2.7(g) which shall not apply to WGA.

IAS 19 Employee benefits

14.2.6 In accounting for public service pension liabilities, WGA follows the requirements of IAS 19. IAS 19 is interpreted for WGA in the following ways:

a) WGA shall recognise the liabilities of funded and unfunded pension schemes for which the public sector is responsible, whether originally recognised in employer or pension scheme accounts.

b) contributions from employees are to be shown in the financial statements as a deduction from the current service cost;

c) the requirements of IAS 19 shall be interpreted to mean that the period between formal valuations shall be that required by the governance arrangements for the relevant schemes; and

d) schemes and employers recognising pensions liabilities shall apply the actuarial assumptions, including discount rates most suited to the scheme or, where specific requirements apply, the required assumptions. The financial statements shall disclose the range of assumptions included in WGA but the requirement to include a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is not required.

IAS 20 Accounting for government grants and disclosure of government assistance

14.2.7 The IAS 20 interpretation for resource accounts applies to WGA.

IAS 21 The effects of changes in foreign exchange rates

14.2.8 IAS 21 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

IAS 24 Related party disclosures

14.2.9 IAS 24 is adapted for WGA in the following ways:

a) related parties are deemed to comprise any public sector entity (see paragraph 14.2.10) that is not consolidated into WGA; and

b) WGA shall provide a note of transactions with those related parties.

IAS 27 Consolidated and separate financial statements

14.2.10 IAS 27 is adapted for WGA in the following ways:

a) ` These accounts are drawn up for the purposes of Government and Parliament as a whole and not as a requirement of any individual entity. No one body appears to have the ability to control all of the bodies within the consolidation, and as a consequence, for the purposes of WGA, no parent company will be disclosed in the statements and notes, only the position of the consolidated bodies.

b) the requirement to include all subsidiaries of the parent is adapted in order that WGA shall conform to the statutory requirement in the Government Resources and Accounts Act 2000 that WGA comprise a consolidation of those bodies that appear to HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money. This will be based on the national accounts classification of bodies to the public sector, as independently determined by the Office of National Statistics at the reporting date. This does not affect the right of the Comptroller and Auditor General to form a different opinion about the classification of any body, and therefore their inclusion within WGA.

c) The requirement to eliminate in full income tax, National Insurance Contributions and Value Added Tax balances and transactions between consolidated entities and Her Majesty's Revenue and Customs, and non-domestic rates payable by consolidated entities to local authorities, is adapted to exclude the elimination of input Value Added Tax on goods and services acquired by consolidating entities for either revenue or capital purposes.

d) the requirement that the financial statements be adjusted for significant transactions or events that occur between the date of the subsidiary's reporting date and the parent's reporting date shall not apply, and the subsidiary shall not be required to prepare additional financial statements as of the same reporting date.

IAS 29 Financial reporting in hyperinflationary economies

14.2.11. IAS 29 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

IAS 32 Financial Instruments

14.2.12 The interpretation of IAS 32 required for resource accounts is not required for WGA.

IAS 36 Impairment of assets

14.2.13 IAS 36 is adapted and interpreted for WGA in the same way that it is adapted and interpreted for the financial statements of reporting entities covered by this manual.

IAS 37 Provisions, contingent liabilities and contingent assets

14.2.1.4 IAS 37 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

IAS 38 Intangible assets

14.2.15 IAS 38 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

IAS 39 Financial instruments – recognition and measurement

14.2.16 IAS 39 is interpreted for WGA in the same way that is interpreted for the financial statements of reporting entities covered by this Manual, with the exception that all public sector financial instruments shall be consolidated into WGA and shall not be included in a separate Trust Statement.

IAS 40 Investment property

14.2.17 IAS 40 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

IFRS 5 Non-current assets held for sale and discontinued operations

14.2.18 IFRS 5 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

IFRS 8 Operating segments

14.2.19 IFRS 8 is interpreted for WGA in the following ways:

a) the requirement to report separately information about each operating segment will be met by following the sub-sector classification (central government, local government and public corporations) used by the Office for National Statistics in the National Accounts prepared under the European System of Accounts 1995 with the following exceptions:

- parts of entities classified in the National Accounts to a different sector from the classification of the main part of the entity should be classified with the main part of the entity; and

- NHS Trusts and Foundation Trusts should be separately disclosed within the central government sector.

- Other exceptions may be agreed from time to time with HM Treasury;

b) the requirement to report information about profit and loss for each reportable segment will be met by reporting taxation revenues, operating costs, other operating income, operating surplus, surplus/(deficit) on the disposal of fixed assets, interest receivable and similar income, interest payable and similar charges and the surplus or deficit for the year within the reportable segments identified in a) above;

c) the requirement to report information about assets and liabilities for each reportable segment will be met by reporting total non-current assets, total current assets, total current liabilities, long-term borrowings, long-term provisions (excluding pensions provisions), other non-current liabilities, pensions provisions and the total net assets at the statement of financial position date within the reportable segments identified in a) above;

d) the information defined in b) and c) above shall be reported, for each reportable segment, after the elimination of all transaction streams and balances internal to that segment. Consolidation adjustments for transaction streams and balances between segments shall be disclosed in a separate column to arrive at the total for WGA on a consolidated basis; and

e) no information needs to be given about products or services, geographical areas or major customers.

IFRS 13 Fair value Measurement

14.2.20 IFRS 13 is adopted for WGA in the same way as for the financial statements of reporting entities covered by this manual, other than in regards to the detailed disclosure requirements in IFRS 13 paragraphs 91 to 96 which shall not apply to WGA.

Other accounting policies

~~14.2.20~~ 14.2.21 This section sets out the WGA accounting policies that are not covered by the accounting standards covered in section 14.2.

Revenue from taxes and duties

~~14.2.21~~ 14.2.22 WGA shall consolidate the financial statements of the revenues from taxes and duties, and shall not include them in a separate Trust Statement as defined in Chapter 13. It shall be prepared in accordance with the requirements of this Manual, with the exception that revenue collected as an agent of the European Union shall be excluded. WGA shall also consolidate Council Tax and Non-Domestic Rate revenues recognised in local authority collection funds.

~~14.2.22~~ 14,2,23 Levies reported as income in the financial statements of consolidated entities but which are classified as taxes by the Office for National Statistics shall be reported as taxes in WGA. Such levies include, but are not restricted to, the BBC licence fee, sugar levies, and levies collected by non-departmental public bodies that exist to promote British produce.

~~14.2.23~~ 14.2.24 Revenues collected on behalf of the European Union that should be excluded from the consolidation comprise Traditional Own Resources (customs duties including those on agricultural products collected by Her Majesty's Revenue and Customs, and sugar levies collected by the Department for Environment, Food and Rural Affairs) and the Third Resource (VAT, which is the product of the application of a uniform rate to a harmonised expenditure base). Monies retained as reimbursement of collection costs in respect of Traditional Own Resources shall be accounted for as other operating income.

Monetary gold and IMF Special Drawing Rights

~~14.2.24~~ 14.2.25 The UK Government's holdings of gold are valued at the sterling equivalent of the London Bullion Market Association dollar denominated spot price as at the Statement of Financial Position date. Revaluation gains and losses on gold assets are recognised within fair value changes of gold in the Statement of Comprehensive Income.

~~14.2.25~~ 14.2.26 Special Drawing Rights (SDR) are an international reserve asset created by the International Monetary Fund (IMF), representing member governments' rights within the international monetary system. The UK Government's SDR shall be recognised on the WGA statement of financial position in sterling, converted at the SDR exchange rate, published by the IMF, as at the statement of financial position date. Any income receivable in SDR shall be recognised in interest income at the exchange rate prevailing on the date of receipt.

14.3 Reporting requirements for Whole of Government Accounts

14.3.1 The requirements of Part 15 (Accounts and reports) of the Companies Act 2006 and Schedules 4 and 6 of Companies Act 1985 and the requirements of paragraphs 5.2.12(k)-(o), 5.4.28-5.4.32, 5.4.40 and 5.4.60-5.4.61 of the FReM shall not apply to Whole of Government Accounts.

Commentary accompanying Whole of Government Accounts

14.3.2 The Treasury shall prepare commentary to accompany WGA that includes the following information:

a) a statement that detailed information about the underlying activities and governance arrangements of the public sector can be obtained from the individual accounts consolidated into WGA;

b) a clear and concise discussion of WGA, which should include:

- a highlights section that provides a summary of significant events affecting the financial statements;
- an analysis of significant risks and uncertainties inherent in the government's financial position and a reference to the strategies and policies adopted to manage those risks and uncertainties (which might be a cross-reference to other published documents);
- an analysis of the reasons for underlying variations between financial performance and the financial position between reporting periods (with the exception of the first year of publication, when the analysis shall be restricted only to the variations in financial position); and
- information about any significant trends related to financial assets and liabilities, revenues and expenditure, and cash flows associated with long-term provisions.

The Statement of Accounting Officer's responsibilities

14.3.3. The Treasury's WGA Accounting Officer shall prepare a Statement of Accounting Officer's responsibilities in respect of WGA, in a form to be agreed by HM Treasury, including a statement of overall responsibility for producing WGA, which must give a true and fair view of the state of affairs of the Government at the Statement of Financial Position date and statement of cash flows for the financial year.

The Governance Statement

14.3.4 The Treasury's WGA Accounting Officer shall prepare a Governance Statement in relation to the preparation of WGA in a form to be agreed by HM Treasury. The Governance Statement shall include information about the arrangements in place to assure the quality of the financial and other information included in WGA, including the role of Internal Audit.

14.3.5 The Governance Statement shall include information about the relationship between the Treasury's WGA Accounting Officer and officials appointed by the Treasury to assist in the preparation of the consolidation information (including the relevant accounting and disclosure requirements and all relevant consolidation adjustments).

14.4 Audit and Publication

14.4.1 The Comptroller and Auditor General will examine the accounts to satisfy himself that they present a true and fair view, consistent with the guidance in the FReM.

14.4.2 Treasury shall lay accounts and reports before the House of Commons in accordance with an order under section 11(6) of the Government Resources and Accounts Act

2000 which specifies the dates by which the audit must be completed and the report and accounts laid.

14.3.3 A governance body set up specifically to consider WGA will review the accounts.

Annex to the FReM

IFRS 13 Application Guidance

Scope

1. IFRS 13 applies in full to public sector organisations following the FReM. This application guidance does not constitute an adaptation but highlights areas public sector bodies may need to consider in applying IFRS 13. IFRS 13 will have a significant impact on public sector accounting and as with all such changes early engagement with your auditor is recommended. It is also essential to establish effective communication with your valuers to plan for IFRS 13 effectively.

First Time Adoption

2. IFRS applies to all bodies covered by the FReM from 1 April 2015. It applies prospectively and does not require a PPA. Comparative disclosure information is not required in the first year. Early adoption is not permitted.

3. Central government departments are required to value assets in accordance with IAS 16 to ensure that the Statement of Financial Position gives a true and fair view of the value of the assets at the reporting date.

4. IAS 16 states that when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. The FReM suggests appropriate approaches might include; annual valuations, quinquennial valuations or a rolling programme of valuations.

5. In practice many central government departments use a rolling programme of valuations so that all assets in the programme are revalued at least every five years. This does not remove the requirement to consider if any revalued asset differs materially in value from its carrying value at year end.

6. It is proposed that for the adoption of IFRS 13 in the FReM, Departments consider this change alongside all other indications of material movements in valuations. This will mean categories of assets where the basis for valuation will need to change as a result of IFRS 13, may need to be revalued earlier than planned. For example non-specialised buildings such as offices, with no restrictions on sale, may need to be revalued at an alternative use value rather than exiting use to reflect the highest and best use valuation required by IFRS 13. Entities will need to identify these classes of assets through discussions with valuers.

Key Principles of IFRS 13

7. IFRS 13 defines fair value as the ‘exit price’ for an asset or liability. The standard then establishes principles for calculating an exit price, and the associated disclosure framework.

8. The principle of exit price is based on the concept that assets are held to generate future inflows of economic benefit, and liabilities represent future outflows of economic benefits.

9. IFRS 13 paragraph 9 now defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

10. This definition equates fair value with an exit price and is defined from a market perspective, which requires consideration of a range of new factors (e.g. “highest and best use” of an asset by market participants, as per IFRS 13 paragraph 27). In a general sense, IFRS 13 promotes a value that reflects a theoretical market price as much as possible and will attempt to simulate this amount where a ready price is not available.

Measuring Fair Value

11. IFRS 13 paragraph 16 states that “a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of the principal market, in the most advantageous market for the asset or liability.”

12. Further to this, the reference to an orderly transaction requires a valuer to suppose that the transaction is not forced (i.e. there is no element of financial distress affecting the sale or transfer). For an orderly transaction to occur under the standard IFRS 13 paragraph 19 provides that “the entity must have access to the principal (or most advantageous) market at the measurement date”. There will be examples where a public sector body does not have access to the principal market because of constraints on the organisation or the entity.

13. It should be noted that the standard disregards an entity’s intent to sell an asset or transfer a liability as a factor at the measurement date. This is important for the public sector. Valuing an asset at alternative use is not linked to a decision to sell. The fact that an organisation has no plans to sell an asset or liability is not a reason to ignore alternative use valuations under IFRS 13.

14. Conceptually, IFRSs are written primarily for profit-making organisations. Consequently the principles consider the information requirements of investors on future economic benefits, which are intended to represent the future cash flows associated with assets and liabilities. In establishing a theoretical price for the item, the seller would take into account the fact that a buyer would pay according to the economic benefits expected to be gained in the use of the asset – that is, the asset would be valued as if it were employed in its “highest and best use”, even if that is not its current use and even when an asset/liability is held for purposes other than the pursuit or economic goals (i.e. as the public sector holds many assets/liabilities in the course of providing public services).

15. Highest and best use contributes to the maximisation of the value of an asset based on the different physically possible, legal permissible and financially feasible uses that market participants could employ to generate economic benefits from the item undergoing valuation. Financially feasible supports the assumption that a market participant would factor conversion costs into a price when highest and best use is not existing use or supported by the asset’s current configuration.

Disclosures

16. IFRS 13 disclosure requirements apply but entities should consider how IFRS disclosure requirements can be aggregated so the information is provided in a form that is useable to the reader.

17. One of the requirements is for an entity to include appropriate disclosures supporting fair value calculations – in particular where fair value has been calculated using valuation techniques that are not derived from market information on exit prices (for example where such information is not available).

18. As per IFRS 13 paragraph 93(i) "if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use." This disclosure may be utilised by commercial decision makers when an entity may not be utilising an asset to its highest economic benefit (possibly for competition reasons, i.e. withholding intellectual property until the most beneficial market entry point may yield long term benefits, but the asset is not generating cash flows until a future point in time and this would impact its valuation). This information can also support public sector entities whose fair value disclosures may belie how an entity uses an asset (specialised and non-specialised) to render public services and deliver departmental objectives.

Liabilities and Equity Instruments

19. IFRS 13 paragraph 34 provides that a fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument is transferred to a market participant at the measurement date. The transfer assumes that the liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. This differs from the previous definition of the fair value of a liability or equity instrument, which was a settlement value.

20. IFRS 13 paragraph 42 adds that the fair value of a liability should reflect the effect of non-performance risk. Non-performance risk is the risk that an entity will not fulfil an obligation, it includes, but may not be limited to, the entity's own credit risk. When considering non-performance risk, it is expected that in most cases a public sector entity's non-performance risk would be zero. In the rare case where non-performance risk is greater than zero, HM Treasury deems the inclusion of this risk as appropriate for public sector reporting objectives.

Non Financial Assets

21. IFRS 13 requires that fair value should be the market value of an asset in its highest and best use with regard to all market participants; i.e., while the existing use of an asset might be the highest and best use for the current owner of the asset, another market participant may be able to derive higher economic benefit employing the asset in a different way.

22. When applying the standard determining the basis for valuation is key. In many circumstances the basis for valuation will not change from the previous valuation under IAS 16 (adapted). In order to determine the basis for valuations organisations need to consider the markets they have access to for the assets being valued.

23. Organisations and assets may be subject to constraints. IFRS 13 recognises that not all organisations have access to the same markets. Some public sector organisations have statutory restrictions on what they can sell assets for so they may not have access to the highest and best use price that other organisations have.

24. Many public sector assets have statutory restrictions on them so the entity owning the asset is not free to sell it without permission from an external party. In many such cases this will mean the constraint stops the organisation having access to the open market and the asset should be valued at existing use.

Cases where basis for valuation would be unchanged

25. Under IFRS 13, the basis for valuation may remain unchanged. Assets that fall within the scope of the existing IAS 16 *Property, Plant and Equipment* adaptation (see 2013-14 FReM paragraph 6.2.5) were previously required to be valued at market value in existing use. Although this adaptation is now removed (from the date IFRS 13 is adopted), market value in existing use and fair value may be the same. This might be because:

    - there is no alternative use with a higher value. This is likely in areas where alternative uses wouldn't be possible or where investors would not be interested in buying the asset for an alternative use; or

    - although there is an alternative use with a higher value this cannot be achieved without external authority because of restrictions on the asset or the organisation holding the asset. These restrictions would not constitute constraints under IFRS 13 if they are self imposed. The requirement for planning permission is not sufficient constraint to disregard alternative use. Professional valuers will use their judgement to decide if there are alternative uses. Most constraints that restrict access to the open market are expected to be statutory but other examples will need to be considered carefully.

26. Organisations will need to be clear on constraints that need to be considered with their valuers and auditors.

27. For assets that have unique characteristics that cannot be captured by direct market information or adjusted market information (i.e. level 1 or 2 inputs as per IFRS 13 paragraphs 76 to 85), the standard requires the entity to disregard any market value that does not capture the nature of the asset and instead employ either the income method or DRC to arrive at an appropriate fair value. This replicates the existing practice of many specialised assets currently being valued using DRC; an income method is not prevalent as many public sector assets generate no cash flows on which an income method could be based.

28. *Cases where the basis for valuation may change appropriately*

29. Application of IFRS 13 and the removal of the IAS 16 FReM adaptation results in new valuation profiles for certain classes of assets, the clear example being office accommodation. In almost all cases, there are no constraints on access to a market and these are not specialised assets. Where this is the case, it is no longer considered appropriate for such an asset to be valued at market value in existing use and, where an appropriate market exists, a market valuation methodology under the standard should apply. There will be instances where market value in existing use, even after considering alternative uses, is the highest and best value.

Further Guidance on Calculation of fair value by Reporting Entities

30. The following is summary guidance, and is not intended to be prescriptive. It is up to each reporting entity to justify its decisions to its auditors. The initial paragraphs discussing calculation of fair value are supported by a flow chart depicting the process and several examples of how IFRS 13 may apply to certain elements of a reporting entity's balance sheet

(a) In a general sense, IFRS 13 promotes a value that reflects a theoretical market price as much as possible and will attempt to simulate this amount where a ready price is not available.

(b) The data used during the valuation process, called inputs, have been placed into three possible categories:

- Level 1 inputs, or direct market inputs;
- Level 2 inputs, or indirect market inputs; and
- Level 3 inputs, or unobservable market inputs.

(c) The standard requires the maximisation of level 1 inputs, which are those directly observable from the market in which an asset would be sold – namely, a quoted price for an identical asset in an active market. By definition, if a Level 1 input is available then the market method is being used to value the asset.

(d) Where level 1 inputs are not available, level 2 inputs are required to be used where available and appropriate. Level 2 inputs are market corroborated inputs other than those that classify as level 1 – for example, market indices for housing valuation. Level 2 inputs can feed into any of the three valuation methodologies available under IFRS 13.

(e) In addition, and separately regarded from inputs, are three valuation methodologies:

- The market method, based on market information;
- The income method, based on the present value of cash flows associated with the asset; and
- The cost method, generally read as the depreciated current replacement cost (DRC).

(f) While there is some natural correlation between methodologies and inputs (i.e. Level 1 inputs with a market valuation methodology), each of the valuation methodologies are equally compliant under the standard.

(g) Level 3 inputs are those that are not directly observable from the market. By definition, level 3 inputs cannot be used in a direct market valuation. However level 3 inputs may be used to adjust a market valuation where necessary to capture the characteristics of the asset being valued.

Non-financial assets

(h) If a quoted price for an identical asset in an active market is available (for example, a valuation report with reference to the asset in question), then that price constitutes a Level 1 input using a market valuation methodology and will be the fair value for that asset. In subsequent years, if this price is adjusted for indexation to reflect 'current year conditions', it will constitute a Level 2 input.

(i) Many common tangible assets will be valued using a market valuation method. Unless a direct assessment of an asset is undertaken, level 1 inputs will rarely (if ever) be available.

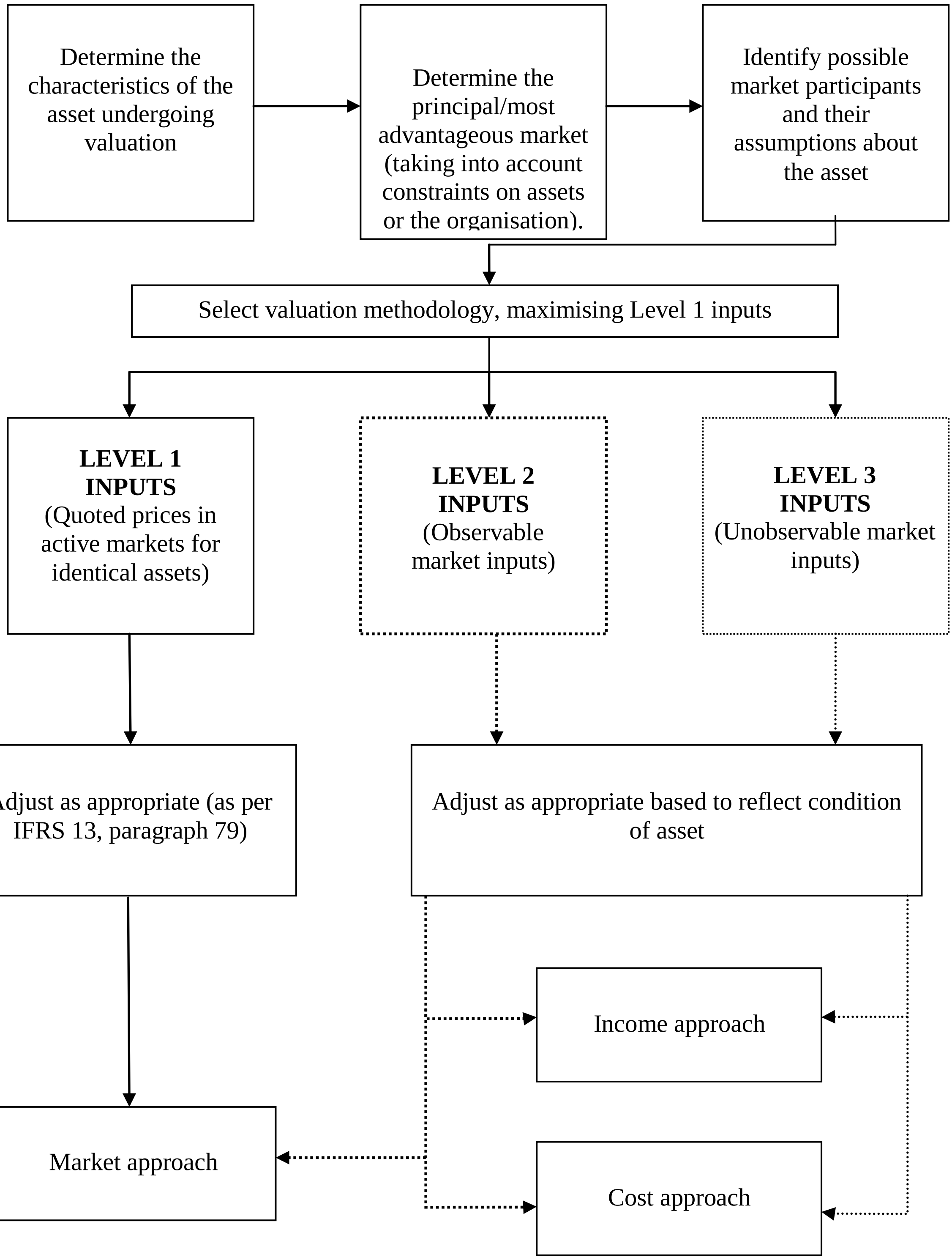
(j) For non-specialised assets, the minimum fair value should be no lower than market value in existing use. This is by virtue of the restriction on distressed sale and the inclusion of the seller in the group of market participants (paragraph BC56) whose assumptions feed into the theoretical transaction price. A non-distressed seller will not dispose of the asset for an amount that is less than its market value in existing use.

(k) In some cases, particularly for genuinely specialised assets, market value may not take into account the inherent characteristics of the asset (namely its current installation, configuration, ability to contribute to the economic benefit of the entity when used in conjunction with other assets).

(l) Paragraph BC79 (in the basis of conclusion to IFRS 13) states that "when a market price does not capture the characteristics of the asset (e.g. if that price represents the use of the asset on a stand-alone basis, not installed or otherwise configured for use, rather than in combination with other assets, installed and configured for use), that price will not represent fair value."

(m) In these situations, the standard requires the entity to disregard any market value that does not capture the nature of the asset and instead employ either the income method or DRC to arrive at an appropriate fair value.

Valuation of an asset under IFRS 13 Fair Value
See IFRS 13 paragraph B2.



Specialised assets

(n) The standard requires the maximisation of level 1 inputs. Level 1 inputs are quoted prices in active markets for identical assets **that the entity can access at the measurement date.** Due to the unique characteristics of genuinely specialised assets, identical assets in an active market do not exist and nor do similar assets, ruling out the use of level 1 and 2 inputs. As such, many specialised assets will commonly use depreciated replacement cost and level 3 inputs to arrive at a fair value.

Infrastructure Assets

(o) Similarly to specialised assets, the availability of level 1 and 2 input market for infrastructure assets is scarce to non-existent. As such, most (if not all) infrastructure assets will commonly use depreciated replacement cost and level 3 inputs to arrive at a fair value.

Land

(p) Market information is generally abundant for most properties. As such, it would be expected that level 1 inputs would be used (adjusted where appropriate for the condition of and restrictions). Where this information is not available the entity should agree an approach with their Relevant Authority.

Plant and machinery

(q) It is likely that market information adjusted where appropriate for condition of asset will be used in the calculation of fair value for plant and machinery. As per (a) above, the FReM provision for non-material transaction would continue to apply and as per (b) if the plant or machinery is specialised then a depreciated replacement cost model may be appropriate.

Liabilities and equity instruments

(r) When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.

(s) When a quoted price is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability or has issued the claim on equity.

(t) IFRS 13 paragraph 42 adds that the fair value of a liability should reflect the effect of non-performance risk. Non-performance risk includes, but may not be limited to, an entity's own credit risk.

Practical Examples

31. Some practical examples of issues to consider when determining fair value are set out below:

    - A central government department office building, with no specialist features has been valued at market value in existing use under IAS 16 (as adapted). There are no constraints on the asset or the department to prevent the asset being sold and sold for alternative use. Under IFRS 13 alternative use markets would need to be considered and the asset valued at highest and best use. Note this does not mean the asset needs to be sold or is surplus to requirements.

- A Foundation Trust has had a hospital site since its inception. The site and most of the assets cannot be sold without Secretary of State approval which has not been sought. The FT does not have access to the market so the asset will need to be valued at market value in existing use, if there is no market information available, perhaps because of its specialist nature, the cost approach should be followed. If the FT has built additional assets it does have the freedom to sell without external authority, these should be valued at their highest and best use. Given there are no constraints on sale this may mean the value is higher than market value in existing use. However there may still be restrictions on these assets if they are built on land that cannot be sold without external authority.

- A government department owns assets it is only statutorily permitted to sell for specific purposes, which is a lower value than the valuation in an alternative use. This means the entity does not have access to the alternative market and the asset should be valued according to the markets it does have access to.