



HM Treasury

Financial Reporting Advisory Board

Valuation of Non-investment Assets Update

Issue:	An update on the non-investment asset FReM text and associated application guidance following the March FRAB meeting and subsequent meeting of the non-investment asset working group.
Impact on guidance:	N/A
IAS/IFRS adaptation?	N/A
Impact on WGA?	N/A
IPSAS compliant?	N/A
Interpretation for the public sector context?	N/A
Impact on budgetary and Estimates regimes?	N/A
Alignment with National Accounts	N/A
Recommendation:	The Board is invited to note the changes made to the draft FReM text previously presented to the Board, and approve for inclusion in the 25/26 FReM. The draft valuation guidance will be presented separately by the VOA.
Timing:	Ongoing.

DETAIL

Background

1. At the March meeting of the Board, the Board reviewed a summary of responses to the Valuation of Non-investment Assets Exposure Draft and proposed amendments from HM Treasury.

2. FRAB agreed to some of HM Treasury's proposed changes to the text and rejected others. HM Treasury has incorporated the changes requested by the Board into the draft text at Annex A.
3. Following feedback from the working group, HM Treasury has made some minor changes to the draft. FRAB is particularly asked to consider:
 - IAS 8 adaptation
 - IAS 16 adaptation (para 4 and 5)
 - IAS 36 adaptation
 - IAS 38 adaptation (para 1)
4. The Board is invited to review and approve this text for publication, for application from 2025/26.
5. The Board has also received an updated copy of the VOA's draft application guidance, which incorporates feedback from a meeting of the non-investment asset working group. The VOA will present this guidance and would welcome feedback from the Board.

Recommendation

6. The Board is invited to:
 - **Agree** to the changes to the FReM text on the valuation of assets as set out in Annex A.

HM Treasury
20th June 2024

FRAB 153 (04)
20th June 2024

Part C: Application of accounting standards for government annual reports and accounts

Chapter 8 – Adapting and interpreting IFRS Standards

8.1 UK adopted IFRS

- 8.1.1 A list of UK adopted International Accounting Standards is shown in Table 1, together with a record of whether they have been adapted or interpreted for the public sector context in this Manual. Adaptation is where a part of a standard is modified to take into account particular public sector circumstances, such as where a definition in a standard is expanded. Interpretation is where part of a standard is explained further so as to clarify its appropriateness for the public sector context, such as where an option to apply an election in a standard is withdrawn.
- 8.1.2 All standards apply to all reportable activities and reporting entities applying this Manual to the extent that each standard is relevant to those activities and in the light of any statutory requirements or other pronouncements that might from time to time be made by the relevant authorities. Where adaptations or interpretations are different for ALBs these are identified below. All adaptations and interpretations have been through due process, include being approved by the Financial Reporting Advisory Board (FRAB).

Table 1

International Standard	Applies without adaptation or interpretation	Applies as interpreted for public sector	Applies as adapted for public sector	Different adaptations or interpretation for ALBs
IFRS 1 First-time Adoption of IFRS		●		
IFRS 2 Share-based Payments	●			
IFRS 3 Business Combinations		●		
IFRS 4 Insurance Contracts	●			
IFRS 5 Non-current Assets Held for Resale and Discontinued Operations		●		
IFRS 6 Mineral Resources	●			

International Standard	Applies without adaptation or interpretation	Applies as interpreted for public sector	Applies as adapted for public sector	Different adaptations or interpretation for ALBs
IFRS 7 Financial Instruments: Disclosures ¹	●			
IFRS 8 Operating Segments	●			
IFRS 9 Financial Instruments ²⁶		●	●	
IFRS 10 Consolidated Financial Statements			●	●
IFRS 11 Joint Arrangements			●	●
IFRS 12 Disclosure of Interests in Other Entities			●	●
IFRS 13 Fair Value Measurement ²	●			
IFRS 15 Revenue from Contracts with Customers ²⁶		●	●	
IFRS 16 Leases		●	●	
IAS 1 Presentation of Financial Statements		●		
IAS 2 Inventories		●		
IAS 7 Statement of Cash Flows		●		
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	●		●	
IAS 10 Events after the Reporting Period		●		
IAS 12 Income Taxes	●			
IAS 16 Property, plant and equipment		●	●	
IAS 19 Employee Benefits		●	●	
IAS 20 Accounting for government grants and disclosure of government assistance		●		

¹ Although IFRS 7 is applied without adaptation, and IFRS 9 is applied with adaptations relating solely to financial instruments within government, IFRS 15 and IAS 32 have been adapted for the public sector context to define what is considered to be a contract and a financial instrument. For further details see Table 6.2.

² Although IFRS 13 is applied without adaptation, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13. For further details see Table 6.2.

International Standard	Applies without adaptation or interpretation	Applies as interpreted for public sector	Applies as adapted for public sector	Different adaptations or interpretation for ALBs
IAS 21 The effects of changes in foreign exchange rates		●		
IAS 23 Borrowing Costs		●		
IAS 24 Related party disclosures		●		
IAS 26 Accounting and Reporting by Retirement Benefit Plans		●	●	
IAS 27 Separate Financial Statements			●	●
IAS 28 Investments in Associates and Joint Ventures			●	●
IAS 29 Financial reporting in hyper-inflationary economies		●		
IAS 32 Financial Instruments: Disclosure and Presentation ¹⁴		●	●	
IAS 33 Earnings per share	●			
IAS 34 Interim Financial Reporting	●			
IAS 36 Impairment of Assets		●	●	
IAS 37 Provisions, Contingent Liabilities and Contingent Assets		●	●	
IAS 38 Intangible Assets			●	
IAS 40 Investment Property		●		
IAS 41 Agriculture	●			

8.2 Interpretations and adaptations for the public sector context

8.2.1 Table 2 provides details of those adaptations and interpretations for the public sector context. Where an adaptation or interpretation to a standard results in an inconsistency with a related interpretation issued by the IFRS Interpretations Committee (IFRIC) or Standards Interpretations Committee (SIC), that interpretation is similarly adapted or interpreted. In all other case, IFRIC and SIC Interpretations will apply in full.

8.2.2 [Chapter 13](#) of this Manual provides additional guidance on adaptations and interpretations for the Whole of Government Accounts.

Table 2

IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	
Interpretations	This Manual requires financial statements to be prepared under the historical cost convention, modified by the revaluation of assets and liabilities to fair value as determined by the relevant account standard, and so the elections available in IFRS 1.16, 17 and 18 are not relevant.
IFRS 3 <i>Business Combinations</i>	
Interpretations	IFRS 3 excludes from its scope business combinations involving entities or businesses under common control. Public sector bodies are deemed to be under common control. Therefore IFRS 3 applies only to combinations involving an entity or entities within the public sector with an entity outside the sector. (IFRS 3 para 2(c)) Chapter 9 provides guidance on the accounting for a combination of two or more public sector bodies into one new body, or the transfer of functions from the responsibility of one part of the public sector to another.
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	
Interpretations	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. (IFRS 5 para 32)
IFRS 9 <i>Financial Instruments</i>	
Interpretations	<ol style="list-style-type: none"> (1) Any financial instrument that is not held in furtherance of the entity's objectives but is held on behalf of government more generally should be accounted for in a separate Trust Statement. Entities should discuss such cases with the relevant authorities. (2) Special or 'golden' shares, being those shares retained in businesses that have been privatised but in which the department wishes to retain a regulatory interest or reserve power, should not be recognised in the Statement of Financial Position. (3) PDC should be reported at historical cost, less any impairment. (4) Where future cash flows are discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real financial instrument discount rate set by HM Treasury (promulgated in Public Expenditure System (PES) papers) as applied to the flows expressed in current prices. (5) The accounting policy choice allowed under IFRS 9 which allows entities upon transition to restate prior periods if, and only if, it is possible without the use of hindsight has been withdrawn. All entities applying this Manual shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. (IFRS 9 para 7.2.15)

	<p>(6) The accounting policy choice allowed under IFRS 9 for long term trade receivables, contract assets which do contain a significant financing component (in accordance with IFRS 15), and lease receivables within the scope of IAS 17 has been withdrawn and entities should always recognise a loss allowance at an amount equal to lifetime Expected Credit Losses. All entities applying this Manual should utilise IFRS 9's simplified approach to impairment for relevant assets. (IFRS 9 para 5.5.15(a)(ii) and para 5.5.15(b))</p> <p>(7) The accounting policy choice allowed under IFRS 9 which allows entities to either continue to apply the hedge accounting requirements of IAS 39 (until the macro hedging project is finalised) or to apply IFRS 9 has been withdrawn. All entities applying this Manual should apply IFRS 9 hedge accounting requirements (with the scope exception only for fair value macro hedges of interest rate risk). (IFRS 9 para 7.2.21)</p>
Adaptations	<p>(1) Balances with core central government departments (including their executive agencies), the Government's Exchequer Funds³, the Bank of England, and Government Banking Service are excluded from recognising stage-1 and stage-2 impairments. In addition, any Government Exchequer Funds' assets where repayment is ensured by primary legislation are also excluded from recognising stage-1 and stage-2 impairments. ALBs are excluded from the exemption unless they are explicitly covered by guarantee given by their parent department.</p> <p>(2) Balances between a parent department and its executive agencies and ALBs are not covered by the exception from recognising ECLs noted in IFRS 9 adaptation (1) above.</p> <p>(3) Liabilities with core central government departments (including their executive agencies), the Government's Exchequer Funds, and the Bank of England are assessed as having zero 'own credit risk' by the entities holding these liabilities.</p> <p>(4) Where an entity issues a financial guarantee below fair value and where no active market or observable equivalent exists such that it would follow B5.1.2A section (b), then it should instead measure the financial guarantees at initial recognition, and at reporting period end, at an amount equal to lifetime expected credit loss (ECL) in accordance with the requirements of IFRS 9. Initial measurement and subsequent measurement are to be recognised through profit and loss. For the purpose of applying Interpretation (4) of the FReM's interpretation of IFRS 9, and for the purpose of determining suitable disclosures under IFRS 7, the department shall treat them as if ECL were Fair Value. In the case of Interpretation (4), if it can be evidenced that the intrinsic rate cannot be reliably determined, then the HM Treasury Financial Instrument rate should be used.</p> <p>(5) Where an entity issues a financial instrument, other than a financial guarantee, at an amount that is different to fair value, where recognising at fair value would not result in a gain or profit and where no active market or observable equivalent exists such that it would</p>

³ Government's Exchequer Funds include: the National Loans Fund; all Consolidated Funds; the Contingencies Fund; the Exchange Equalisation Account; the Debt Management Account; the Public Works Loan Board; and Commissioners for the Reduction of the National Debt.

	follow B5.1.2A section (b), then the entity should instead measure the instrument at initial recognition at fair value.
IFRS 10 Consolidated Financial Statements	
Adaptations	<p>The departmental boundary is similar to the concept of a group under generally accepted accounting practice but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies. Departments will account for subsidiaries under IFRS 10 only if they are designated for consolidation by order of the relevant authority under statutory instrument, which will reflect the ONS's classification of an entity to the central government sector.</p> <p>Agencies should follow the requirements of IFRS 10 only if the subsidiaries are within the controlling department's consolidation boundary.</p> <p>ALBs should apply IFRS 10 without adaptation.</p> <p>Chapters 4 and 9 provide guidance on the departmental accounting boundary and application of consolidation standards.</p>
IFRS 11 Joint Arrangements	
Adaptations	<p>In accordance with the principles set out in Managing Public Money, executive non-departmental and similar public bodies classified to central government by the ONS will normally be controlled for accountability purposes by only one department in accordance with IFRS 10, and not as a joint arrangement under IFRS 11.</p> <p>Where a department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IFRS 9. This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles.</p> <p>Agencies should follow the requirements of IFRS 11 with respect to public sector entities only if the entities are within the controlling department's consolidation boundary.</p> <p>Departments and agencies should apply IFRS 11 without adaptation to bodies classified to the private sector and rest of the world by the ONS.</p> <p>ALBs should apply IFRS 11 without adaptation.</p> <p>Chapters 4 and 9 provide guidance on the departmental accounting boundary and application of consolidation standards.</p>
IFRS 12 Disclosure of Interests in Other Entities	
Adaptations	<p>Disclosures of interests in other entities will be subject to the adaptations for departments and agencies to IFRS 10, IFRS 11, IAS 27 and IAS 28.</p> <p>Chapters 4 and 9 provide guidance on the departmental accounting boundary and application of consolidation standards.</p>
IFRS 15 Revenue from Contracts with Customers	
Adaptations	<p>1. The definition of a contract is expanded to include legislation and regulations which enables an entity to receive cash or another financial asset from another entity (other than income classified as a tax by the Office of National Statistics). The costs of preparing the legislation or regulations does not amount to assets under IFRS 15 (91-94).</p>

	<p>2. Where by statute or Treasury consent, an entity is permitted to retain the revenue from taxation, fines and penalties, this revenue shall be treated as arising from a contract and accounted for under IFRS 15 (15a).</p> <p>However, where entities receive revenue through taxation, fines and penalties which is wholly non-refundable and leads to no obligations, entities are not required to wait until all, or substantially all, of the promised revenue has been received to recognise the revenue. In these instances, entities should recognise revenue when an equivalent to a taxable event has occurred, the revenue can be measured reliably, and it is probable that the assisted economic benefits from the taxable event will flow to the collecting entity. All these elements are required to be satisfied.</p>
Interpretations	<p>Upon transition, the following accounting policy choice to retrospectively restate in accordance with IAS 8 has been withdrawn. All entities applying the FReM shall recognise the difference between the previous carrying amount and the carrying amount at the beginning on the annual reporting period that includes the date of initial application in the opening general fund (or equivalent component of equity) within taxpayers' equity (or other component of equity, as appropriate) per IFRS 15 C3(b). In using this transition approach</p> <ul style="list-style-type: none"> • The election to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application should be exercised. • The practical expedient available for contract modifications (C7A) should be exercised. <p>Further application guidance on accounting for revenue, as well as taxes and duties, is included in chapter 11.</p>
IFRS 16 Leases	
Adaptations	<p>1. IFRS 16, as adapted and interpreted by this Manual, will be effective from 1 April 2022, with two exceptions.</p> <p>Early adoption from 1 April 2019 is available for entities where the following criteria are met:</p> <ol style="list-style-type: none"> a) the entity has at least one subsidiary that, under the Companies Act, is required to follow IFRS as adopted by the EU, and the total assets of the subsidiary comprise at least 10% of the total assets at the group level; b) the subsidiary (or subsidiaries) described above have operating lease commitments that comprise at least 10% of the operating lease commitments at the group level; and c) approval to early adopt has been received from HM Treasury. <p>Early adoption from 1 April 2021 is available for entities where approval has been received from the relevant authority.</p>

	<p>2. The definition of a contract is expanded to include intra-UK government agreements where non-performance may not be enforceable by law.</p> <p>3. Peppercorn leases are defined as leases for which the consideration paid is nil or nominal (that is, significantly below market value). Peppercorn leases are in the scope of IFRS 16 if they meet the definition of a lease in all aspects apart from containing consideration. All lessees shall account for peppercorn leases using the following criteria:</p> <ul style="list-style-type: none"> • Recognise a right-of-use asset and initially measure it at current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential and as set out in paragraphs 10.1.4-10.1.6. However, if the right-of-use asset meets the definition of a heritage asset, it should be initially measured in accordance with paragraphs 10.1.35-10.1.40. • Recognise a lease liability measured in accordance with IFRS 16. • Recognise any difference between the carrying amount of the right-of-use asset and the lease liability as income as required by IAS 20 as interpreted in this Manual. • Subsequently measure the right-of-use asset following the principles of IFRS 16 as adapted and interpreted in this Manual. • Upon transition, any peppercorn leases that were not previously classified as finance leases under IAS 17 shall be recognised as follows⁴: <ul style="list-style-type: none"> • The right-of-use asset shall be measured at current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential and as set out in paragraphs 10.1.4-10.1.6. However, if the right-of-use asset meets the definition of a heritage asset, it should be initially measured in accordance with paragraphs 10.1.35-10.1.40. • The lease liability shall be measured at the present value of lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. • The difference between the carrying amount of the right-of-use asset and lease liability shall be included as part of the adjustment to the opening balances of taxpayers' equity (or other component of equity, as appropriate) per IFRS 16 (C5(b)).
Interpretations	<p>1. The option to apply the election in IFRS 16 (5(a)) has been withdrawn. All entities must apply the recognition and measurement exemption for short-term leases in accordance with IFRS 16 (6-8).</p>

⁴ This includes any peppercorn leases that previously were classified as operating leases under IAS 17, or were argued to be outside the scope of IAS 17 because they did not include a payment, or series of payments

	<p>2. Where lessees cannot readily determine the interest rate implicit in the lease, they are instead required to use the HM Treasury discount rates promulgated in PES papers as their incremental borrowing rate. However, if an entity can demonstrate that another discount rate would more accurately represent their incremental borrowing rate (for example, if they undertake external borrowing independently of the Exchequer), they shall use that discount rate as their incremental borrowing rate.</p> <p>3. The subsequent measurement basis for all right-of-use assets shall be consistent with the principles for subsequent measurement of property, plant and equipment set out in the adaptations to IAS 16 in this Manual. Chapter 10.2 to the FReM sets out how the apply these principles to right-of-use assets.</p> <p>4. The option to reassess whether a contract is, or contains, a lease at the date of initial application has been withdrawn. All entities shall use the practical expedient detailed in IFRS 16 (C3) (for peppercorn leases, see adaptation 2 above).⁵</p> <p>5. Upon transition, the accounting policy choice to apply IFRS 16 retrospectively to each prior period presented in accordance with IAS 8 has been withdrawn. All entities applying this Manual shall recognise the cumulative effects of initially applying IFRS 16 recognised at the date of initial application as an adjustment to the opening balances of taxpayers' equity (or other component of equity, as appropriate) per IFRS 16(C5(b)).</p> <p>6. Upon transition, entities shall measure the right-of-use asset for leases previously classified as operating leases per IFRS 16((C8 (b)(ii))): at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.</p> <p>7. Upon transition, all entities applying this Manual shall apply the following options for leases previously classified as operating leases:</p> <ul style="list-style-type: none"> • No adjustments for leases for which the underlying asset is of low value that will be accounted for applying IFRS 16 (6). (IFRS 16 C9 (a)) • No adjustment for leases for which the lease term ends within 12 months of the date of initial application (with a requirement to include the cost associated with those leases in the short-term lease expense disclosure). (C10 (c)) • Use hindsight in determining the lease term if the contract contains options to extend or terminate the lease. (C10 (e))

⁵ This presumes that entities have been applying the guidance in IAS 17 and IFRIC 4 appropriately in the past. Any known misapplication of the definition of a lease guidance should be corrected as a prior period error in accordance with IAS 8 unless an entity has explicit approval from the relevant authority to do otherwise.

IAS 1 *Presentation of Financial Statements*

Interpretations	<p>(1) References to 'present fairly' and to 'fair presentation' should be read to mean 'give a true and fair view' and 'truthful and fair presentation' to comply with the requirements of the Companies Act 2006.</p> <p>(2) In addition to naming the legislative authority for producing the accounts, the notes to the accounts shall disclose the basis of preparation of the financial statements as being in accordance with the FReM. (IAS 1 para 112)</p> <p>(3) Going concern is interpreted for the public sector context (IAS 1 paras 25-26):</p> <ul style="list-style-type: none">• for non-trading entities, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. However, a trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up,• Sponsored entities whose statements of financial position show total net liabilities should prepare their financial statements on the going concern basis unless, after discussion with their sponsors, the going concern basis is deemed in appropriate, and• Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements. <p>(4) IAS 1 requires entities to prepare a Statement of Comprehensive Income. Departments, NDPBs and Trading Funds should continue to follow the guidance in the FReM. Departments and NDPBs shall prepare a Statement of Comprehensive Net Expenditure as appropriate. Trading Funds shall prepare a Statement of Comprehensive Income. (IAS 1 para 10(b))</p> <p>(5) The financing of public sector entities is ultimately tax-based and an IAS 1-based notion of capital does not apply to many of them. Capital disclosures should be given only with the agreement of the relevant authority. (IAS 1 paras 134-136)</p> <p>(6) The flexibility provided in IAS 1 to select the order of presentation of line items on the Statement of Financial Position and to present on a liquidity basis (IAS 1 para 60) is withdrawn.</p> <p>(7) The IAS 1 comparative information requirements should be applied in full except that reporting entities should note that a decision on whether to include corresponding amounts in disclosures specific to government departments and agencies (for example, in relation to information on the Statement of Parliamentary Supply) will be taken on a case-by-case basis. Additionally, the Statement of Changes in Taxpayers' Equity for a departmental group shall include columns for the core department and agencies, and the consolidated group (usually core department, agencies and NDPBs). (IAS 1 para 38)</p> <p>Chapter 4 provides application guidance on the form and content of the annual report and accounts and additional reporting requirements.</p>
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IAS 2 Inventories	
Interpretations	In addition to the types of inventories identified in IAS 2, central government has categories of inventories for which IAS 2 may not adequately cover the accounting treatment. Chapter 10 provides guidance on the treatment of stockpile goods and military reserve inventories; confiscated, seized and forfeited property; and goods held under price support programmes.
IAS 7 Statement of Cash Flows	
Interpretations	Departments should follow the format of the Statement of Cash Flows in IAS 7 but should include at the foot of the statement those cash flows with the Consolidated Fund. Chapter 4 details the required format of the Statement of Cash Flows.
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	
Adaptations	<u>When applying the changes to the valuation of non-investment assets (including intangible assets) from 25/26 and throughout the transition period, entities applying the FReM do not need to follow the requirements of IAS 8 following a change in accounting policy. Changes to the valuation of non-investment assets as set out in the FReM will be applied prospectively, with no restatement of prior year figures, supported by clear disclosure throughout transition.</u>
IAS 10 Events after the Reporting Period	
Interpretations	(1) Public Dividend Capital is not a financial instrument within the meaning of IAS 32. Unpaid dividends in respect of Public Dividend Capital shall continue to be recognised as liabilities as the reporting period. (IAS 10 paras 12-13) (2) The date of the Accounting Officer's authorisation for issue of the financial statements of the reporting entities covered by this Manual is normally the same as the date of the Certificate and Report of the Comptroller and Auditor General. The date of authorisation for issue must be included in the Annual Report and Accounts, but not on the title page. (IAS 10 paras 17-18)
IAS 16 Property, Plant and Equipment	
Adaptations	<u>(1) IAS 16 is adapted to specify the following: All entities using this Manual shall value valuation bases for property, plant and equipment on the following bases:</u> <ul style="list-style-type: none"> Assets which are held for their <u>service potential/operational capacity</u> (i.e. operational assets) and are in use should be measured at current value in existing use. <u>For non-specialised assets</u> current value in existing use should be interpreted as <u>Existing Use Value (EUV) which is defined in the market value for existing use. In the RICS Red Book, this is defined as Existing Use Value (EUV).</u> For specialised assets current value in existing use should be interpreted as 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.

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- Assets which were most recently held for their ~~service potential~~ operational capacity but are surplus should be valued at current value in existing use as above if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market, then the surplus asset should be valued at fair value using IFRS 13.
- Assets which are not held for their ~~service potential~~ operational capacity should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale. Where such assets are surplus and do not fall within the scope of IFRS 5 or IAS 40, they should be valued at fair value applying IFRS 13.

(2) ~~The requirement in IAS 16 paragraph 34 to revalue an asset when its fair value differs materially from its carrying value has been withdrawn. (IAS 16 para 34)-~~ Revaluations are undertaken using one of the following three processes:

- ~~a) A quinquennial revaluation supplemented by annual indexation in intervening years.~~
- ~~b) A rolling programme of valuations over a 5-year cycle, with annual indexation applied to assets during the four intervening years~~
- ~~c) For non-property assets only, appropriate indices.~~

(3) ~~The FReM withdraws the~~ requirement for revaluations to be undertaken any more frequently than stated above ~~has been withdrawn, unless there is an indication of impairment when applying IAS 36, which may require an asset to be fully revalued.~~

(4) Revaluations carried out prior to 25/26 in line with the former FReM requirements remain valid throughout the transition period. During the transition period, the maximum period between revaluations must not exceed five years.

(5) Below is a draft narrative entities can use to explain the change in accounting policies during the transition period:

From 1 April 2025 HM Treasury changed the requirements in the Government Financial Reporting Manual (FReM) in respect of revaluations of property, plant and equipment. Where entities do not have a rolling programme of revaluations in place and/or the assets are not non-property assets subject to indexation, entities revalue their assets every five years with annual indexation applied to assets during the four intervening years.

For assets valued using the Depreciated Replacement Cost (DRC) methodology, entities are now required to value their assets based on their current location and not to consider alternative locations. These changes are applied prospectively in line with transition requirements published by HM Treasury.

The value and proportion of assets currently valued using the existing location valuation approach is x. The value of assets still valued using the alternative location valuation approach is y. All assets will be valued using

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	the existing location valuation approach by z date, in line with the transition period approach. (+)
Interpretations	<p>(1) All tangible non-current assets shall be carried at either current value in existing use or fair value at the reporting 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. (IAS 16 para 29)</p> <p>(2) It is not necessary to disclose the historical cost carrying amounts (where available)</p> <p>Further application guidance on accounting for property, plant and equipment, including heritage assets, networked assets and PPP arrangements, is included in chapter 10.</p>
IAS 19 Employee benefits	
Adaptations	<p>(1) The requirements of IAS 19 are to apply to the accounts of the pension schemes themselves as well as to the reporting entities and reportable activities covered by the requirements of the FReM. This includes relevant disclosure requirements. (IAS 19 para 3)</p> <p>(2) In the financial statements of the pension schemes only, contributions from employer and employees are to be shown as income in the statement of comprehensive net expenditure rather than as, respectively, a credit to the pension liability or a deduction from the current service cost. As a consequence, the pension liability will not reflect contributions.</p>
Interpretations	<p>(1) Employers whose employees are members of the pension schemes listed in paragraph 12.1.1 (including the NHS superannuation scheme) shall account for the scheme as a defined contribution plan.</p> <p>(2) IAS 19 requires the present value of defined benefit obligations and, if applicable the fair value of the plan's assets to be determined with sufficient regularity that the amounts recognised in the financial statements do not differ materially from those determined at the reporting period date. This shall be interpreted to mean that the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years. The results of the actuarial valuations may not necessarily feed into the annual report and accounts in the same financial year due to timing differences; instead, entities must ensure the IAS 19 para 58 requirement of amounts recognised being materially correct is met. Acceptable approximations shall include adjusting full valuation results using the latest available membership data. (IAS 19 para 58)</p> <p>(3) The application of a discount rate advised annually by HM Treasury will not apply to funded schemes within central government. Reporting entities with funded schemes should use a discount rate in accordance with IAS 19 as advised by the scheme's actuary. (IAS 19 para 83)</p> <p>(4) Where a central government entity has a share of a local government (or other) pension scheme liability on its statement of financial position, then that entity will use a discount rate determined by the appropriate authority in valuing its share and not the rate advised annually by HM Treasury. (IAS 19 para 83)</p>

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	(5) Voluntary early retirements under scheme rules will be discounted at the pension's rate and not at the provisions rate.
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	
Interpretations	<p>(1) The option provided in IAS 20 to offset a grant for acquisitions of an asset against the cost of the asset has been withdrawn. (IAS 20 paras 24-27)</p> <p>(2) 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. Trading Funds, where they have the consent of the Relevant Authority, need not apply this interpretation.</p> <p>(3) 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. (IAS 20 para 32)</p> <p>(4) 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.</p> <p>Chapter 11 provides application guidance on distinguishing between income and financing, the treatment of Supply, grants from UK government entities and the European Union, transactions with the Consolidated Fund and the Apprenticeship Levy</p>
IAS 21 The Effects of Changes in Foreign Exchange Rates	
Interpretations	The presentational currency will be the same as the functional currency i.e. pounds sterling. (IAS 21 paras 18-19 and 38)
IAS 23 Borrowing Costs	
Interpretations	Borrowing costs in respect of qualifying assets held at fair value shall be expensed. (IAS 23 para 4(a))
IAS 24 Related Party Disclosures	
Interpretations	<p>(1) For the purposes of IAS 24.9(a), the related party will be one of those defined in paragraph 6.4.3.</p> <p>(2) Charitable ALBs may apply the general principle of exemption from related party disclosure in respect of trustees acting as agents of the</p>

	<p>charity, in accordance with the parameters contained within the Charities SORP.</p> <p>(3) Reporting entities should give the name of the parent department (if any), a note on the main entities within government with which the entity has had dealings (no information needs to be given about these transactions), and details of material transactions between the entity and individuals who are regarded as related parties. A suggested wording is in Annex 2. (IAS 24 paras 25-26)</p> <p>(4) The requirement to disclose the compensation paid to management, expense allowances and similar items paid in the ordinary course of an entity's operations will be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report. (IAS 24 para 17)</p> <p>(5) In considering materiality, regard should be had to the definition in IAS 1, which requires materiality to be judged "in the surrounding circumstances". Materiality should thus be judged from the viewpoint of both the entity and the related party.</p>
IAS 26 Accounting and Reporting by Retirement Benefit Plans	
Adaptations	IAS 26 does not apply to forms of employment benefit other than retirement benefits. However, where schemes currently report separately transactions relating to termination benefits (also known as early departure costs or compensation payments) they should continue to do so. The treatment of such costs will depend on whether the scheme acts as a principal or an agent, and whether or not the early departure costs (however described) are regarded as retirement benefits and included within the pension provision.
Interpretations	<p>(1) Paragraph 18 of IAS 26 allows the present value of the expected payments by a retirement benefit plan to be calculated and reported using either current salary levels or projected salary levels. The pension schemes listed in paragraph 12.1.1 are to calculate and report the present value of the expected payments using projected salary levels; that is, the option of using current salary levels is not available. (IAS 26 para 18)</p> <p>(2) Paragraph 17 of IAS 26 allows information concerning the actuarially determined present value of promised retirement benefits to be disclosed:</p> <ol style="list-style-type: none"> a. as part of the statement of net assets, b. by way of note, or c. in a separate actuarial report which is attached to the accounts. <p>The pension schemes listed in paragraph 12.1.1 are to disclose the actuarially determined present value of promised retirement benefits within the statement of financial position; that is, options (b) and (c) are not available. (IAS 26 para 17)</p> <p>Chapter 12 provides guidance on the accounting for termination benefits, the content for pension scheme financial statements and the accounting for additional voluntary contributions</p>
IAS 27 Separate Financial Statements	
Adaptations	The presentation of separate, non-consolidated financial statements will only be applied in full if the investment has not been designated for

	consolidation by order of the relevant authority under statutory instrument. (IAS 27 para 2)
IAS 28 Investments in Associates	
Adaptations	<p>In accordance with the principles set out in Managing Public Money, executive non-departmental and similar public bodies classified to central government by the ONS will normally be controlled for accountability purposes by only one department. Therefore, the public sector entity will be included in one department's consolidation order and will be consolidated by that department in accordance with IFRS 10.</p> <p>Where a department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IFRS 9. This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles.</p> <p>Agencies should follow the requirements of IAS 28 with respect to public sector entities only if the entities are within the controlling department's consolidation boundary.</p> <p>Departments and agencies should apply IAS 28 without adaptation to bodies classified to the private sector and rest of the world by the ONS.</p> <p>NDPBs and trading funds should apply IAS 28 without adaptation.</p> <p>Chapter 4 provides guidance on the departmental accounting boundary and application of consolidation standards.</p>
IAS 29 Financial Reporting in Hyperinflationary Economies	
Interpretations	As all entities covered by the FReM have a functional currency of pounds sterling, HM Treasury will notify classification of the economy as hyperinflationary if appropriate.
IAS 32 Financial Instruments: Presentation	
Interpretations	Public Dividend Capital (PDC) is not an equity instrument as defined in the IAS. It should be presented as a form of financing in the Statement of Financial Position of the relevant entity. Dividends on PDC should be presented as a form of financing in the Statement of Comprehensive Net Expenditure and accounted for where appropriate in the Statement of Financial Position. PDC impairments should be presented in the Statement of Comprehensive Net Expenditure unless the impairment is a result of implementing a machinery of government change, where it should be presented in the Statement of Taxpayers Equity.
Adaptations	<p>References to 'contract' and 'contractual' within IAS 32 include legislations and regulations which:</p> <ul style="list-style-type: none"> • give rise to arrangements that in all other respects would meet the definition of a financial instrument under IAS 32.11; and, • do not give rise to transactions classified as a tax by the Office of National Statistics, except for revenue from taxation, fines and penalties that is recognised due to the IFRS 15 adaptation to the definition of a contract.
IAS 36 Impairment of Assets	

Adaptations	References in IAS 36 to the recognition of an impairment loss of a revalued asset being treated as a revaluation decrease to the extent that that impairment does not exceed the amount in the revaluation surplus for the same asset, are adapted such that only those impairment losses that do not result from a clear consumption of economic benefit or reduction of service potential (including as a result of loss or damage resulting from normal business operations) should be taken to the revaluation reserve. Impairment losses that arise from a clear consumption of economic benefit should be taken to the Statement of Comprehensive Net Expenditure. (IAS 36 paras 60 and 61)
Interpretations	Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. (IAS 36 para 30) Chapter 10 provides additional guidance on the classification of impairments for budgetary purposes and application guidance.
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	
Interpretations	Where the cash flows to be discounted are expressed in current prices, entities should use the real discount rates set by HM Treasury as promulgated in PES papers. (IAS 37 paras 46-47) N.B. Separate disclosure of information about a particular contingency need not be made if the information has a security marking. Chapter 6 details additional requirements for remote obligations outside the scope of IAS 37 to be reported to Parliament.
IAS 38 Intangible Assets	
Adaptations	(1) The option to subsequently measure intangible assets using the revaluation model —value at the transition date will be considered historic (deemed) cost is withdrawn. Entities that have been using the revaluation model should disclose this change in methodology at transition. (2) The value at the transition date will be considered historic (deemed) cost. (IAS 38 para 72)- 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 other than those that are held for sale should be carried at current value in existing use at the reporting period date — that is, the cost option given in IAS 38 has been withdrawn and the current value should be based on the market value in existing use. 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. (IAS 38 para 72) Chapter 10 provides application guidance for Carbon Reduction Commitment (CRC) Energy Efficiency Scheme
IAS 40 Investment Properties	

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Interpretations	<p>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 40 para 30)</p> <p>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. (IAS 40 paras 5 and 7)</p>
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- 9.1.1 accounts or provide additional narrative to explain the impact of the transfer.
- 9.1.2 Entities should disclose the entity or entities to which the transfers have been made.

Other requirements

- 9.1.3 Transfers of non-current assets that are not machinery of government changes or part of a transfer of functions should be transferred at fair value following the fair value measures in IFRS 3.
- 9.1.4 Any departure from the accounting treatments in 9.1.6 to 9.1.15 must be agreed with the relevant authority and applied symmetrically by the transferor and transferee.

Chapter 10 – Further guidance on accounting for assets and liabilities

10.1 Property, plant and equipment (PPE)

Valuations (excluding networked assets, donated assets and heritage assets)

- 10.1.1 ~~In considering how best to apply the valuation requirements of IAS 16 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 date, e~~Entities should consider the following guidance on property and non-property assets. The flowchart at the end of this section will assist in determining the appropriate accounting treatment of PPE excluding networked assets, donated assets and heritage assets.
- 10.1.2 Entities ~~must~~should value their PPE using ~~the most appropriate~~the most appropriate of the following valuation processes:
- a) a quinquennial valuation supplemented by ~~either annual indexation or regular desktop valuation update~~
 - b) ~~a quinquennial valuation supplemented by an interim professional valuation in year 3~~
 - c) ~~annual valuations~~
 - ~~e~~b) a rolling programme of valuations over a 5-year cycle, with annual indexation applied to assets during the four intervening years
 - ~~e~~c) for non-property assets only, appropriate indices
- 10.1.3 ~~It is for accounts preparers (where necessary, in consultation with their valuers and using the RICS Red Book) to determine the most appropriate revaluation process for an asset. It is for valuers, using the Royal Institution of Chartered Surveyors' (RICS) 'Red Book' (RICS Valuation – Professional Standards), and following discussions with the entity, to determine the most appropriate methodology for obtaining either a current value in existing use or a fair value.~~
- ~~10.1.3~~10.1.4 ~~The purpose of applying indexation to asset values is to ensure the value of an asset is kept materially up to date for movements in variables, e.g., build costs, rental income etc. The choice of index is a matter of judgement, and that judgement should be made in the context that the purpose of applying indexation is to ensure asset values are adjusted for price and market movements year-on-year. Absolute precision is not expected, neither is it achievable. Entities should ensure the index used provides a reasonable estimate of the movement in the value of an asset from the prior year.~~
- 10.1.5 ~~Assets which are held for their operational capacity service potential (i.e. operational assets used held with the primary objective to deliver either front line services or back office functions) should be measured at their current value in existing use. For non-specialised assets e~~Current value in existing use should be interpreted as Existing Use Value (EUV) market value in existing use which is defined in the RICS Red Book ~~as Existing Use Value (EUV). For specialised assets current value in existing use should be interpreted as the present value of the~~

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~~asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.~~

~~10.1.6~~ 10.1.6 In certain circumstances, an item of property, plant and equipment may generate a financial return although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure safe disposal of medical waste generated by central government entities, but also treats a small amount of waste generated by private sector entities on a commercial basis. In this instance, the disposal waste plant would be treated as an asset held for operational capacity and measured at EUV.

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~~10.1.4~~ 10.1.7 In some cases, it may not be clear whether the intended primary objective of holding an item or part of an item of property, plant and equipment is for its operational capacity. Judgement is needed. An entity develops criteria so that it can exercise judgement consistently in concluding whether an item of property, plant and equipment is held primarily for its operational capacity or not. When the intended primary objective of holding an item of property, plant and equipment cannot be determined, given the overall objectives of most public sector entities, the presumption is that an item of or part of an item of property, plant and equipment is held for its operational capacity.

~~10.1.5~~ 10.1.8 Assets which were most recently held for their ~~service potential~~ operational capacity but are surplus should be valued at current value in existing use as per paragraph 10.1.4 if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market, then the surplus asset should be valued at fair value using IFRS 13.

~~10.1.6~~ 10.1.9 In determining whether an asset which is not in use is surplus, management should assess whether there is a clear plan to bring the asset back into future use as an operational asset. Where there is a clear plan, the asset is not surplus and the current value in existing use should be maintained. Otherwise, the asset should be assessed as being surplus and valued under IFRS 13.

~~10.1.7~~ 10.1.10 Assets which are not held for their ~~service potential~~ operational capacity should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale.

~~10.1.8~~ 10.1.11 Where an asset is not being used to deliver services and there is no plan to bring it back into use, with no restrictions on sale, and it does not meet the IAS 40 and IFRS 5 criteria, these assets are surplus and should be valued at fair value using IFRS 13.

~~10.1.9~~ 10.1.12 Where ~~a valuer, following discussion with the entity,~~ it is determined that depreciated replacement cost (DRC) is the most appropriate measure of current value in existing use, entities and their valuers should have regard to the guidance contained in the most recent RICS Red Book.

~~10.1.10~~ 10.1.13 Where DRC is used as the valuation methodology:

- a) 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.
- b) entities should use the 'instant build' approach;

- c) ~~entities shall value the asset based on its current location and not consider alternative locations~~~~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.~~

~~10.1.11~~10.1.14 The cost of enhancements to existing assets (such as building of a new wing within an existing prison) should be capitalised 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.

~~10.1.12~~10.1.15 Entities should:

- a) disclose in the accounting policies note the fact that assets are carried at current value in existing use or 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;~~
- b) disclose in the notes on tangible non-current assets: the date of the last valuations of those assets that are subject to revaluation, and the names and qualifications of the valuer; and
- c) ~~discuss in the Management Commentary,~~ where they hold extensive estates: ~~discuss in the Management Commentary~~ Performance Report 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.~~

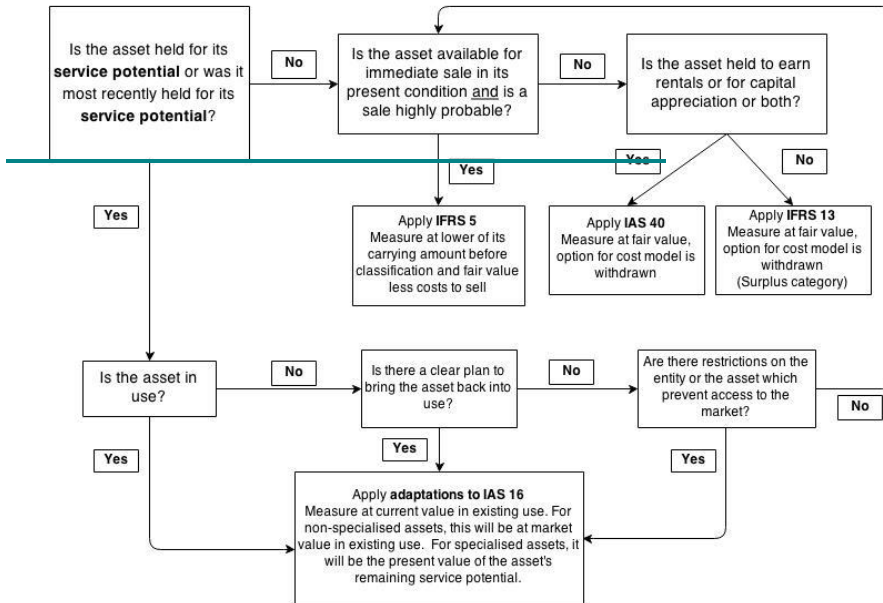
~~10.1.13~~10.1.16 As part of the Property, Plant and Equipment note entities are required, in the year the asset is acquired, to separately disclose the current value in existing use or fair value of those assets funded by government grant, donation or lottery funding. Where the funder provides cash, rather than the physical assets, any difference between the cash provided and the fair value of the assets acquired should also be disclosed.

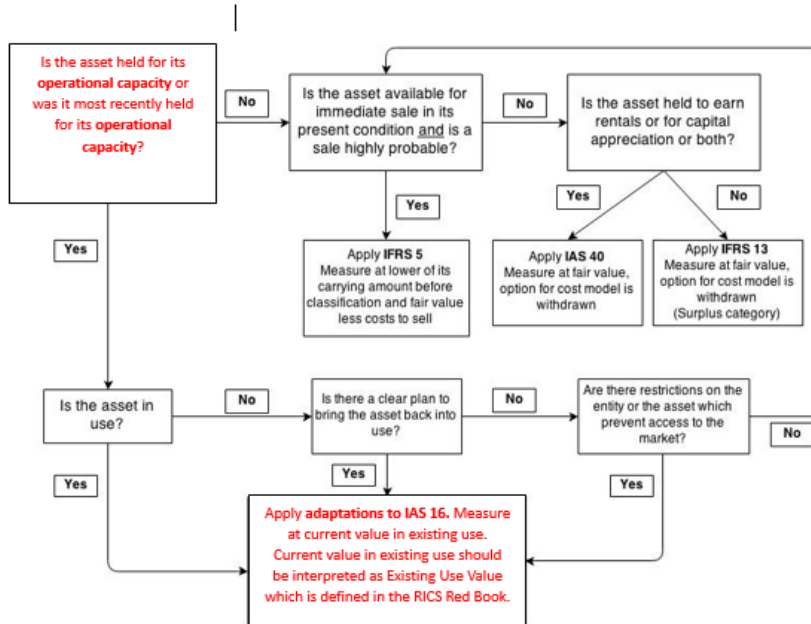
10.1.17 Entities may elect to adopt a depreciated historical cost basis as a proxy for current value in existing use or fair value for assets that have short useful lives or low values (or both). For depreciated historical cost to be considered as a proxy for current value in existing use or fair value, 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. If depreciated historical cost is used as a proxy for current value in existing use or fair value then this fact should be disclosed, including the classes of assets where it has been used (where appropriate), the reasons why, and information about any significant estimation techniques (where applicable).

~~10.1.14~~10.1.18 Undertaking a full revaluation should not be a default process to demonstrate there has not been a material impairment of an asset and comply with IAS 36. Rather, it should be the consideration of impairment triggers which determine whether the recoverable amount of an asset needs to be calculated and therefore whether a full revaluation is needed or not before the next revaluation. IAS 36 paragraphs 12-14 sets out the indicators entities must consider when determining whether an asset is impaired. IAS 36 paragraphs 12-14 do not necessarily require entities to undertake full revaluations each year to comply with the standard. As such, HM Treasury do not expect entities to

undertake a full, professional revaluation of an asset to demonstrate a material impairment has not occurred.

Flowchart of valuation for property, plant and equipment (excluding networked assets, donated assets and heritage assets)





Networked assets

[10.1.15](#)[10.1.19](#) 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.

The road network

[10.1.16](#)[10.1.20](#) Land, Structures and Communications will be accounted for following the guidance in IAS 16.

[10.1.17](#)[10.1.21](#) 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.

[10.1.18](#)[10.1.22](#) The road surface asset will be held at depreciated replacement cost based on service potential.

~~10.1.19~~10.1.23 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.

~~10.1.20~~10.1.24 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 shows 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.

~~10.1.21~~10.1.25 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 expenditure.

~~10.1.22~~10.1.26 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 section [Error! Reference source not found.](#)[Error! Reference source not found.](#)10.4).

Other Infrastructure

~~10.1.23~~10.1.27 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

~~10.1.24~~10.1.28 Assets donated by third parties (see also paragraph 10.1.30 on asset transfers), either by gift of the asset or by way of funds to acquire assets (including national lottery-funded assets) should be capitalised at current value in existing use or fair value on receipt, depending on whether the assets will be held for their service potential and as set out in paragraphs 10.1.4 to 10.1.6. The funding element should be recognised as income as required by IAS 20 as interpreted in this Manual.

~~10.1.25~~10.1.29 To qualify for treatment as a donated asset there should be no consideration given in return.

~~10.1.26~~10.1.30 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.

~~10.1.27~~10.1.31 The assets listed in 10.1.26 should be accounted for in accordance with IAS 16 in the same way as other assets of that general type.

~~10.1.28~~10.1.32 Donated assets should be revalued, depreciated and subject to impairment review in the same way as other non-current assets.

~~10.1.29~~10.1.33 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

~~10.1.30~~10.1.34 Entities 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. Entities should consult the relevant authority (through sponsoring bodies where appropriate) before entering into such a transaction.

~~10.1.31~~10.1.35 Where the carrying value differs materially from the fair value and the assets are revalued as part of the transfer process, these revaluations shall occur **prior** to the transfer.

Heritage assets

Definition

~~10.1.32~~10.1.36 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).

~~10.1.33~~10.1.37 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. Right-of-use assets can qualify as heritage assets.

~~10.1.34~~10.1.38 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:

- 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

~~10.1.35~~10.1.39 Operational heritage assets should be valued in the same way as other assets of that general type (buildings, for example).

~~10.1.36~~10.1.40 Non-operational heritage assets should be valued subject to the requirements set out in paragraphs 10.1.37 to 10.1.40 below.

~~10.1.37~~10.1.41 Where information is available on the cost or fair value of heritage assets:

- a) they should be presented in the Statement of Financial Position separately from other tangible assets.
- b) 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 fair value.
- c) 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 section 10.4 of this Manual.

~~10.1.38~~10.1.42 The accounting convention in this manual is to recognise non-current assets at either current value in existing use or fair value but, where exceptionally, it is not practicable to obtain a fair value, the heritage assets may be reported at historical cost.

~~10.1.39~~10.1.43 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.

~~10.1.40~~10.1.44 Valuations may be made by any method that is appropriate and relevant. 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

~~10.1.41~~10.1.45 Depreciation is not required on heritage assets which have indefinite lives.

~~10.1.42~~ 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 [section Error! Reference source not found.](#)[Error! Reference source not found.](#)10.4.

Donations

[10.1.43](#)[10.1.46](#) The receipt of donations of heritage assets should be recognised as income and taken through the Statement of Comprehensive Net Expenditure where there are no conditions specifically relating to the operating activities of the entity or recognised as deferred income in the Statement of Financial Position. Where exceptionally, it is not practicable to obtain a valuation for a donated heritage asset, the reasons why should be stated. Disclosures should also be provided on the nature and extent of significant donations.

Disclosures

[10.1.44](#)[10.1.47](#) 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
- 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

[10.1.45](#)[10.1.48](#) Where heritage assets are reported in the Statement of Financial Position, the following should be disclosed:

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

This should include:

- i. the date of the valuation.
- ii. the methods used to produce the valuation.

- iii. whether the valuation was carried out by external valuers and, where this is the case, the valuer's name and professional qualification, if any.
- iv. any significant limitations on the valuation.

~~10.1.46~~10.1.49 An example of a limitation to be disclosed under paragraph 10.1.45 (b) (iv) would be where an asset has a particular provenance, the effect of which is not fully captured by valuation.

~~10.1.47~~10.1.50 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.

~~10.1.48~~10.1.51 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
- 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.

~~10.1.49~~10.1.52 The disclosures required by the paragraphs above 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.

Accounting for PPP arrangements, including PFI contracts, under IFRS

~~10.1.50~~10.1.53 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.

~~10.1.51~~10.1.54 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.

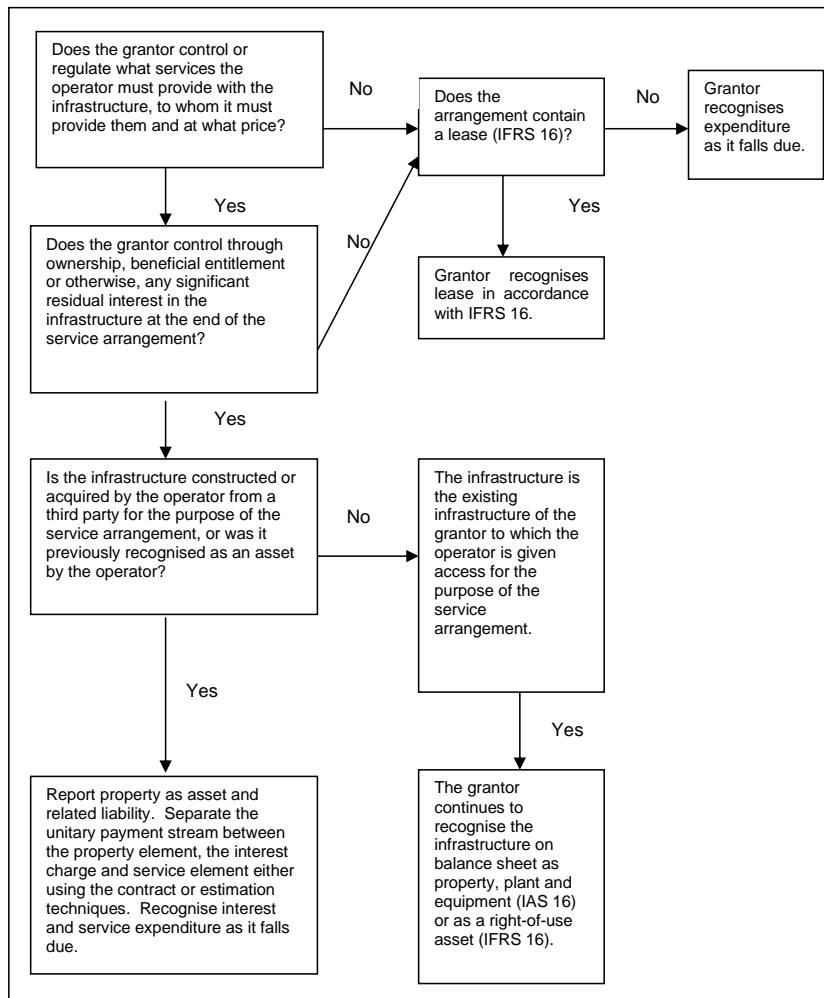
~~10.1.52~~[10.1.55](#) IFRIC 12 (Application Guidance paragraph 3) notes that, in determining the applicability of the first condition, non-substantive features (such as price capping that would apply only in remote circumstances) should be ignored and the substance of the arrangement considered.

~~10.1.53~~[10.1.56](#) 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:

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

~~10.1.54~~[10.1.57](#) 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 [10.1.51](#) 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.

Flowchart of accounting for PPP arrangements



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

[10.1.55](#)[10.1.58](#) 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:

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

- b) Controls 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.

~~10.1.56~~10.1.59 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.

Measurement

~~10.1.57~~10.1.60 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 10.1.58), the asset will be initially measured following the principles contained within IFRS 16 (with the discount rate specified in paragraph 10.1.61), 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 10.1.59.

~~10.1.58~~10.1.61 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.

~~10.1.59~~10.1.62 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).

~~10.1.60~~10.1.63 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.

~~10.1.61~~10.1.64 Entities covered by the requirements of this manual should use the Treasury discount rate for investment appraisal purposes 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 provided by the Office for National Statistics: <https://www.gov.uk/government/statistics/weekly-economic-indicators>

~~10.1.62~~10.1.65 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.

~~10.1.63~~10.1.66 Reporting entities should record indexation linked payments in PPP liabilities in accordance with IFRS 16 from 2023/24.

~~10.1.64~~10.1.67 An IFRS 16 approach means the liability must be remeasured if there is a change in future lease payments resulting from a change in an index/rate used to determine those payments. The liability does not include estimated future indexation linked increases. There are two elements required:

Initial remeasurement

The future PPP liability will need to be remeasured at 1 April 2023 to include the indexation linked changes to payments for the capital/infrastructure element which have taken effect in the cash flows since the PPP arrangement commenced. This should use a cumulative catch-up approach, where the cumulative effect is recognised as an adjustment to the opening balance of retained earnings (or other component of equity as appropriate). Comparative information is not restated.

Subsequent measurement

The timing of any subsequent remeasurement of the PPP liability for indexation linked changes will be whenever there is a change in the cash flows i.e., when the adjustment to lease payments takes effect. This will be dependent on the terms of individual PPP arrangements. The revised lease payments for the remainder of the lease term will be revised based on the revised contractual payments. The double entry for the liability remeasurement should be Debit Finance Cost, Credit PPP Liability. This is mandatory in order to provide consistency across central government.

~~10.1.65~~10.1.68 Further guidance on the treatment of indexation-linked payments will be made available within a separate guidance document on the application guidance page.⁶

~~10.1.66~~10.1.69 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.

~~10.1.67~~10.1.70 Revenue received under any revenue sharing provision in the service concession arrangement should be recognised when all the conditions as laid down in IFRS 15 have been satisfied.

~~10.1.68~~10.1.71 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 IFRS 9.

~~10.1.69~~10.1.72 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).

10.2 Right of use assets

10.2.1 Right-of-use assets should be subsequently measured following the principles of IFRS 16 and IAS 16 as interpreted in this Manual. In most cases, the cost model in IFRS 16 is an appropriate proxy for current value in existing use ~~or fair value~~. This is because right-of-use assets generally have shorter useful lives and values than their respective underlying assets (see guidance in paragraph 10.1.14 regarding using cost as a proxy for owned assets with shorter economic lives or low values). Additionally, in many cases leases will have terms that require lease payments to be updated for market conditions, which will be captured in the IFRS 16 cost measurement requirements.

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10.2.2 However, for some right-of-use assets, the cost model in IFRS 16 will not be an appropriate proxy for current value in existing use ~~or fair value~~. This is likely to be the case when both of the following conditions are met:

- a) A longer-term lease has no terms that require lease payments to be updated for market conditions (such as rent reviews), or if there is a significant period of time between those updates
- b) The current value in existing use or fair value of the underlying asset is likely to fluctuate significantly due to changes in market prices. This is more likely to be the case with property assets

10.2.3 Additionally, cost will not be an appropriate proxy for right-of-use assets under peppercorn leases.

10.2.4 To measure the current value in existing use of a right-of-use asset, a valuer should calculate the full replacement cost of the right-of-use asset. This should

⁶ <https://www.gov.uk/government/publications/government-financial-reporting-manual-application-guidance>

be done by identifying the current market rental value that could be achieved for existing use of the right-of-use asset and capitalising it for the full remaining lease term from the valuation date. This valuation should reflect the terms and conditions of the lease giving rise to the right-of-use asset and should reflect an assumption that the entity requires the use the entire right-of-use asset. The Royal Institution of Chartered Surveyors (RICS) has published guidance for valuers consistent with the above [here](#).

- 10.2.5 If the cost model in IFRS 16 is used as a proxy for current value in existing use ~~or fair value~~ then this fact should be disclosed, including the classes of right-of-use assets within which it has been used (where appropriate) and the reasons why.
- 10.2.6 Finally, entities should bear materiality in mind when applying this guidance, just as in other areas of financial reporting. Part of the reason that, in most cases, the cost model in IFRS 16 is an appropriate proxy for current value is that there is not a material difference between the valuation produced by the cost model or the valuation produced by the revaluation model.

10.3 Climate Change Levy (CCL)

- 10.3.1 The levy is the successor scheme to the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme allowances. There is no accounting standard that directly applies to the levy charge. As such, accounting for the levy defaults to IAS 1, Presentation of Financial Statements and the overarching IASB Conceptual Framework for Financial Reporting.
- 10.3.2 Bodies subject to payment of the levy will see an outflow of assets when cash is paid over under the terms of the levy. The levy can therefore be treated as an expense under the definition set out in the Conceptual Framework.

10.4 Impairments

- 10.4.1 Where the carrying amount of an asset exceeds its recoverable amount departments will recognise an impairment loss. Departments need to establish whether any of the impairment loss is as a result of:
 - a) Consumption of economic benefit or reduction in service potential; or
 - b) A change in market price.
- 10.4.2 A fall in value relating to a consumption of economic benefit or reduction in service potential is always taken to the SoCNE. A fall in value relating to changes in market price should first be offset against a revaluation reserve for the asset in question if there is one, and once that element of the reserve is exhausted the fall in value should be taken to the SoCNE.
- 10.4.3 Examples of impairments resulting from a consumption of economic benefit or service potential include losses as a result of loss or damage, abandonment of projects, gold-plating and use of the asset for a lower specification purpose.
- 10.4.4 In budgetary terms, certain impairments will score as DEL and others as AME, and departments will enter the type of impairment onto OSCAR using the relevant account code. [The Consolidated Budgeting Guidance](#) (CBG) contains more detail. The budgeting treatment does not influence the accounting treatment, but entities might wish to consider whether information about the

type and cause of impairment could usefully be included in the relevant notes to the accounts.

- 10.4.5 Where an asset has been impaired due to a clear consumption of economic benefit or reduction in service potential, any balance on any revaluation reserve (up to the level of the impairment) to which the impairment would have been charged under IAS 36 should be transferred to the general fund (or equivalent component of equity). This ensures that the outcome as reflected in the reserves figure on the Statement of Financial Position is consistent with the requirements of IAS 36 had the FReM adaptation of IAS 36 not been applied.
- 10.4.6 The capitalised development expenditure that is directly linked to a tangible non-current asset should be impaired only where the tangible non-current asset becomes impaired. Where the intangible asset relates to a group of tangible non-current assets, any impairment will be charged only where the entire group is impaired and will be proportionate to the impairment of the group of tangible assets. For example, development expenditure related to a fleet of aircraft will be impaired only where the entire fleet is impaired and not if less than the whole fleet is impaired.

10.5 Inventories

- 10.5.1 In addition to the types of inventories identified in IAS 2, central government has categories of inventories for which IAS 2 may not adequately cover the accounting treatment.

Stockpile goods

- 10.5.2 Stockpile goods may be defined as strategic materials held for use in national defence and national emergencies. They can be further categorised as:
- a) non-current assets, which should be accounted for in the same way as other assets of the same type; or
 - b) other non-deteriorable and deteriorable inventories (the latter possibly being turned over from time to time to avoid obsolescence). Minimum capability levels of inventories should be accounted for as non-current assets. Other inventories should be accounted for under IAS 2.

Confiscated, seized and forfeited property

- 10.5.3 The proceeds of realisations of confiscated, seized and forfeited property go to the Consolidated Fund and are usually not for the benefit of the collecting entity concerned. Because of this, it would be inappropriate to recognise confiscated, seized and forfeited property in financial statements (other than Trust Statements), unless exceptionally agreed with the relevant authority. Entities should state by way of memorandum note the proceeds derived from these realisations.
- 10.5.4 The proceeds of items sold to satisfy outstanding tax liabilities, net of sale expenses, should be treated in the same way as other taxation receipts.

Goods held under price support and stabilisation programmes (intervention stocks)

- 10.5.5 Intervention buying is a method of supporting market prices for certain agricultural commodities. The Rural Payments Agency is required to buy, at

prices determined by the European Commission, produce of defined quality offered to it in accordance with detailed regulations. Purchased stocks are valued at cost, adjusted by any depreciation or revaluation prescribed by the Commission to bring them into line with market values. Costs of depreciation and any losses on sales are borne by, and any profits on sales or revaluations are surrendered to, the Commission. The method of valuation for intervention stocks is based on the requirements of the Commission and neither IAS 2 nor IAS 41 Agriculture apply.

