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GOVERNMENT FINANCIAL REPORTING
MANUAL (FReM) EXPOSURE DRAFT No:

(09) 06

EXPOSURE DRAFT OF PROPOSED
AMENDMENTS TO THE FReM
HERITAGE ASSETS

Comments to be received by 21 September 2009



HM TREASURY

ASSURANCE AND FINANCIAL REPORTING POLICY TEAM HM TREASURY

This exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) is published by HM Treasury for comment only. The proposals may be modified in the light of comments received in this consultation process before being presented to the Financial Reporting Advisory Board for its approval. Final proposals approved by the Financial Reporting Advisory Board will be published as amendments to the FReM from the proposed effective date.

Comments on this exposure draft should be submitted in writing so as to be received by 21 September 2009. Respondents are asked to send their comments electronically to FReM.consultation@hm-treasury.gov.uk.

All responses will be published on the FReM website unless the respondent requests confidentiality.



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CONTENTS

Pages

PROPOSED AMENDMENTS TO THE GOVERNMENT FINANCIAL REPORTING MANUAL (FReM)

Introduction and Invitation to Comment 4

**Proposed amendments to FReM
Chapter 6 - Heritage Assets** 7

Proposed amendments to the FReM

Introduction

1. The Assurance and Financial Reporting Policy team, HM Treasury, has published this exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) as part of its ongoing work in ensuring that the manual reflects the latest developments in government financial reporting.

Structure of exposure draft

2. The exposure draft includes a section for each FReM chapter for which an amendment is proposed. Each section includes:

- (a) An explanation of why the amendment is proposed.
- (b) When necessary, any specific additional question unique to that proposed amendment.
- (c) The paragraphs of the FReM chapter that are affected by the proposed amendment.
- (d) The proposed effective date of each proposed amendment.

Invitation to comment

3. HM Treasury invites comments on the proposed amendments. It would particularly welcome answers to the questions set out below. Comments are most helpful if they:

- (a) answer the question as stated;
- (b) indicate the specific paragraph or paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) describe any alternative HM Treasury should consider.

4. HM Treasury will consider all comments received in writing by 21 September 2009. In considering the comments, HM Treasury will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

Accounting for Heritage Assets	
Why the amendments are proposed	To enhance accounting and disclosure requirements of heritage assets
FReM paragraphs affected by the amendments	6.2.24 to 6.2.28 and 8.2. 4
Proposed date	From financial year beginning 1 April 2010

Background

5. A number of amendments to chapter 6 of the FReM dealing with heritage assets are proposed. This is to reflect the latest developments in accounting for heritage assets. The UK Accounting Standards Board issued Financial Reporting Standard (FRS 30) on heritage assets on the 19 June 2009. The new standard introduces significant new disclosure requirements for reporting heritage assets but it retains the current recognition and measurement requirements of FRS 15 – Tangible Fixed Assets. However, to encourage more recognition the standard permits the use of internal valuations without the need for a full valuation by external valuers.

6. Currently there is no accounting standard on heritage assets under IFRS. Applying the hierarchy of accounting standards agreed by the relevant authorities, it is therefore appropriate to consider any recent accounting developments both in the UK and internationally to ensure the FReM reflects the latest developments, where these are relevant and appropriate.

7. The International Public Sector Accounting Standards Board (IPSASB) is planning to develop accounting and disclosure requirements for heritage assets and the Treasury may review its accounting requirements depending on the future international developments.

8. The current FReM requirements for heritage assets are in line with the recognition and measurement requirements of IAS 16 – Property, Plant and Equipment (consistent with FRS 15). The proposed additional text for the FReM applies the new disclosure requirements of FRS 30 to enhance the accounting and disclosure requirements of heritage assets.

Summary

9. The amendments covers a new definition for heritage assets, heritage assets can have historical, artistic, scientific, geophysical or environmental qualities.

10. Assets that are used by an entity in its operation should be accounted for as operational assets in accordance with IAS 16 – Property, Plant and Equipment.

11. New disclosures requirements for the reporting of heritage assets are proposed, which apply whether or not they are reported in the balance sheet.

12. The recognition and measurement requirements of IAS 16 remains but some relaxations have been built in to encourage the reporting of heritage assets.

Effective date of amendment

13. The effective date for the proposed amendment is April 2010.

Future Development

14. The Treasury will continue to monitor how entities are accounting for heritage assets and may revise the requirements in the light of developments in reporting practice and the outcome of work being taken forward internationally, in particular the International Public Sector Accounting Standards Board's project on heritage assets.

General and specific questions

Question 1

Do you agree with HM Treasury's proposal to amend the FReM as described in the exposure draft? If not, why not, and what alternative do you propose?

Question 2

Do you agree with the proposed effective date, and any proposed transition provisions, for the issue as described in the exposure draft? If not, why not, and what alternative do you propose?

Question 3

Are there any other accounting or disclosure issues that the Treasury should consider? Please describe those issues.

Proposed amendments to Government Financial Reporting Manual Chapter 6 *Heritage assets*

Introduction

A number of amendments to Chapter 6 on heritage assets are proposed. The proposals in this paper reflect the latest developments in accounting for heritage assets in the UK. The UK Accounting Standards Board has now issued a new Financial Reporting Standard (FRS) 30, Heritage Assets.

As there is currently no equivalent standard under both IFRS and IPSASB, using the hierarchical approach, the Treasury is following the principles and requirements as set out in FRS 30 to improve reporting of heritage assets.

Why the amendment is proposed

The purposed amendments should enhance and improve the accounting and disclosure requirements regardless of whether heritage assets are recognised in the balance sheet (the revised guidance will result in continued reporting of at least some of the entity's assets in the balance sheet).

The improved disclosure will make clear the extent to which heritage assets are reported in the balance sheet and mitigate the disadvantages of an entity reporting only part of their total holding of heritage assets in the balance sheet.

Entities will be required to provide information about its total holding of heritage assets and stewardship of those assets. To encourage entities to report heritage assets in their balance sheet, valuation can be made using any method that is appropriate and relevant.

Proposed amendments

There are other exposure drafts that the Treasury is issuing or has issued, which could have an impact on this exposure draft. Where this is the case the necessary steps will be taken to ensure consistency.

The following additions and amendments are proposed together with the current text in the FReM:

Chapter 6.2.24 is amended (new text is underlined and deleted text is struck through).

Heritage assets

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).

All heritage assets should be accounted for in accordance with the requirements of this manual.

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

Interpretation of IAS 16 in respect of accounting for heritage assets

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

Definition

- a) Their value to government and the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market mechanism or price.
- b) Established custom and, in many cases, primary statute and trustee obligations impose prohibitions or severe restrictions on disposal by sale.
- c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates.
- d) They may require significant maintenance expenditure so that they can continue to be enjoyed by future generations.
- e) Their life might be measure 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.

Interpretations to IAS 36 – Impairment of Assets

6.2.27 Heritage assets are subject to the requirements of IAS 36 as interpreted in chapter 8 of this manual.

Recognition and Measurement

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

Non-operational heritage assets should be valued subject to the requirements set out in paragraphs 6.2.29 to 6.2.35 below:

~~a) Non-operational heritage assets should be valued (subject to the considerations set out in paragraph 6.2.27) on the following basis:~~

- ~~I. Non-operational heritage assets purchased within the accounting period should be valued at cost;~~
- ~~II. Existing and newly donated non-operational heritage assets (and newly purchased assets on revaluation) should, where there is a market in assets of that type, be valued at market value for existing use or otherwise at depreciated replacement cost; or~~
- ~~III. Where there is no market in assets of that type, at depreciated replacement cost unless the asset would not or could not be replaced, when the value will be nil. (See paragraph 6.2.7 c) and the additional guidance referred to in paragraph 6.2.7 b)).~~

6.2.29 Where information is available on the cost or value of heritage assets:

- (i) they should be presented in the balance sheet separately from other tangible assets;
- (ii) the balance sheet or the notes to the accounts should identify separately those classes of heritage assets being reported at cost and those at valuation; and
- (iii) changes in the valuation should be recognised in the Statement of Recognised Gains and Losses, except impairment losses that should be recognised in accordance with chapter 8 of this manual.

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

6.2.31 Valuations may be made by any method that is appropriate and relevant.

6.2.32 There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations.

However, where heritage assets are reported at valuation, the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current.

Depreciation and Impairment

6.2.33 Depreciation is not required on heritage assets which have indefinite lives.

6.2.34 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 IAS 36 - 'Impairment of Assets' in chapter 8.

Donations

6.2.35 The receipt of donations of heritage assets should be credited to the a donated asset reserve. Where exceptionally, it is not practicable to obtain a valuation for a donated heritage asset, the disclosures required by paragraph 6.2.41

Disclosures

~~i) Information on heritage assets (whether or not they have been capitalised) should be given in the notes to the financial statements and should contain:~~

~~I. Sufficient information to enable the user to appreciate the age and scale of these assets, how they were acquired and what use is made of them;~~

~~II. Details of the cost (or value) of additions and disposals of heritage assets during the year or, where details of cost or valuation are not available, a brief description of the nature of the assets acquired or disposed of; and~~

~~III. In the accounting policies note, a note explaining the entity's capitalisation policy in relation to heritage assets and the measurement bases adopted for their inclusion in the accounts.~~

~~6.2.27 There may be instances where valuation of non-operational heritage assets may not be practicable or appropriate either because reliable valuations (including original cost) cannot be obtained or because the costs associated with obtaining reliable valuations are onerous when compared with the additional benefits obtained by users of the financial statements (the cost/benefit analysis). For example, it might be possible to capitalise (at cost) non-operational heritage assets where the accounting records exist for past accounting periods, but not where~~

~~the records no longer exist, since the cost of reconstructing them would be prohibitive, nor where the cost information is of such an age as to make it meaningless in terms of a reasonable view of the value of the asset today.~~

~~6.2.28 Examples of where it might be difficult to obtain a valuation include:~~

~~a) museum and gallery collections and other collections existing at 31 March 2001 (but where the information is available in relation to additions made in earlier years, those additions should be capitalised subject to the considerations set out in paragraph 6.2.23), including the national archives; and~~

~~b) archaeological sites, burial mounds, ruins, monuments and statues.~~

6.2.36 The disclosures required for heritage assets are set out below except where noted otherwise, for all heritage assets regardless of whether they are reported in the balance sheet.

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 balance sheet, 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 balance sheet.

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

6.2.37 Where heritage assets are reported in the balance sheet, the following should be disclosed:

- (i) the carrying amount of heritage assets at the beginning of the financial period and at the balance sheet date, including an analysis between those classes or groups of heritage assets that are reported at cost and those that are reported at valuation; and
- (ii) where assets are reported at valuation, sufficient information to assist in an understanding of the valuations being reported and their significance.

This should include:

- (a) the date of the valuation;
- (b) the methods used to produce the valuation;
- (c) whether the valuation was carried out by external valuers and, where this is the case, the valuer's name and professional qualification, if any; and
- (d) any significant limitations on the valuation.

6.2.38 An example of a limitation to be disclosed under paragraph 6.2.37 (ii) (d) would be where an asset has a particular provenance, the effect of which is not fully captured by valuation.

6.2.39 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 balance sheet should be disclosed.

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

- (a) the cost of acquisitions of heritage assets;
- (b) the value of heritage assets acquired by donation;
- (c) the carrying amount of heritage assets disposed of in the period and the proceeds received; and
- (d) any impairment recognised in the period.

This summary should show separately transactions in assets that are reported in the balance sheet and those that are not.

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

6.2.42 The information required by paragraph 6.2.40 may be supplemented by disclosure of other information, for example the sources of funding for acquisition of heritage assets, or expenditure on major restoration costs, but this is not required by this standard.

6.2.43 The disclosures required by paragraphs 6.2.36 (a) to 6.2.41 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 balance sheet should not be aggregated with amounts for assets that are recognised at cost or valuation.

~~6.2.27 There may be instances where valuation of non-operational heritage assets may not be practicable or appropriate—either because reliable valuations (including original cost) cannot be obtained or because the costs associated with obtaining reliable valuations are onerous when compared with the additional benefits obtained by users of the financial statements (the cost/benefit analysis). For example, it might be possible to capitalise (at cost) non-operational heritage assets where the accounting records exist for past accounting periods, but not where the records no longer exist, since the cost of reconstructing them would be prohibitive, nor where the cost information is of such an age as to make it meaningless in terms of a reasonable view of the value of the asset today.~~

~~6.2.28 Examples of where it might be difficult to obtain a valuation include:~~

~~a) — museum and gallery collections and other collections existing at 31 March 2001 (but where the information is available in relation to additions made in earlier years, those additions should be capitalised subject to the considerations set out in paragraph 6.2.23), including the national archives; and~~

~~b) — archaeological sites, burial mounds, ruins, monuments and statues~~

Amendment to IAS 36 – Impairment of Assets in Chapter 8 of the FReM

8.2.4 The following interpretations of IAS 36 for the public sector context apply.

Scope

a) Heritage Assets is within the of IAS 36 to the extent specified in chapter 6, paragraph 6.2.24

Recognition and measurement

a)b) 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.