Accounting for Non-Current Assets
Challenges & Good Practices

PULSAR Joint EduCoP & FinCoP Meeting, 9th Workshop,

June 5, 2024

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Agenda

1. General Importance of Non-Current Assets (NCA) in the PS
2. Purpose of Resources in the PS vs. Purpose of PS Accounting
3. General challenges of Accounting for NCA in the PS
4. Specific Challenges for Selected Types of Assets
    - Infrastructure Assets
    - Heritage Assets
    - Natural Resources

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1. General Importance of NCA in the PS

- Main purpose of governments is the long-term, reliable provision of services to their citizens
- This requires to a large extent long-life assets especially in the area of infrastructure
- Finally, governments have a stewardship obligation to preserve assets of historical, cultural or artistic importance for future generations
- Besides that, the majority of natural resources are public goods which are managed and governed by governments
- Consequentally, non-current assets represent a significant part of total assets in governments´ balance sheets

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1. General Importance of NCA in the PS

Financial Statements

Statement of Financial Position

as at 30 June 2023

2023 Forecast at Budget 2022 $m	2023 Forecast at Budget 2023 $m		Note	Actual 30 June 2023 $m	Actual 30 June 2022 $m
		Assets			
17,713	19,084	Cash and cash equivalents		18,791	17,835
28,906	33,383	Receivables	13	33,548	35,135
51,202	63,866	Marketable securities, deposits and derivatives in gain	14	66,490	65,456
53,423	44,710	Share investments	15	48,046	46,261
5,991	7,024	Investments in controlled enterprises	15	7,317	6,096
70,883	65,247	Advances	16	66,489	54,659
2,908	3,268	Inventory		3,041	3,068
4,027	4,324	Other assets		4,612	4,208
230,776	259,280	Property, plant & equipment	17	267,390	249,182
15,816	16,678	Equity accounted investments	18	17,034	16,247
4,209	4,178	Intangible assets and goodwill		3,908	3,697
2,274	-	Forecast new capital spending		-	-
(2,810)	(1,850)	Top-down capital adjustment		-	-
485,318	**519,192**	**Total assets**		**536,666**	**501,844**

49,8%

(Source: Financial Statements of the Government of New Zealand for the year ended 30 June 2023, 5 October 2023)

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1. General Importance of NCA in the PS

Note 17: Property, Plant and Equipment

for the year ended 30 June 2023	Total $m	Land $m	Buildings $m	State highways $m	Electricity generation assets $m	Electricity distribution network $m	Aircraft (excluding military) $m	Specialist military equipment $m	Specified cultural and heritage assets $m	Rail network $m	Other plant and equipment $m
Gross carrying amount											
Opening balance 1 July 2022	268,071	84,744	62,171	51,915	19,041	6,829	4,220	6,896	3,286	10,630	18,339
Additions	14,881	923	6,564	1,738	632	330	393	1,028	63	912	2,298
Disposals	(1,474)	(114)	(228)	(18)	(7)	(50)	(21)	(27)	(5)	-	(1,004)
Net revaluations	5,335	(5,640)	1,540	5,872	411	-	(30)	(6)	105	3,082	1
Transfers from/(to) asset classes outside of PPE	(236)	(199)	(4)	(5)	-	-	-	-	-	-	(28)
Other[1]	1,200	(6)	(12)	-	(11)	1	-	-	-	(3)	1,231
Total gross carrying amount	**287,777**	**79,708**	**70,031**	**59,502**	**20,066**	**7,110**	**4,562**	**7,891**	**3,449**	**14,621**	**20,837**
Accumulated Depreciation and Impairment											
Opening balance 1 July 2022	18,889	-	2,390	-	14	2,476	-	2,603	32	47	11,327
Eliminated on disposal	(1,007)	-	(107)	-	-	(32)	(1)	(26)	(6)	-	(835)
Eliminated on transfer to other asset classes	(13)	-	(25)	-	-	-	-	-	17	-	(5)
Eliminated on revaluation	(5,527)	-	(2,962)	(797)	(702)	-	(595)	-	(23)	(414)	(34)
Net Impairment losses charged to operating balance	220	-	(1)	-	4	-	282	11	-	(49)	(27)
Depreciation expense	6,601	-	2,532	797	698	208	313	339	26	456	1,232
Other[1]	1,224	-	10	-	-	(1)	1	-	2	1	1,211
Total accumulated depreciation and impairment	**20,387**	**-**	**1,837**	**-**	**14**	**2,651**	**-**	**2,927**	**48**	**41**	**12,869**
Carrying value as at 30 June 2023	**267,390**	**79,708**	**68,194**	**59,502**	**20,052**	**4,459**	**4,562**	**4,964**	**3,401**	**14,580**	**7,968**
By holding											
Leasehold	1,481	-	250	-	1	-	1,199	-	-	-	31
Public Private Partnerships	5,220	311	2,285	2,621	-	-	-	-	-	-	3
Freehold (excluding PPP)	260,689	79,397	65,659	56,881	20,051	4,459	3,363	4,964	3,401	14,580	7,934
Carrying value as at 30 June 2023	**267,390**	**79,708**	**68,194**	**59,502**	**20,052**	**4,459**	**4,562**	**4,964**	**3,401**	**14,580**	**7,968**

1 The movement in other reflects the changes that have occurred between the gross carrying amount and accumulated depreciation and impairment for assets held by KiwiRail.

The total amount of property, plant and equipment under construction is $10,161 million (2022: $7,742 million) which are classified to the asset class being constructed.

(Source: Financial Statements of the Government of New Zealand for the year ended 30 June 2023, 5 October 2023)

1. General Importance of NCA in the PS

United States Government
Balance Sheets
as of September 30, 2023, and 2022

(In billions of dollars)	2023		2022
Assets:			
Cash and other monetary assets (Note 2)	922.2		877.8
Accounts receivable, net (Note 3)	319.9		356.3
Loans receivable, net (Note 4)	1,695.1		1,434.1
Negative loan guarantee liabilities (Note 4)	4.6		-
Inventory and related property, net (Note 5)	423.0		406.9
General property, plant and equipment, net (Note 6)	1,235.0	22,8%	1,197.5
Investments (Note 7)	130.8		130.3
Investments in government-sponsored enterprises (Note 8)	240.4		223.7
Advances and prepayments (Note 9)	252.7		298.1
Other assets (Note 10)	195.4		37.7
Total assets	5,419.1		4,962.4
Stewardship property, plant, and equipment (Note 26)			

(Source: Financial Report of the United States Government Fiscal Year 2023, February 15, 2024)

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2. Purpose of holding a resource in the public sector

Service provision - sovereign tasks (e.g. infrastructure)	Service provision - volontary tasks/market participant (e.g. shares in entities)
Investment in the future (e.g. research/intangible assets; natural resources)	Preservation (e.g. art collections, museums, natural resources)

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2. Purpose of Public Sector Accounting

- Objective of PSA: to provide information that is useful for users of GPFRs for accountability purposes and decision making (IPSASB CF Capter 2, para. 2.1)

→ In relation to NCA: providing useful information on public resources (and their cost) for current and future service provision

- Therefore measurement objective: (…) most fairly reflect the cost of services, the operational capacity and the financial capacity that is useful in holding the entity to account and for decision making purposes (IPSASB CF Chapter 7, para. 7.2.)

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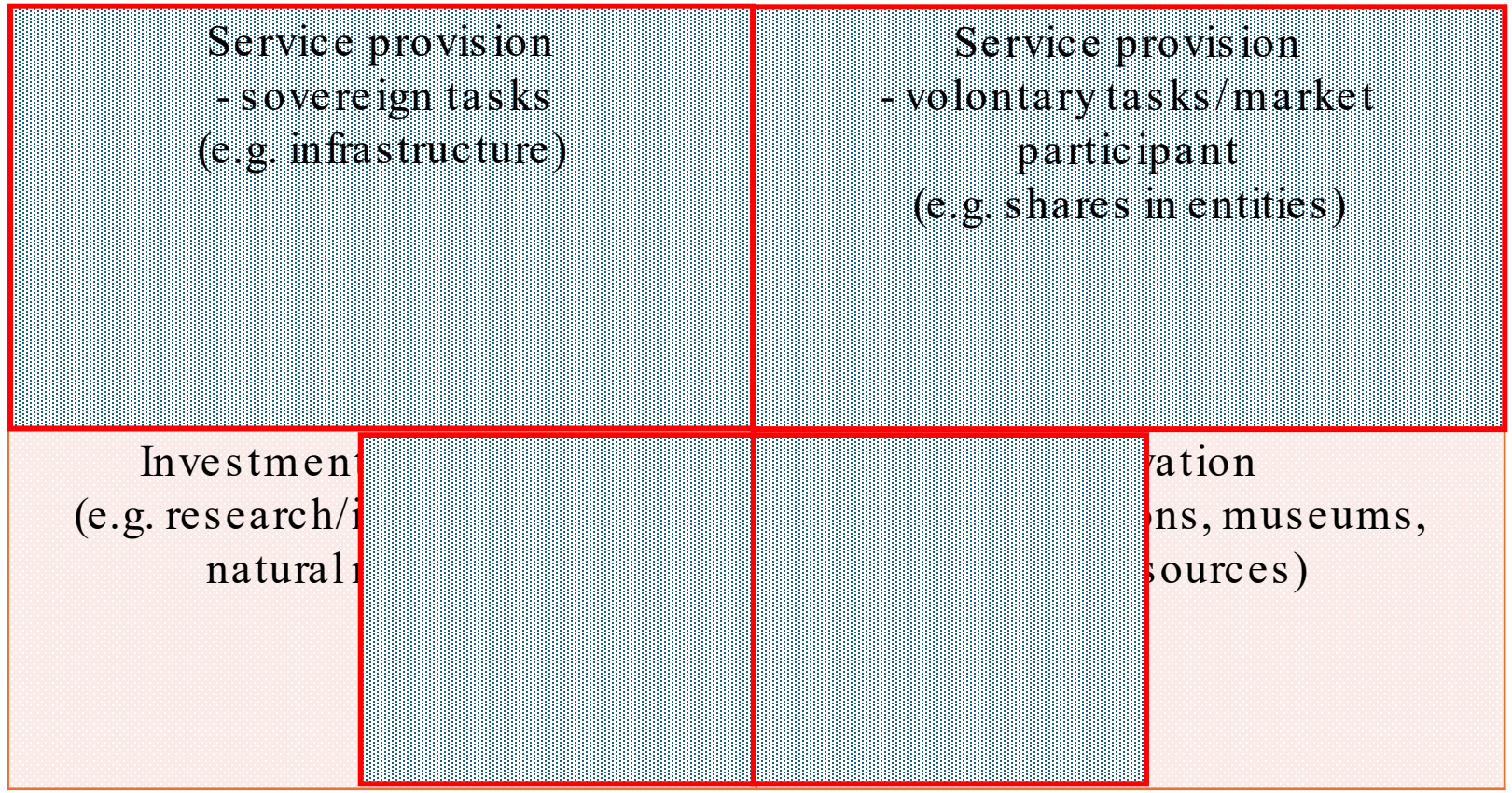
2. Coverage of PSA depending on purpose



= coverage of Public Sector Accounting / Financial Statements

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3. General Challenges of Accounting for NCA

- Ownership – less importance of ownership for service provision in the PS → conflict with importance of ownership for accounting
- Unit of Account – many assets are complex networks / systems, with significant differences in useful lifes / in consumption of resources (IPSAS 45.8: judgment required to define the relevant unit of measure for recognition)
- Availability of Data
  - In the implementation phase of accrual accounting – lack of historical data especially for long-term assets
  - For ongoing accounting - central accounting vs. decentralized management
- Capitalization thresholds - factors to be considered: information needs, materiality, cost-benefit (IPSAS 45.IG10-14, IPSAS 45.BC 28 ff.)
- Deciding on the appropriate measurement basis depending on the purpose of holding the asset → determines the usefulness of information for users!

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3. General Challenges of Accounting for NCA

- Deciding on the appropriate measurement basis:
  - Accounting policy choice – historic cost vs. current value model

    → Judgment: choose the accounting policy that is relevant (accountability/decision making) and satisfies the QC´s (understandability, timeliness, comparability, verifiability) (IPSAS 45.BC44)

    Purpose!
  - Current Value: the primary objective for which an entity holds an item is an important consideration when determining the CV Basis (IPSAS 45.27)
  - Revaluations should be made with sufficient regularity to ensure that carrying amounts do not differ materially from current value at reporting date (IPSAS 45.29)

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3. General Challenges – identify the holding purpose to provide relevant information

- Purpose not only defines recognition, but also the measurement of non-current assets

Note 1: Basis of Reporting (continued)

Physical assets

Judgement is required whether assets are held for commercial purposes or for public benefit purposes. Assets held for commercial purposes are subject to a commercially recoverable amount test (the higher of the income that can be generated from the asset, or the net proceeds from its sale). Assets that are held for public benefit purposes are generally valued at optimised depreciated replacement cost. An example of an asset held for public benefit purposes is the rail network. Optimisation means that surplus assets are identified and assumed not to be replaced. Otherwise, it can be assumed the asset will be replaced, and therefore the asset value is not reduced below its optimised depreciated replacement cost. If surplus, the asset will be valued at its net selling price.

(Source: Financial Statements of the Government of New Zealand for the year ended 30 June 2023, 5 October 2023)

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3. General Challenges – identify the holding purpose to provide relevant information

- Purpose is also relevant within the respective classes of assets, like e.g. land and buildings

Valuation of PPE

PPE is carried at fair value except for nuclear waste management assets held at historical cost (see note 1.19) and assets under construction which are held at cost. In accordance with the FREM, assets that have short useful lives or are of low value are carried at depreciated historical cost less impairment as a proxy for fair value.

Non-specialist land and buildings are measured at current value in existing use using professional valuations. Specialist land and buildings are measured at depreciated replacement cost which represents the present value of the asset's remaining service potential.

(Source: Consolidated Financial Statements of the Government of the United Kingdom for the year ended 30 March 2023, Note 1.12, Updated 20 October 2023)

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3. General Challenges – Regular Revaluations

Note 17: Property, Plant and Equipment (continued)

Items of Property, Plant and Equipment (PPE) are initially recorded at cost. Where an asset is acquired for nil or nominal consideration the asset is recognised initially at fair value, where fair value can be reliably determined, and as revenue in the Statement of Financial Performance.

Generally, Government borrowings are not directly attributable to individual assets. Therefore, borrowing costs incurred during the period, including any that could be allocated as a cost of completing and preparing assets for their intended use are expensed rather than capitalised.

Subsequent to initial recognition, classes of PPE are accounted for as set out below.

Revaluations are carried out for a number of classes of PPE to reflect the service potential or economic benefit obtained through control of the asset. Revaluation is based on the fair value of the asset, with changes reported by class of asset.

Classes of PPE that are revalued are revalued at least every five years or whenever the carrying amount differs materially to fair value.

Items of PPE are revalued to fair value for the highest and best use of the item on the basis of the market value of the item, or on the basis of market evidence, such as discounted cash flow calculations. If no market evidence of fair value exists, an optimised depreciated replacement cost approach is used as the best proxy for fair value. Where an item of PPE is recorded at its optimised depreciated replacement cost, this cost is based on the estimated present cost of constructing the existing item of PPE by the most appropriate method of construction, less allowances for physical deterioration and optimisation for obsolescence and relevant surplus capacity. Where an item of PPE is recorded at its optimised depreciated replacement cost, the cost does not include any borrowing costs.

When an item of PPE is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset.

(Source: Financial Statements of the Government of New Zealand for the year ended 30 June 2023, 5 October 2023)

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3. General Challenges – Regular Revaluations

Source: Financial Statements of the

Government of New Zealand

for the year ended 30 June 2023 (5 October 2023)

Note 17: Property, Plant and Equipment (continued)

Valuation Information

Approach	Asset type	Valuer	Timing
Valued based on sales comparison and other market-based data	Public housing stock	Quotable Value Limited	Annual valuation with the latest completed in the 30 June 2023 financial year.
	School land, early childhood centres and teacher housing	Quotable Value Limited	Independent valuation reviews are completed at least once every three years with the latest completed in the 30 June 2023 financial year. In the intervening years an indexed valuation is completed.
	Non-specialised health land and buildings	Te Whatu Ora used a number of different independent valuers	Non-specialised health land and buildings are revalued on a two-to-five year cycle. The latest series of valuations were completed as at 30 June 2023.
	Non-specialised corrections buildings and corrections land	Beca Limited	Valuations are completed at least once every three years with the latest completed as at 30 June 2023.
	NZ Defence Force buildings outside defence areas and land	Beca Limited	Valuations completed at least once every five years with the latest full independent land and buildings valuation completed at 30 June 2023.
	Conservation estate (national parks, forest parks, conservation areas, reserves)[1]	Internal valuation reviewed by Logan Stone Limited	Annual valuation with the latest completed as at 30 June 2023. Independent valuer reviews are completed at least once every three yea[illegible] the latest completed as at 30 June 2022

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3. General Challenges – Regular Revaluations

Source: Financial Statements of the Government of New Zealand for the year ended 30 June 2023 (5 October 2023)

Optimised depreciated replacement cost (ODRC)	School buildings and site improvements	Internal valuation except buildings in a service concession arrangement which are valued by Quotable Value Limited	School buildings and site improvements are revalued annually with the latest completed at 30 June 2023. The internal valuation methodology is reviewed by an independent valuer.
	Specialised health buildings	Te Whatu Ora used a number of different independent valuers	Specialised building revaluations are completed on a two-to-five-year cycle. The latest series of valuations were completed as at 30 June 2023.
	Prison complex buildings	Beca Limited	Valuations are completed at least once every three years with the latest completed as at 30 June 2023.
	NZ Defence force buildings in defence areas	Beca Limited	Valuations completed at least once every five years with the latest full independent land and buildings valuation completed as at 30 June 2023.

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3. General challenges – information usefulness

6. Property, plant and equipment

	Land[13]	Buildings[14]	Dwellings[15]	Furniture & Fittings	Plant and Machinery	Information Technology	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
As at 1 April 2022	**281,345**	**2,374,120**	**9,930**	**6,984**	**12,210**	**35,380**	**32,885**	**2,752,854**
Additions	–	63,256	167	1,556	366	4,726	45,530	115,601
Disposals	–	–	–	(199)	(216)	(2,817)	–	(3,232)
Impairments	–	–	–	–	–	–	(28,711)	(28,711)
Reclassifications	–	12,433	–	–	–	–	(12,445)	(12)
Revaluation[16]	(4,717)	161,907	122	–	–	–	–	157,312
At 31 March 2023	**276,628**	**2,611,716**	**10,219**	**8,341**	**12,360**	**37,289**	**37,259**	**2,993,812**
Depreciation								
At 1 April 2022	**–**	**1,156,546**	**3,589**	**1,678**	**2,582**	**20,700**	**–**	**1,185,095**
Charge in the year	–	29,710	339	805	983	4,566	–	36,403
Disposals	–	–	–	(199)	(216)	(2,782)	–	(3,197)
Revaluations	–	131,249	83	–	–	–	–	131,332
At 31 March 2023	**–**	**1,317,505**	**4,011**	**2,284**	**3,349**	**22,484**	**–**	**1,349,633**
Carrying amount at 31 March 2022	**281,345**	**1,217,574**	**6,341**	**5,306**	**9,628**	**14,680**	**32,885**	**1,567,759**
Carrying amount at 31 March 2023	**276,628**	**1,294,211**	**6,208**	**6,057**	**9,011**	**14,805**	**37,259**	**1,644,179**

13 Had land been valued using the cost model, the carrying amount would be £214,678,000.
14 Had buildings been valued using the cost model, the carrying amount would be £1,195,250,000.
15 Had Dwellings been valued using the cost model, the carrying amount would be £1,861,000.
16 Land and Buildings were valued in March 2023 by Marc Seabrook FRICS, of the Valuation Office Agency.

(Source: UK, House of Commons, Annual Report and Accounts 2022/23, Notes to the Financial Statements, p. 151))

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4. Specific challenges - Infrastructure

- Ownership – legal ownership vs. other indicators for control

  → Legal ownership is only one of multiple indicators (e.g. access to the resource or the enforceable right to service potential) (IPSAS 45.AG10)

  → An entity may demonstrate that it controls an asset even without legal ownership – substance over form (IPSAS 45.AG11)!

- Availability of information – often in different entities/departments, close communication needed (understanding for accounting needed in operational departments)
- Ownership – often complex ownership situations for different components of infrastructure assets
  - Example: land under/over PP&E (IPSAS 45.IG1 -5)
- Intitial recognition/measurement – component approach (IPSAS 45.41, IPSAS 45.AG6 + AG24-26)
- Subsequent cost - capitalize vs. expense (service, replacement, inspection - IPSAS 45.AG13-15; IG9)

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4. Challenges Infra-structure – component approach

Source: Financial Statements of the Government of New Zealand for the year ended 30 June 2023 (5 October 2023)

Note 17: Property, Plant and Equipment (continued)

Carrying value of other asset classes subject to revaluation

State Highways (excluding land)

	Actual	
	30 June 2023 $m	30 June 2022 $m
Formation	19,648	17,886
Bridges	14,572	12,198
Pavement (structure)	11,213	9,769
Pavement (surface)	2,002	1,640
Tunnels	3,290	2,757
Drainage	3,140	2,614
Traffic facilities	2,073	1,836
Culverts and subways	974	852
Other structures	2,086	1,923
Miscellaneous[1]	504	440
Total state highways	**59,502**	**51,915**

1 Miscellaneous is made up of intelligent traffic systems (ITS), traffic management units, bailey bridges and waterway structures.

Accounting policy	Estimated useful lives
State highways are recorded on an ODRC basis representing the cost of replacing the network asset in its current condition. The valuation reflects the estimated present cost of constructing the existing asset by the most appropriate method of construction, reduced by allowances for the age and condition of the asset (depreciation).	Formation – Permanent Pavement structure (sub-base) – Permanent Pavement structure (base course) – 75 to 150 years Pavement surface – 11 to 14 years Bridges – 90 to 100 years

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4. Specific challenges – Heritage Assets

- Common understanding of „Heritage“

  → characteristics: restrictions on use, irreplacable, indefinite life (IPSAS 45.AG2-3)

- Clarifying the purpose of accounting for Heritage Assets?

  → operational vs. non-operational (IPSAS 45 BC25 ff.)

- Definition of the recognition perimeter – what is in scope for PSA?

  → „normal“ PP&E recognition criteria apply (meets the definition of an asset, is reliably measureable) (IPSAS 45.6)

  → if not measureable: disclosures in the notes (IPSAS 45.7; IPSAS 45.77)

- Given the specific characteristics of Heritage: determining the appropriate measurement basis

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4. Heritage Assets – Examples: United States

- Stewardship PP&E: value may be indeterminable or meaningless
- Includes stewardship land and heritage assets

~~for information concerning the federal estimated acreage.~~

Heritage assets are government-owned assets that have one or more of the following characteristics: historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. Entities provide protection and preservation services to maintain all heritage assets in the best possible condition as part of America's history. Examples of heritage assets include the Declaration of Independence, the U.S. Constitution, and the Bill of Rights preserved by the National Archives. Heritage assets are classified into two categories: collection and non-collection. Collection type heritage assets include objects gathered and maintained for exhibition, for example, museum collections, art collections, and library collections. Non-collection type heritage assets include parks, memorials, monuments, and buildings. In some cases, heritage assets may serve two purposes: a heritage function and general government operations. In those cases, the heritage asset should be considered a multi-use heritage asset if the predominant use of the asset is in general government operations (e.g., the main Treasury building used as an office building). The cost of acquisition, improvement, reconstruction, or renovation of multi-use heritage assets is capitalized as general PP&E and depreciated over its estimated useful life.

(Source: Financial Report of the United States Government Fiscal Year 2023, February 15, 2024; Note 26 on p. 159)

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4. Specific challenges – Heritage Assets

Source: Financial Statements of the

Government of New Zealand

for the year ended 30 June 2023 (5 October 2023)

Note 17: Property, Plant and Equipment (continued)

Specified cultural and heritage assets

	Actual 30 June 2023 $m	30 June 2022 $m
National Library Collections	1,019	914
Te Papa Collections	1,017	1,075
Conservation Estate	683	608
National Archives	616	596
Other	66	61
Total specified cultural and heritage assets	**3,401**	**3,254**

Accounting policy	Estimated useful lives
Specified cultural and heritage assets comprise infrastructure within national parks and conservation estates, as well as National Archives holdings and the collections of the National Library, Parliamentary Library and Te Papa. Of these, non-land assets are recorded at fair value less accumulated impairment losses. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and where no market exists to provide a valuation.	5 to 100 years except for the Te Papa, National Library and National Archive collections that have indefinite life and are generally not of a depreciable nature.

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4. Specific challenges – Natural Resources

- Definition of Natural Resources – necessary in order to allow clear scoping of accounting for NR

  → Current proposal of IPSASB: naturally occuring, embodies service potential or the capability to generate economic benefits

- Defining the perimeter of accounting for NR – which information is useful for readers?

  → Current proposal of IPSASB: application of „normal“ asset recognition criteria

  → Specific challenges, like

  - existence uncertainty (IPSASB: because of that, subsoil resources are generally not recognized as assets),
  - demonstration of control (IPSASB: control is not possible for NRs like free-flowing water (ocean, lakes etc.))
  - proof of service potential (IPSASB: recognize NR held for preservation if preservation can lead to service potential which contributes to achieving the objectives of the entity)

- Identifying the appropriate measurement basis – especially for NRs which are acquired in non-exchange transactions

  → Current proposal of IPSASB: NR acquired in non-exchange transactions shall be measured at deemed cost according to IPSAS 46 (deemed cost = current value measurement basis).

  → Specific challenges, like

  - measurement uncertainty (IPSASB: CV can be measured reliably if variability of CV range is not significant or the probabilities of the various estimates within that range can be reasonably assessed)

((Source: IPSASB March 2024 meeting, Agenda paper 7.3.1, Draft ED Natural Resources)

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Thank you!

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