

# BRIDGEND COUNTY BOROUGH COUNCIL

## REPORT TO AUDIT COMMITTEE

14 NOVEMBER 2019

### REPORT OF THE INTERIM HEAD OF FINANCE AND SECTION 151 OFFICER

#### COMPONENTISATION POLICY

#### 1. Purpose of Report.

- 1.1 The purpose of this report is for Audit Committee to consider and endorse the Council's Component Accounting Policy for Property, Plant and Equipment, and its application for the 2019-20 Statement of Accounts onwards.

#### 2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

- 2.1 This report assists in the achievement of the following corporate priority/priorities:

- Smarter use of resources – ensuring that all its resources (financial, physical, human and technological) are used as effectively and efficiently as possible and support the development of resources throughout the community that can help deliver the Council's priorities.

- 2.2 Achievement of the corporate priorities and well-being objectives defined in the Corporate Plan is underpinned by ensuring that effective governance arrangements are in place.

#### 3. Background.

- 3.1 The Council is required to present its accounts in accordance with International Financial Reporting Standards (IFRS). The Chartered Institute of Public Finance and Accountancy has developed the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) based on IFRS, to be applied to accounting periods on or after 1 April 2018.

- 3.2 Part of this code requires the componentisation of assets, where components form a significant element of the total cost of an asset and where they have significantly different asset lives to the overall asset.

#### 4. Current situation / proposal.

- 4.1 The Council's auditors, the Wales Audit Office (WAO), have raised a number of points in relation to the Council's componentisation of assets in each of the last two years' audits. WAO commented that the Council had not applied its componentisation policy to a number of assets, and that the policy should be formally reviewed on an annual basis. This was reported to Audit Committee in August 2019. A formal review of the policy would normally be undertaken by the Section 151 or appropriate officer, however it is considered appropriate to present the proposed amended policy to Audit Committee for approval on this occasion following the recommendations of WAO.

- 4.2 Following the 2018-19 audit of the Statement of Accounts, and discussions with WAO, this report seeks to provide greater detail and clarification of the Council's methodology of asset componentisation.
- 4.3 The Code sets out the responsibility of the Chief Finance Officer (CFO) to establish appropriate de minimis levels of significance for the recognition of components based on assessments of potential material impacts on the financial statements. The CFO must make an assessment about individual items of property, plant and equipment or groups of similar assets that are below the de minimis levels and can be disregarded for componentisation. Individual items above the de minimis limit need to be analysed as to whether they have significant components with differing useful lives or patterns of depreciation. The Code also requires groups of assets with similar characteristics that are collectively above the de minimis limit to be analysed for significant common components.
- 4.4 The CFO must set the principles by which significant components of those assets are to be identified. This will involve setting thresholds for:
- The proportion of the cost of the overall item made up by the cost of individual components
  - The degree of difference between the useful lives of the overall item and its components
  - The degree of difference between the pattern of depreciation of the overall item and its components.

These thresholds will potentially interact with each other.

- 4.5 In determining an appropriate de minimis level below which componentisation will not be applied, consideration has been given to the level of materiality of the assets that need to be considered. Those assets that are not depreciated can be excluded. These are:
- Land
  - Investment property
  - Heritage assets
  - Community assets
  - Surplus assets
  - Assets held for sale

In addition to the above assets, equipment is considered to be not sufficiently material and will not be componentised.

- 4.6 In considering a de minimis level for componentisation, regard has been made to the level of materiality of the assets to be considered and a level of 1% of the net book value of those assets that potentially would be subject to componentisation as at 31 March 2019 is proposed. Whilst the book value may change year-on-year, based on the 2018-19 balance sheet, the net book value of assets potentially subject to componentisation was £430.421 million. 1% of this would then equate to individual asset values above £4.3 million. Using this basis will take into account the relative movement in value of the assets concerned.

4.7 The nature of the components that will be considered are:

- Roofs, although potentially these themselves have sub-structures so may be of insignificant value to be componentised
- Internals - which will be the structure of the building
- Mechanical and electrical, where this consists of a single, significant component element. In the majority of cases mechanical and electrical elements consist of a multitude of components themselves and therefore would not in themselves be sufficiently material to require componentisation.
- Blocks forming part of an overall asset, such as schools.

4.8 All assets are revalued on a three-year rolling programme and the need for componentisation of assets will be considered at each revaluation point.

4.9 The proposed Component Accounting for Property, Plant and Equipment Policy is set out in **Appendix A**. The Background and Introduction has been simplified and the methodology for setting a deminimis has been clarified. The Code definition of a component has been included and clear policies around the cost and asset lives criteria set out. The policy also clarifies those assets that will not be considered for componentisation, and for the remaining assets the nature of the components that will be considered.

## **5. Effect upon Policy Framework & Procedure Rules.**

5.1 None.

## **6. Equality Impact Assessment**

6.1 There are no equality implications arising from this report.

## **7. Wellbeing of Future Generations (Wales) Act 2015**

7.1 The well-being goals identified in the Act have been considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

## **8. Financial Implications.**

8.1 There are no financial implications arising directly from this report

## **9. Recommendation.**

9.1 It is recommended that Audit Committee consider and endorse the Componentisation Policy at **Appendix A** and its application for the 2019-20 Statement of Accounts onwards.

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**06 November 2019**

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**Background documents**

None