

BRIDGEND COUNTY BOROUGH COUNCIL

Component Accounting Policy for Property, Plant and Equipment

Background and Introduction

Many assets have components which have different useful lives: a roof is unlikely to have the same economic life as the structure of the building. In addition components can wear out, and others become obsolete. Where this can be applied to significant components it is more transparent to depreciate these over different timescales.

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom requires that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. This is component accounting.

Components

The Code requires that..

“each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset which have the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods. The requirement for componentisation for depreciation purposes shall be applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010”.

The Code does not set out specific levels for determining appropriate criteria, this is for the Chief Finance Officer, in conjunction with relevant officers, to set these locally. Where an asset consists of multiple buildings which are valued on a depreciated replacement cost (DRC) basis, each building will be considered and valued in its own right.

For the Council the levels set to separately identify a component are as follows:

- have a cost of at least 20% of the cost of the overall asset and
- have a materially different useful life (at least 20% different)

A component can either be part of an individual structure, such as roofs, internals, or mechanical and electrical where the component is significant such as pool boiler plant.

Where components are identified, the component will be initially recognised at cost and then valued at Depreciated Replacement Cost on revaluation. When it is replaced the component will be de-recognised and a replacement component recognised. Components will be set up separately in the asset register and have individual values, useful lives and depreciation methods recorded.

Within the Council's asset portfolio there are a number of assets where componentisation will not be considered:

- Equipment – as this is considered to be not sufficiently material
- Asset classes which are not depreciated – such as land, investment property, heritage assets, community assets, surplus assets and assets held for sale

De Minimis Level

The de minimis threshold for the Council is currently set at £4.3 million. This is on the basis of 1% of the net book value of assets that potentially would have been subject to componentisation as at 31 March 2019. Whilst the book value may change year-on-year, it is reasonable to take a point in time at which to assess a reasonable level. This can be reviewed each year to ensure it remains reasonable, subject to any significant changes in the Council's asset values. This de minimis provides a reasonable level when considering the materiality of any potential impacts on depreciation arising from componentisation.