

Friday, 29 September 2017

IPSASB Request for Comment - Financial Reporting for Heritage in the Public Sector

Dear Sir/Madam,

Liquid Pacific appreciates the opportunity to provide our viewpoint in relation to this request for comment and do so within the context of our professional role as valuers of non-financial assets in the Australian reporting environment.

Company Background
<p>Liquid Pacific is a valuation practice that specialises in the provision of asset valuations for inclusion in financial statements. Our primary client base is Government at all levels and across Australia.</p> <p>We are practicing members of the Australian Property Institute and the Royal Institution of Chartered Surveyors</p>

Company Experience			
Type of Assets Valued	Extent of experience with fair value measurements		
	Some	Fair	Extensive
Property, plant and equipment			✓
Intangible assets including goodwill		✓	
Investment properties			✓
Biological assets		✓	
Investments in subsidiaries, joint ventures or associates	✓		
Financial instruments	✓		
Collections (i.e museum, art, etc)			✓

Specific Matters for Comment—Chapter 1 (following paragraph 1.8)

Do you agree that the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8?

If not, please give reasons and identify any additional characteristics that you consider relevant.

1.8 These characteristics of heritage items may have consequences for financial reporting for heritage in the following areas:

(a) *Measurement*: Is it possible to measure heritage items in a way that reflects their service potential or their ability to generate economic benefits?

As valuers of heritage items and collections, we would argue all tangible items can be valued. The confidence level of the outcomes may vary; however by defining the appropriate valuation framework will enable realistic measurements.

(b) *Value*: If assignment of monetary values does not convey the heritage significance of heritage items or their future claims on public resources, would users of GPFRs benefit more from non-financial information about heritage items, reported outside the financial statements?

Given, in the first instance, it can be difficult to measure the monetary value of heritage assets; it would be extremely impressive to discover an entity was capable of measuring the extent to which heritage significance exceeds an assignment of monetary value. Heritage significance may differ radically between various entities or groups depending on their connection (or not as the case maybe) to the heritage asset being valued but theoretically, in a market environment, such groups or entities would only be expected to pay \$1 more than the next market participant to obtain those benefits.

We agree users of GPFRs would benefit from non-financial information about heritage items but not to the extent that it replaces the fair value of the asset, rather adds to the inclusion, somewhat akin to triple bottom line reporting.

(c) *Preservation*: If an entity's responsibility is to preserve heritage items rather than to generate cash flows from them, are heritage items resources or obligations from the entity's perspective?

No comment

(d) *Restrictions on use*: Given restrictions on entities' ability to use, transfer or sell heritage items, should heritage items be shown as assets in the financial statements?

If a heritage item meets the definition of an asset, then it would seem appropriate to record those items as assets. That heritage items exist at all infers economic benefits attributable to some entity, whether that be the entity itself or the entity as custodian for the public.

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With reference to the South Australian Government's Accounting Policy Framework;

“ . . . in determining whether a resource or right needs to be accounted for as an asset, the potential to contribute to the objectives of the entity should be the prime consideration.”¹

If the restrictions on the entities ability to use, transfer or sell heritage items is entity specific, then that would appear to fail the fair value framework. If such restrictions were imposed on all market participants (i.e. planning regulations) then it would follow such restrictions would need to be taken into consideration in determining a fair value.

IFRS 13 Fair Value highlights the treatment of assets that may not be readily traded;

“Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value”²

And,

“Although an entity must be able to access the market, the entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market”³

(e) Benefits to others: Can a reporting entity be said to control a heritage item for financial reporting purposes, when it is held for the benefit of current and future generations?

Within the Australian public sector environment, Government entities are said to have care and control of community assets even if though they may not be the registered owner of those assets. It is acknowledged that many Government entities acquire, hold and maintain assets on behalf of the public and for the benefit of current and future generations.

1 SA Treasury and Finance Asset Accounting Framework – 12 May 2015

2 IFRS 13 para 3

3 IFRS 13 para 20

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Preliminary View—Chapter 2.1 (following paragraph 2.11)

For the purposes of this CP, the following description reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

The above definition of a heritage item assumes controls have been placed around the asset to ensure it is *to be held indefinitely and preserved for the benefit of present and future generations*.

In the strictest sense, there are many items that may be classified as heritage but have not been formally categorised as 'heritage'. Does the lack of classification and hence future protection of those heritage characteristics change the embodied heritage value of the asset?

Further, it would seem relevant to include a reference to a heritage item in terms of its economic and or design life. Most heritage assets do not start out as heritage assets; they evolve during or after their intended economic and design life to become considered as heritage.

The New South Wales Office of Environment and Heritage describes heritage as;

*"Heritage significance refers to meanings and values in relation to the historical, scientific, cultural, social, archaeological, architectural, natural or aesthetic importance of the item. Heritage significance is reflected in the fabric of the item, its setting, use, associations, meanings, records, related places and related objects."*⁴

Preliminary View—Chapter 2.2 (following paragraph 2.12)

For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

No. To the extent that natural heritage covers areas and features, these areas and features may well be indistinguishable from the living organisms that created, occupy or frequent them (i.e. the Great Barrier Reef is described as the largest living organism in the world). UNESCO defines an extensive range of natural areas which reflect the total ecosystem which exists in those regions. To consider these areas as heritage in the absence of the ecosystems may well remove the heritage significance.

Whether such assets can be reliably measured raises additional issues.

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Preliminary View—Chapter 3 (following paragraph 3.11)

The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

With reference to the foregoing, we agree.

Specific Matters for Comment—Chapter 4.1 (following paragraph 4.17)

Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when a fully depreciated asset is categorized as a heritage asset then transferred to a museum at no consideration, or an entity obtains a natural heritage asset without consideration?

If so, please provide your reasons.

The New South Wales Treasury's accounting policy on valuation states

"The objective of valuing these assets is to report on the value of the future economic benefits embodied in the asset. This will provide relevant and reliable information for decision-making about resource allocation, performance measurement and accountability."⁵

If an entity initially recognises heritage assets at a nominal cost, the assumption is at some future stage the asset it is to be revalued. The issue then becomes the gap in the holding entity's ability to provide relevant and reliable information for decision-making until such time as the asset is re-valued.

Preliminary View—Chapter 4.1 (following paragraph 4.40)

Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

No comment

5 NSW Treasury TPP 14-01 Valuation of Physical Non-Current Assets at Fair Value, Policy & Guidelines Paper

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Specific Matters for Comment—Chapter 4.2 (following paragraph 4.40)

Are there heritage-related situations (or factors) in which heritage assets should not initially be recognized and/or measured because:

- (a) It is not possible to assign a relevant and verifiable monetary value; or
- (b) The cost-benefit constraint applies and the costs of doing so would not justify the benefits?

If yes, please describe those heritage-related situations (or factors) and why heritage assets should not be recognized in these situations.

We would strongly oppose the option to ignore recognition of heritage assets on the basis of a) and b) above. In our jurisdiction we encounter a number of public sector entities that choose not to recognise heritage assets citing the same reasons. Unfortunately, it tends to be the entity themselves (in the absence of expert opinion) that determine whether values can be reliably measured and that such projects will have negative cost benefits.

With regard to a) above, no asset can be deemed to have a verifiable value until such time as the owner transacts the asset in the market place, however values can be determined within defined confidence levels. By definition, every asset has a value and it is the task of the expert to determine what that value is and the confidence level of those estimates. It would seem ludicrous to disregard potential assets and thereby put in doubt their management because an entity decides it is inappropriate to do so.

Further, without undertaking valuations, how can an entity determine what the benefits would be?

With reference to a recent land and buildings valuation project for a State public sector entity, we encountered during our inspections a basement comprising boxes full of unreferenced documents and books. We found that some of these documents were early colonial statutes handwritten and signed by the founding Governors of the State and worth hundreds of thousands of dollars. The entity had been aware of the existence of these materials but had not considered them to be of any significant value, hence their storage in a basement. They now reside in a museum for the benefit of all.

Preliminary View—Chapter 4.2 (following paragraph 4.40)

In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

As valuers of heritage assets we agree with the first sentence of the IPSASB's Preliminary View. However, we do not agree historical cost is an appropriate measurement basis for any asset unless such cost is considered reflective of current market parameters.

Valuations are an opinion of value with reference to the prevailing characteristics of the asset at a point in time. Both those factors tend to change over time, hence the need for revaluations. Historical cost addresses neither and therefore fails the objective of providing *relevant and reliable information for decision-making about resource allocation, performance measurement and accountability*, as described by the New South Wales State Treasury.

Specific Matters for Comment—Chapter 4.3 (following paragraph 4.40)

What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?

The majority, if not all, heritage assets may be considered unique and their measurement requires expert advice to assist in their recognition and measurement. Experts in the various specialist fields of valuation should work alongside in-house non-valuation experts (i.e. curators, librarians, etc) to determine fair values and the present outcomes in accordance with the relevant accounting and valuation standards.

Preliminary View – Chapter 5 (following paragraph 5.14)

Subsequent measurement of heritage assets:

(a) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation.

(b) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

(a) above is not comprehensive, nonetheless, no difference should exist between the approaches to subsequent measurement for a heritage or non-heritage asset

Specific Matters for Comment—Chapter 5 (following paragraph 5.14)

Are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets?

If so, please identify those types and/or factors, and describe the special issues raised and indicate what guidance IPSASB should provide to address them.

No comment

Preliminary View—Chapter 6 (following paragraph 6.10)

The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources. The entity should not therefore recognize a liability.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

No comment

Preliminary View—Chapter 7 (following paragraph 7.9)

Information about heritage should be presented in line with existing IPSASB pronouncements.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and describe what further guidance should be provided to address these.

No comment

As members of a different profession, we greatly appreciate an invitation which extends itself to include all stakeholders. We trust the comments provided herein add to the discussion and debate.

Yours faithfully

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Martin Burns

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