



Treasury

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Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2
CANADA

Dear Mr Smith

IPSAS EXPOSURE DRAFT (ED) 78 – PROPERTY, PLANT AND EQUIPMENT

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to this Exposure Draft.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories and the Australian Government.

HoTARAC generally supports the proposals in the Exposure Draft. However, HoTARAC reiterates its disagreement to the use of operational value in the suite of measurement-related IPSAS standards.

Responses to the Matters for Comment are in the attachment.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stewart Walters'.

Stewart Walters
CHAIR
Heads of Treasuries' Accounting and Reporting Advisory Committee
25 October 2021

Specific Matter for Comment 1: [Draft] IPSAS [X] (ED 78), Property, Plant, and Equipment proposes improvements to the existing requirements in IPSAS 17, Property, Plant, and Equipment by relocating generic measurement guidance to [draft] IPSAS [X] (ED 77), Measurement; relocating guidance that supports the core principles in this Exposure Draft to the application guidance; and adding guidance for accounting for heritage assets and infrastructure assets that are within the scope of the Exposure Draft. Do you agree with the proposed restructuring of IPSAS 17 within [draft] IPSAS [X] (ED 78)? If not, what changes do you consider to be necessary and why?

HOTARAC does not have any concerns with the proposed structure of ED 78 and related IPSAS standards.

Specific Matter for Comment 2—(paragraphs 29-30): Do you agree that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value? If not, please provide your reasons, stating clearly which current value measurement basis would best address the needs of the users of the financial information, and why.

HOTARAC does not agree that current operational value should be used to measure public sector property, plant and equipment (PPE). HOTARAC also notes that the meaning of current operational value needs further clarification. Please refer to the attached HOTARAC response on AASB Invitation to Comment (ITC) 45 for further explanation.

Specific Matter for Comment 3—(paragraph AG3): Are there any additional characteristics of heritage assets (other than those noted in paragraph AG3) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice? Please provide your reasons, stating clearly what further characteristics present complexities when accounting for heritage assets, and why.

HOTARAC agrees with the characteristics of heritage assets outlined in AG3. However, the cultural, environmental or historical significance of heritage assets should also be included. For example, an Australian jurisdiction defines heritage assets as:

‘...used for the community’s benefit and represent, in part, Australia’s cultural and historic background, and are primarily used for purposes that relate to their cultural, environmental or historical significance. Heritage and cultural assets do not include structures constructed to assist with the display, transport or storage of the item, unless the structure has such heritage value in its own right or is an integral part of the asset’.

HOTARAC agrees that the service potential of many heritage assets will reflect their capacity to contribute to the entity’s service delivery objectives, rather than the generation of cash inflows (as outlined in paragraphs AG10-AG12). HOTARAC also notes that the long or indefinite useful life of many heritage assets is dependent on the preservation and maintenance policies implemented. Disclosure of these preservation and maintenance policies may be material for some entities.

Specific Matter for Comment 4—(paragraph AG5): Are there any additional characteristics of infrastructure assets (other than those noted in paragraph AG5) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice? Please provide your reasons, stating clearly what further characteristics present complexities when accounting for infrastructure assets, and why.

HOTARAC agrees with the characteristics of infrastructure assets outlined in AG5. HOTARAC notes that the extended useful life of many infrastructure assets is dependent on a program of regular upgrades and maintenance. Accounting for each of these processes may be blurred without specific accounting guidance. HoTARAC recommends that IPSAS consider issuing guidance similar to the

Australian Accounting Standards Board Interpretation 1030 *Depreciation of Long Lived Physical Assets: Condition Based Depreciation and Related Methods*¹ to address these issues. Interpretation 1030 specifically prohibits accounting practices such as ‘renewals accounting’ for long life assets, where assets are assessed to be in a steady state and all expenditure on the assets are expensed in place of depreciation.

Infrastructure assets will also often have related decommissioning and restoration costs. Although ED 78 addresses capitalisation of these costs on initial recognition of PPE, it does not outline accounting requirements for subsequent changes in estimates of decommissioning and restoration costs. The IPSASB could consider the incorporating the guidance of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* on how to account for changes in estimates in decommissioning provisions subsequent to initial recognition.

Specific Matter for Comment 5—(paragraphs 80-81 and AG44-AG45): This Exposure Draft proposes to require disclosures in respect of heritage property, plant, and equipment that is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably. Do you agree that such disclosure should be limited to heritage items? If not, please provide your reasons, stating clearly the most appropriate scope for the disclosure, and why.

HOTARAC believes that the characteristics of recognised heritage assets may still affect their financial statement measurement and their capacity to contribute to the entity’s service delivery. Therefore, HOTARAC also recommends brief disclosure of the nature of recognised heritage assets, as well as preservation and maintenance policies where needed to justify depreciation estimates where material.

Specific Matter for Comment 6—(paragraphs IG1-IG40): Do you agree with the Implementation Guidance developed as part of this Exposure Draft for heritage assets? If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on heritage assets are required, and why.

HOTARAC agrees with ED 78’s implementation guidance on heritage assets. HOTARAC agrees generally with the guidance in paragraphs IG6 –9 on control over heritage collections, but the guidance could state that appropriate accounting may depend on specific circumstances. HOTARAC notes the complexity and judgement required in valuation of some heritage assets, such as where use of the asset is restricted or the asset is irreplaceable, and recommends this be acknowledged when the IPSAS is finalized.

Specific Matter for Comment 7—(paragraphs IG1-IG40): Do you agree with the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets? If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on infrastructure assets are required, and why.

HOTARAC agrees with ED 78’s implementation guidance on infrastructure assets except for the following point.

HoTARAC disagrees with the guidance proposed in IG19-21 of ED78 on valuation of land under infrastructure objects such as roads:

IG19(b): “...the market approach will be challenging to apply, and that the asset will be more easily valued using the cost approach.”

¹ https://www.aasb.gov.au/admin/file/content105/c9/INT1030_09-04.pdf

IG21: *“The replacement cost of the land is based on the current value of the land based on the existing site. For example, if the road runs through agricultural land, then the current value of the land under that section of the road will be agricultural and if the road runs through an industrial area, then the current value placed on the land under that section of the road will be industrial.”*

In our view, application of this guidance could potentially result in the overstatement of land value. An approach currently used by one of the Australian jurisdictions to determine fair value of the land is as follows:

Fair value of land under road is determined using the market approach based on the value of underdeveloped or en globo land (pre-subdivision). Open space land value is used as a reasonable proxy for this value.