



Agenda Item 7: Heritage

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Project management: Stocktake

- Road Map – progress to date and future meeting plans
- Board Decisions – previous decisions taken and key future issues
- Board Instructions – satisfied with actions taken?
- Other Issues?

Session Outline

Topic	Agenda Item
Recognition of heritage assets: Used for heritage/non-heritage purposes	7.2.1
Heritage items as assets: Existence of control	7.2.2
Depreciation of heritage assets	7.2.3
Impairment of heritage assets	7.2.4

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.2.1) (1/18)

Should heritage assets used for heritage purposes be recognized – are they resources (service potential and/or future economic benefits)?

Flowchart		Task Force Analysis
Decision 1	Is issue prevalent in the public sector?	<u>Yes</u>
Decision 2	Sufficient authoritative IPSAS guidance?	<u>No</u>
Decision 3	Is issue related to financial statements?	<u>Yes</u>
Decision 4	Is non-authoritative guidance necessary?	<u>Not applicable</u>
Decision 5	Is the issue relevant to other projects?	<u>No</u>
Flowchart recommendation		<u>Authoritative Guidance</u>

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.2.1) (2/18)

Proposed Application Guidance (New text is underlined)

Recognition (see paragraphs 14-25) Probable future economic benefits or service potential

AG1. Property, plant, and equipment (PP&E) is recognized when it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value of the item can be measured reliably.

AG2. Service potential is the capacity to provide services that contribute to achieving the entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.2.1) (3/18)

Proposed Application Guidance (Continued)

AG3. Public sector assets that embody service potential may include heritage, community, and other assets which are held by governments and other public sector entities, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas where there is no market competition or limited market competition. The use and disposal of such assets may be restricted as many assets that embody service potential are specialized in nature.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.2.1) (4/18)

Proposed Application Guidance (Continued)

AG4. Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example: (a) an asset's use in the production and sale of services; or (b) the direct exchange of an asset for cash or other resources.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.2.1) (5/18)

Proposed Implementation Guidance (New text is underlined)

Heritage Assets

Assessment of service potential

IG1. In the public sector, heritage items may be used for heritage purposes or non-heritage purposes. In each case an assessment of whether or not it is probable that service potential associated with the item will flow to the entity depends on consideration of the entity's objectives.

IG2. Where heritage items provide services that contribute to achieving the entity's objectives, they have service potential. The entity may use heritage items to provide services to third parties. If those services contribute to achieving the entity's objectives, then the heritage items have service potential.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.2.1) (6/18)

Proposed Implementation Guidance (Continued)

IG3 Heritage items may be used to provide heritage-related services such as education, heritage appreciation, or increasing the beauty or sense of history in a building or other location. Heritage items may also be used to deliver services unrelated to their heritage nature, such as transportation or power generation. These different uses (heritage and non-heritage) do not affect the extent to which heritage items have service potential, which is assessed in terms of the capacity to provide services that contribute to achieving the entity's objectives.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.3.12) (7/18)

Proposed Implementation Examples

Agenda item 7.3.2 has four implementation examples, which illustrate assessments of whether a heritage item is a resource:

Example 1—Paintings Purchased by National Art Gallery

Example 2—Art Works in Parliament Building

Example 3—Cemetery on Regional Council's Land

Example 4—Historic Railway Stations Classified as Heritage Buildings

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.3.12) (8/18)

Implementation e.g. (1) Paintings Purchased by National Art Gallery

IG1. A national art gallery has just purchased two paintings by Picasso for Currency Unit (CU) 22 million. The purchase adds to the art gallery's existing, world-renowned collection of Picasso paintings. The art gallery's mission is to make great art accessible to the nation. It does not charge admission fees for entry, consistent with that mission. Although the gallery expects to hold the paintings indefinitely it can sell paintings in its collection and has done so in the past due to changing views about the optimum approach to its collections and tradeoffs between, for example, its collections of modern, ancient, and post-modern heritage pieces.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.3.12) (9/18)

Implementation e.g. (1) Paintings Purchased by National Art Gallery

IG2. *Analysis:* The paintings have service potential and the ability to generate future economic benefits. They form part of the gallery's capacity to provide services that contribute to achieving its objectives. Therefore, the paintings are resources from the art gallery's perspective and assets that should be recognized if they meet the recognition criteria.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.3.12) (10/18)

Implementation e.g. (2) Art Works in Parliament Building

IG3. The provincial government's Parliament building has a collection of art works dating back to the 18th century. These are of variable technical quality and range in market value from a few thousand CUs to several million CUs. Their significance is their subject matter. The art works depict past prime ministers, provincial ideals, and significant parliamentary debates, principles, and decisions.

IG4. The art works are controlled by the Office of the Parliament, which is wondering whether they should be recognized as heritage assets, even though they are not central to the Office's role of providing the appropriate secure space and meeting facilities for a well-functioning Parliament.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.3.12) (11/18)

Implementation e.g. (2) Art Works in Parliament Building

IG5. *Analysis:* The art works have service potential. They contribute to the reporting entity's capacity to provide services and achieve its objectives. Therefore, the art works are resources from the Office's perspective and assets that should be recognized if they meet the recognition criteria.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.3.12) (12/18)

Implementation e.g. (3) Cemetery on Regional Council's Land

IG6. A regional council has purchased land where it plans to build a road, consistent with its 10-year strategy to address the region's transportation needs. Surveyors discover an ancient cemetery, and the national government immediately decrees that the road cannot be built due to the heritage significance of the find. The council has already recognized the land purchase as an asset.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.3.12) (13/18)

Implementation e.g. (3) Cemetery on Regional Council's Land (continued)

IG7. *Analysis:* The cemetery does not appear to be a resource from the council's perspective, since it does not contribute to the reporting entity's capacity to provide services and achievement of its objectives. The land appears to be an asset, but a restricted one. If the cemetery did contribute to other council objectives, then it could be a resource and therefore an asset. For example, if the council has an objective to preserve and make accessible the community's heritage or an objective to promote tourism, including tourism to view heritage sites such as the cemetery, then the cemetery could be a resource and an asset that should be recognized if it meets the recognition criteria.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.3.12) (14/18)

Implementation e.g. (4) Railway Stations Classified as Heritage Buildings

IG8. A city council owns the rail lines and related land and infrastructure, including railway stations, that link the city center to several towns, which have been absorbed into the city during the past 50 years. The railway stations are over 100 years old, have architectural and historic significance, and contribute to the character of each suburb (formerly separate township) and the city as a whole.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.3.12) (15/18)

Implementation e.g. (4) Railway Stations Classified as Heritage Buildings

IG9. Community groups were worried that the city council plans to replace the railway stations with more modern, high rise buildings that will be cheaper to maintain and capable of generating cash flows through shop and apartment rentals. They made a case to the national government, which agreed that the railway stations have heritage value, and classified them as “Class B” heritage buildings. This classification means that the city council can continue to use these historic buildings as railway stations but must preserve their condition. Repairs must be faithful to the original material and technique, so that they reproduce the buildings’ historic features. There are severe penalties for failure to respect this legal requirement.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.3.12) (16/18)

Implementation e.g. (4) Railway Stations Classified as Heritage Buildings

IG10. *Analysis:* The railway stations continue to be resources from the city council's perspective, because they have service potential. They contribute to the reporting entity's capacity to provide services and achieve its objectives.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.3.12) (17/18)

Proposed Basis for Conclusions (New text is underlined)

Heritage Assets

BC1. The IPSASB acknowledged that the current principle in IPSAS 17 on determining whether property, plant, and equipment should be recognized may be inconsistently applied to heritage assets.

BC2. The IPSASB agreed to add application guidance (paragraphs XX-XX) and implementation guidance (paragraphs XX-XX) to clarify how entities should assess whether heritage items are resources.

Recognition of heritage assets: Used for heritage/non-heritage purposes (Agenda Item 7.2.1) (18/18)

Does the IPSASB agree with:

- a) The Task Force's recommendation to develop additional authoritative guidance?
- b) The additional guidance recommended by staff?

Heritage items as assets: Existence of control (Agenda Item 7.2.2) (1/18)

Guidance needed on control of heritage items, to support assessments of whether they are assets

Flowchart		Task Force Analysis
Decision 1	Is issue prevalent in the public sector?	<u>Yes</u>
Decision 2	Sufficient authoritative IPSAS guidance?	<u>Yes</u>
Decision 3	Is issue related to financial statements?	<u>Not applicable</u>
Decision 4	Is non-authoritative guidance necessary?	<u>Yes</u>
Decision 5	Is the issue relevant to other projects?	<u>Yes</u>
Flowchart recommendation		<u>Liaise with other TFs</u>

Heritage items as assets: Existence of control (Agenda Item 7.2.2) (2/18)

Proposed Implementation Guidance (New text is underlined)

Assessment of control over heritage assets

How is control over heritage items determined when there are restrictions on what an entity is able to do with the heritage items that it holds?

IG1. In the public sector, it may be challenging to assess whether the entity controls heritage items for which it is responsible. There are often restrictions on uses to which heritage items can be put, with a common one being prohibitions against sale and a duty to preserve the heritage, while also making it publicly accessible for appreciation and/or education.

Heritage items as assets: Existence of control (Agenda Item 7.2.2) (3/18)

Proposed Implementation Guidance (Continued)

IG2. Control of heritage items is evidenced by the following criteria:

- (a) Ability of the entity to use the heritage items or direct other parties on their use so as to derive service potential or economic benefits;
- (b) Legal ownership; and
- (c) Access to the heritage items, or the ability to deny or restrict access to them.

IG3. An entity controls a heritage item if it has the ability to use it or direct other parties on its use so as to derive service potential or economic benefits. An entity may use heritage items to deliver services to others in pursuit of the entity's objectives. The entity's objectives may be to provide heritage-related services or to provide other non-heritage services.

Heritage items as assets: Existence of control (Agenda Item 7.2.2) (4/18)

Proposed Implementation Guidance (Continued)

IG4 If one entity has the right to direct access to, and restrict or deny the access of others to the heritage item while another entity is its legal owner, substance over form indicates that the heritage item is controlled by the entity that has the right to direct access (or to restrict or deny the access of others) to the heritage item.

IG5. An entity may be granted a right to use the heritage item for a period of time. Control of the heritage item will be demonstrated if the entity has rights over the heritage item that enable the entity to direct access to it, or to restrict or deny the access of others to it. For the entity to demonstrate control, the right to use the heritage item needs to be for an unlimited period of time and have other rights to direct access to the heritage item, or to restrict or deny the access of others to the heritage item.

Heritage items as assets: Existence of control (Agenda Item 7.2.2) (5/18)

Proposed Implementation Guidance (Continued)

IG6. The right to use heritage items to generate service potential or economic benefits is insufficient on its own to demonstrate control. The entity must be able to restrict or deny access to heritage items. There are situations where an entity's ability to restrict access to heritage items may appear to be limited by the need to make heritage accessible to the public. An entity that is able to restrict access to heritage items when it deems that this is necessary, consistent with its objectives—even where those objectives generally mean that the heritage items are accessible to the public—has the ability to restrict or deny access from a control perspective.

Heritage items as assets: Existence of control (Agenda Item 7.3.2) (6/18)

Proposed Implementation Examples

Agenda item 7.3.2 has four implementation examples, which illustrate assessments of whether a heritage item is controlled:

Example 5—Department's Head Office Building Receives Heritage Designation

Example 6—A Collection on Loan from another Art Gallery

Example 7—Sculpture (Ancestor Representation) on Permanent Loan from First Nations Tribe

Example 8—Sacred Ancestral Mountain—Custodianship

Heritage items as assets: Existence of control (Agenda Item 7.3.2) (7/18)

Implementation e.g. (5) Department's Head Office Building Receives Heritage Designation

IG11. A government department's head office building has recently received a heritage designation, which protects its historic nature so that the reporting entity cannot sell either the land or building to a developer and must gain approval for significant repairs, to ensure they maintain the building's character. The reporting entity owns and occupies the heritage building, which it continues to use as its head office.

Heritage items as assets: Existence of control (Agenda Item 7.3.2) (8/18)

Implementation e.g. (5) Department's Head Office Building Receives Heritage Designation

IG12. *Analysis:* The reporting entity can use the resource (land and building) to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. Indicators of control include legal ownership; access to the resource, the ability to deny or restrict access to the resource; the means to ensure that the resource is used to achieve its objectives; and the existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

Heritage items as assets: Existence of control (Agenda Item 7.3.2) (9/18)

Implementation e.g. (6) A Collection on Loan from another Art Gallery

IG13. Art Gallery (A) has a collection of heritage paintings on loan from Art Gallery (B). The loan agreement stipulates the loan period (6 months) and various requirements with respect to how the collection is protected and used during the period. There are conditions which ensure that any failure to comply with the agreement would mean immediate requirement to return the collection along with large financial penalties. It also requires publicity around the exhibit to promote the other Art Gallery (B) and a percentage of ticket and merchandise sales belongs to Art Gallery B.

Heritage items as assets: Existence of control (Agenda Item 7.3.2) (10/18)

Implementation e.g. (6) A Collection on Loan from another Art Gallery

IG14. *Analysis:* The reporting entity can use the resource (paintings) to derive the benefit of the service potential in the achievement of its service delivery objectives. However, this usage is for only the period in the agreement and the art gallery does not have legal ownership. It has limited and severely restricted access to the resource, with temporary ability to deny or restrict access, which Art Gallery (B) has defined. Art Gallery (A) does not presently control the on-loan collection.

Heritage items as assets: Existence of control (Agenda Item 7.3.2) (11/18)

Implementation e.g. (7) Sculpture (Ancestor Representation) on Permanent Loan from First Nations Tribe

IG15. The National Museum holds a sculpture that represents an ancestor of a First Nations Tribe, and which is on permanent loan from the Tribe. There are actions that could trigger return of the sculpture to the Tribe. For example, if the National Museum treats the sculpture disrespectfully, from the Tribe's perspective, then this would trigger a return clause in the loan agreement. However, the intention on both sides of the loan arrangement is that the sculpture will remain with the National Museum indefinitely, so that it can be appreciated and preserved for present and future generations. To ensure that none of the return conditions occur museum staff have received training, while museum management include members of the Tribe who have extensive knowledge of tribal customs and expectations with respect to appropriate treatment of ancestor representations. The Tribe retains an absolute right to borrow the sculpture for short periods as necessary.

Heritage items as assets: Existence of control (Agenda Item 7.3.2) (12/18)

Implementation e.g. (7) Sculpture (Ancestor Representation) on Permanent Loan from First Nations Tribe

IG16. *Analysis:* The National Museum presently has the ability to deny or restrict access to the sculpture, while being able to benefit from the sculpture's service potential to achieve its objectives. The National Museum presently controls the sculpture for financial reporting purposes.

Heritage items as assets: Existence of control (Agenda Item 7.3.2) (13/18)

Implementation e.g. (8) Sacred Ancestral Mountain–Custodianship

IG17. National Government Z has a national park encompassing a mountain which the indigenous people (Tribe W) consider to be an ancestor and therefore both a person and sacred. Although technically “ownership” of the mountain and surrounding land belongs to the government, the concept of legal ownership is culturally inappropriate, given the mountain’s status as an ancestor. Furthermore, the relationship and custodianship/stewardship arrangements are more complicated than simple “ownership.”

Heritage items as assets: Existence of control (Agenda Item 7.3.2) (14/18)

Implementation e.g. (8) Sacred Ancestral Mountain–Custodianship

IG18. The government has day-to-day management of the park, does the detailed work of establishing and monitoring regulations related to the park, and bears all costs related to custodianship and making the park accessible to the public (construction of trails, bridges, viewing platforms, information booths, huts, etc.). The government also receives a relatively small amount of revenue arising from camping and fishing permits, etc. On a day-to-date basis the government controls access, which involves making the park open to the public unless there are reasons (e.g. fire risk, regeneration of trees) to close off all or part of the area.

Heritage items as assets: Existence of control (Agenda Item 7.3.2) (15/18)

Implementation e.g. (8) Sacred Ancestral Mountain–Custodianship

IG19. The tribe holds 50% of the membership of the park's management body and an absolute right to veto practices that it deems culturally offensive to its ancestor and tradition. This role has meant that the rules applying to the park include (a) processes that must be followed if anyone dies in the park and (b) restrictions on what can be done near the head of the mountain, including absolutely no consumption of food within 400 meters of the head.

Heritage items as assets: Existence of control (Agenda Item 7.3.2) (16/18)

Implementation e.g. (8) Sacred Ancestral Mountain–Custodianship

IG20. *Analysis:* Government Z has control for financial reporting purposes based on the indicators of control. Indicators of control include legal ownership; access to the resource, the ability to deny or restrict access to the resource; the means to ensure that the resource is used to achieve its objectives (where objectives include (i) provision of publicly accessible national parks, (ii) preservation of natural heritage, and (iii) encouragement of respect for the indigenous people and their beliefs and culture); and the existence of an enforceable right to service potential arising from a resource.

Heritage items as assets: Existence of control (Agenda Item 7.2.2) (17/18)

Proposed Basis for Conclusions (New text is underlined)

Control over Heritage Assets

BC1. The IPSASB acknowledged that the current principle in IPSAS 17 on control may be inconsistently applied to heritage assets.

BC2. The IPSASB agreed to add implementation guidance (paragraphs XX-XX) to clarify how to assess control over heritage items.

Heritage items as assets: Existence of control (Agenda Item 7.2.2) (18/18)

Does the IPSASB agree with:

- a) The Task Force's recommendation to develop additional non-authoritative guidance?
- b) The additional guidance recommended by staff?

Depreciation of heritage assets (Agenda Item 7.2.3) (1/6)

Guidance needed on estimation of heritage assets' useful lives and heritage assets that should not be depreciated

Flowchart		Task Force Analysis
Decision 1	Is issue prevalent in the public sector?	<u>Yes</u>
Decision 2	Sufficient authoritative IPSAS guidance?	<u>No</u>
Decision 3	Is issue related to financial statements?	<u>Yes</u>
Decision 4	Is non-authoritative guidance necessary?	<u>Not applicable</u>
Decision 5	Is the issue relevant to other projects?	<u>Yes</u>
Flowchart recommendation		<u>Liaise with other TFs</u>

Depreciation of heritage assets (Agenda Item 7.2.3) (2/6)

Proposed revision to core text (New text is underlined)

IPSAS 17.73 & 17.74:

73. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets. In rare cases an asset may be assessed as having an unlimited useful life.

Depreciation of heritage assets (Agenda Item 7.2.3) (3/6)

Proposed revision to core text (Continued)

74. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings generally have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building. Where a building or other type of PP&E is held for its heritage value and is being preserved indefinitely such that there is evidence that its useful life is so long as to be unlimited it is not therefore depreciated.

Depreciation of heritage assets (Agenda Item 7.2.3) (4/6)

Proposed Implementation Guidance (New text is underlined)

IG1 Given the nature of heritage assets, they may not have limited useful lives (for example, when the entity adopts appropriate curatorial and preservation policies), and therefore may not be subject to depreciation.

Depreciation of heritage assets (Agenda Item 7.2.3) (5/6)

Proposed Implementation Guidance (Continued)

IG2 The curatorial and preservation policies referred to in paragraph IG1 above would typically be those developed and monitored by qualified personnel and include the following:

- (a) a clearly stated objective about the holding and preservation of items;
- (b) a well-developed plan to achieve the objective, including demonstration of how the policy will be implemented, based on advice by appropriately qualified experts;
- (c) monitoring procedures; and
- (d) periodic reviews.

IG3 In addition, there would be evidence that the policies have been adopted by the governing body of the entity.

Depreciation of heritage assets (Agenda Item 7.2.3) (6/6)

Does the IPSASB agree with:

- a) The Task Force's recommendation to develop additional authoritative guidance?
- b) The additional guidance recommended by staff?

Impairment of heritage assets (Agenda Item 7.2.4)

(1/2)

Guidance needed on indicators of impairment and heritage assets to which impairment should not apply

Flowchart		Task Force Analysis
Decision 1	Is issue prevalent in the public sector?	<u>Yes</u>
Decision 2	Sufficient authoritative IPSAS guidance?	<u>No</u>
Decision 3	Is issue related to financial statements?	<u>Yes</u>
Decision 4	Is non-authoritative guidance necessary?	<u>Not applicable</u>
Decision 5	Is the issue relevant to other projects?	<u>Yes</u>
Flowchart recommendation		<u>Liaise with other TFs</u>

Impairment of heritage assets (Agenda Item 7.2.4) (2/2)

Does the IPSASB agree with the Task Force's recommendation to develop additional authoritative guidance?



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