APPENDIX 3

Componentisation policy

The Code requires that:

- land and buildings should be accounted for separately;
- 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.

Identifying components

Consideration should be given to the potential impact of different asset lives on depreciation calculations. Hence, we are interested in large value items where asset lives are greatly exaggerated by ignoring the fact that parts of the asset need regular replacement over the life of the main asset.

The following approach gives clear direction to valuers and ensure that depreciation charges in the accounts do not contain material errors.

Procedure	Proposed PCC policy
De minimis levels	Consider assets with a value greater than £500k.
Assessment of material assets for components	Components must be at least 20% of the historic asset value.
Degree of difference in the useful lives of the overall item and its components	Useful life of the component must vary from that of the overall item by at least 50%.
Ongoing valuation of components	Valuer will be directed to recognise the component element to all buildings.
Asset register	Components will be separately identified in the asset register.
Land and buildings	Separate land and buildings in the asset register unless they are below the de minimis level.

Ongoing capital expenditure

The process of improving and renovating existing buildings means that some parts of the structure need to be valued and removed from the asset register before the new expenditure can be added. Over time this will lead to greater detail in the asset register. Most additions will have a similar asset life to the main building, but there may be exceptions which lead to an ‘incremental componentisation’ of the asset register. The steps will be:

- treat the subsequent expenditure as an addition;
- de-recognise the original asset, treat as a loss on disposal;
- compare the valuation of the asset with its new carrying value for impairment or revaluation.