

**Cambridge City Council
Approach to componentisation (non-housing stock)**

The Code of Practice on Local Authority Accounting 2010/11 states 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 difference 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.'

CIPFA have issued guidance on componentisation in LAAP 86 and RICS issued a valuation alert in October 2010.

The guidance issued focuses on a 'six-step' approach to developing appropriate procedures for component accounting.

Component accounting for Housing Revenue Account (HRA) assets is covered by updated stock valuation guidance issued by CLG. This paper considers other property, plant and equipment (PPE).

Establishment of appropriate de minimis levels

Analysis of the carrying value of Other Land and Buildings (Under UK GAAP) at 31 March 2010 indicates that a de minimis value of £1m for individual assets for consideration of componentisation is appropriate.

Total value Other Land and Buildings at 31 March 2010 (£'000)	91,072
Land Value (£'000)	22,826
Building value (£'000)	68,246
Buildings with values >£1m (£'000)	59,712
Buildings with values >£1m (%)	87.5%
Buildings with values >£1m (count)	16
Depreciation on buildings with values > £1m (£'000)	1,119
As a proportion of total OLB depreciation	78.5%

A change to the accounting treatment of the Junction under IFRS means that this asset will also fall for componentisation under this policy.

Assets to be considered for componentisation

On the basis of a £1m de minimis threshold the following assets are considered for componentisation

Car Parks
Grand Arcade
Grafton East
Queen Anne
Grafton West
Park Street
Community Centres
The Meadows
Brownsfield
Swimming Pools
Abbey Pools
Parkside Pools
Administrative Buildings
Guildhall
Mandela House
Hobson House
Mill Road Depot
Crematorium
Cambridge City Council Crematorium
Theatres/Entertainment
The Corn Exchange
The Junction
Garages
HRA garages

Setting the policy for componentisation

The cost requires that each component of an item of PP&E should be separately identified and depreciated where the cost is significant in relation to the total overall cost of the asset.

Significance is considered as a proportion rather than an absolute sum.

Recognition of Components

The Council's external Valuers, Bidwells, have undertaken a review of building project costs published by the Building Cost Information Service (BCIS).

The BCIS data is based on actual project costs and breaks down building projects into a standard elemental table.

Based on this elemental cost analysis Bidwells are able to determine an average percentage subdivision of a building into the following 4 components:

- Building Structure
- Roof
- Mechanical and Electrical Equipment (Services)
- External Works

This analysis is to be undertaken for the following groups of assets:

- Car Parks
- Community Centres
- Administration Buildings/Offices

HRA garages are not considered to have any material components separate from the main structure so will not be subject to a detailed analysis.

The remaining assets are valued on a Depreciated Replacement Cost (DRC) basis as they are more specialised in nature and will be looked at individually by a building surveyor to identify an appropriate % split of material components.

Determining Useful Economic Life

The estimated life of identified components depends on the component initial useful life and the age and condition of the component.

The asset valuer will inspect each component and form an opinion of the age and remaining useful life of the component. This will be based on the following estimates of component initial lives and current conditions, which Bidwells believe to be reasonable approximations:

Component	Condition	Remaining Life (years)
Building Structure	New	50
	Average condition, satisfactory performance	35
	Substandard	15
Roof (tile/similar)	New	50
	Average condition, satisfactory performance	35
	Substandard	10
Roof (non-traditional)	New	35
	Average condition, satisfactory performance	20
	Substandard	5
Mechanical and Electrical Items	New	20
	Average condition, satisfactory performance	10
	Substandard	5
External Works	New	45
	Average condition, satisfactory performance	30
	Substandard	15

Where specific information is available on age or condition this will be used.

Individual components will only be depreciated separately where the component is more than 15% of the total cost and the remaining useful life is notably different. Therefore it is likely that external works or roof could be merged with the building structure in some circumstances.

Any further attempt to break down assets into smaller components by economic life will reduce each component to such a small part that separate depreciation will not be required.