

Cambridge City council Approach to Componentisation (Housing Stock)

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

Depreciation

Requirements

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 different 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.'

Further guidance on component accounting in the Housing Revenue Account was issued in the revised Department for Communities and Local Government (DCLG) Stock Valuation Guidance issued in early 2011. This states that

'Under International Financial Reporting Standards componentisation is mandatory. However, the decision on the degree of componentisation to be used in individual cases and the recognition of depreciation is a matter for the authority and, depending on the circumstances, may not be necessary beyond the basic land and buildings apportionment.'

Analysis Undertaken

Data on house building costs is available from the Building Cost Information Service (BCIS), which is part of the Royal Institution of Chartered Surveyors (RICS).

At current prices, adjusted for the Cambridge location, BCIS data shows the following costs of construction per m² by Building Elements:

Building Elements	£/m ² gross internal floor area	Proportion
Substructure	117	14%
Superstructure	419	50%
Finishes	113	14%
Fittings & Furnishings	28	3%
Services	159	19%
		100%

The BCIS Standard Form of Cost Analysis (2008 revision) includes the following within each of these elements:

Substructure

All work below underside of screed

Superstructure

Frame (loadbearing framework, includes main floor and roof beams)

Upper Floors

Roof

Stairs

External walls

External Windows and Doors

Internal Walls and Partitions

Internal Doors

Finishes

Wall Finishes

Floor finishes

Fittings and Furnishings

Fittings. Fixtures, furniture and non-mechanical and non-electrical equipment

Services

Sanitary appliances (baths, basins, sinks, WCs etc)

Services equipment (mechanical and electrical equipment)

Disposal installations (internal drainage and refuse disposal)

Water installations (mains supply, hot and cold water services)

Heat Source (Boilers)

Space Heating (heating, cooling and air conditioning systems)

Electrical installations (Electric source and mains, power distribution, electric lighting and fittings)

Fuel installations

Decent Homes Component Lifetimes

Component Lifetimes are assessed as follows (using DCLG Decent Homes Guidance). The identified components are smaller sub-sections of the BCIS classification.

Building Components	BCIS Standard Form of Cost Analysis Categorisation	Houses and Bungalows	Flats (Less than 6 storeys)
Wall structure	Superstructure	80	80
Lintels	Superstructure	60	60
Brickwork (spalling)	Superstructure	30	30
Wall Finish	Finishes	60	60
Roof structure	Superstructure	50	30
Roof finish	Superstructure	50	30
Chimney	Superstructure	50	50
Windows	Superstructure	40	30
External doors	Superstructure	40	30
Kitchen*	Fittings	20	20
Bathroom*	Services	30	30
Heating Central Heating Gas boiler	Services	15	15
Heating central heating distribution system	Services	40	40
Electrical systems	Services	30	30

*The lives used for kitchens and bathrooms are less than the lives used in the Decent Homes standard. This is to take account of the modernity of kitchens and bathrooms, as well as their functionality and condition.

The current remaining useful lives used for housing stock depreciation ranges from 28 to 52 years.

The data collected demonstrates that there are no components within the housing stock with a cost which is significant in relation to the total cost of the item.

Therefore, as suggested in the DCLG guidance, componentisation is not considered necessary beyond the current land and buildings classification.

Capital Spend and Derecognition

Requirements

The Code states that:

‘Where a component is replaced or restored (ie enhancements), the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected in the carrying amount’ (Paragraph 4.1.2.19)

The Code goes on to say that:

‘This recognition and derecognition takes place regardless of whether the replaced part had been depreciated separately.’ (Paragraph 4.1.2.47)

and that:

‘If it is not practicable to determine the carrying amount of the replaced part, authorities may use the cost of the new part as an indication of what the cost of the replaced part was at the time it was acquired or constructed (adjusted for depreciation and impairment if required).’ (Paragraph 4.1.2.48)

Analysis and approach

The following approach is proposed for housing capital spend.

Enhancement expenditure under each of the major components identified in the decent homes standard will be allocated to housing beacon valuation groups. As much of the expenditure is charged into the general ledger via an Orchard interface which records job numbers this should be relatively straightforward for much of the spend. Any other spend will be allocated on an appropriate basis.

As it is not practicable to determine the carrying amount of the replaced parts the current year expenditure will be multiplied by an 'adjustment factor' to determine an approximate carrying value to derecognise. This carrying value will be removed from both the 'historic cost' and current values.

The adjustment factor is calculated for each of the decent homes major components and is equal to:

An adjustment factor from 2011 prices to the assumed age of the replaced part
based on BCIS cost indices*

multiplied by

The current social housing percentage of 39%

Multiplied by

An adjustment based on the depreciation which would have been expected to have been written out based on an original property life of 80 years

*The BCIS tender price index for social housing has been used where possible. However for components which are assumed to be older at replacement it has been necessary to use the BCIS all in tender price index.

Adjustment factors for 2010/11 have been calculated as follows:

Building Components	Houses and Bungalows		Flats (Less than 6 storeys)	
	Age when replaced	Adjustment Factor	Age when replaced	Adjustment Factor
Wall structure	80	0%	80	0%
Lintels	60	0.48%	60	0.48%
Brickwork (spalling)	30	9.40%	30	9.40%
Wall Finish	60	0.48%	60	0.48%
Roof structure	50	0.98%	30	9.40%
Roof finish	50	0.98%	30	9.40%
Chimney	50	0.98%	50	0.98%
Windows	40	2.27%	30	9.40%
External doors	40	2.27%	30	9.40%
Kitchen	20	17.90%	20	17.90%
Bathroom	30	9.40%	30	9.40%
Heating Central Heating Gas boiler	15	20.02%	15	20.02%
Heating central heating distribution system	40	2.27%	40	2.27%
Electrical systems	30	9.40%	30	9.40%