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Dear Mr O'Connor

FINANCIAL REPORTING STANDARD 40: ACCOUNTING FOR HERITAGE ASSETS

We welcome the opportunity to comment on the draft Financial Reporting Standard 40.

Heritage Link brings together 81 voluntary organisations concerned with heritage in England representing interests from specialist advisers, practitioners and managers, volunteers and owners, to national funding bodies and local building preservation trusts. Much of the historic environment is cared for - supported, managed or owned - by these organisations and thus they and their members - from local civic societies to the national amenity societies with statutory consultee status - have firsthand and longstanding experience of financial management of the heritage assets listed in para 2 of the preface.

We appreciate that current guidance has been somewhat confusing, as heritage balance sheets show recently acquired assets but exclude much more significant items or collections for which information is not available. However there are two issues we need to make clear.

- There is currently much debate over the public value of heritage assets individually and collectively. There is general consensus that their value to society is greater than any market value although how to measure that value is less clear. So although some heritage assets have a monetary value in cases of direct acquisition this is not true or accurate for all, an obvious example being local archaeological collections, and even where a valuation can be established, for numerous reasons these can fluctuate over time.
- Valuing heritage assets does not necessarily add to a balance sheet, rather the reverse in that the asset needs to be conserved and looked after attracting costs but not returns. This is particularly significant where assets are held for public benefit and the costs of the services attached to providing that public access and enjoyment, should be quantified - cleaning, public access, staffing, storage, education programmes, building maintenance - to offset the capital value of the object or building.

In addition to questioning the underlying principle, we are extremely concerned how workable the proposals are and that the costs of compliance will be disproportionate to the benefits.

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- > Influencing policy

 - > Underpinning advocacy

 - > Increasing capacity

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In answer to the specific questions

1 Do you agree that rather than the current arrangements under which entities generally capitalise only recently acquired heritage assets at cost, the requirement should be that an entity where practicable adopt a valuation approach to its heritage assets.

We question the advantage of adopting a valuation approach to heritage assets:

- the extent to which valuation information is relevant to organisations which are not likely to trade in these assets.
- the additional cost borne by heritage charities which have already experienced a long period of declining public funds and the consequent pressure on charitable and lottery sources.
- whether this will lead to an improvement in the quality of financial reporting. One consequence is that it will distort balance sheets where assets included under this proposal are not disposable especially when held for public benefit.

2 This draft FRS proposes the assessment of practicability should be applied to individual collections rather than for the entity's total holding of heritage assets. Do you agree?

This has enormous implications for those members who hold a property portfolio such as the National Trust, The Landmark Trust, The Churches Conservation Trust and others who under this requirement would have to carry out assessments of each asset and its contents.

Some collections comprise thousands of items for which it is difficult to ascribe monetary value, for example from archaeological excavations. A valuation approach to these collections would be extremely disproportionate to the benefit.

3 If the approach is to be determined at the level of an individual collection, it is necessary to define the term 'collection'. Do you consider the definition proposed in para 4 of the draft FRS is appropriate. If not what alternative would you propose and why?

The definition is difficult to apply, and the possibility of a single item being a collection would add to the burden for many heritage organisations and their members.

4. The draft FRS proposes the approach should be determined for individual collections following an assessment of whether it is practicable to obtain valuations that provide useful and relevant information. This assessment will include the consideration of the relevance of the valuation as well as their reliability and the costs and benefits of obtaining them.

There is huge additional burden to organisations that would have to carry out two assessments of assets, the first to decide on the practicality of valuation and then the valuation itself. The only people who will benefit from this additional layer of expenditure - to assess whether or not a valuation is worthwhile - will be a new breed of specialist consultants.

5, 6, 7, no comment

8. The definition of a heritage asset is set out in para 4 of the draft FRS and the scope of the proposed new standard is set out in para 5. The rationale for these is discussed in paras 7-12 of appendix 1. Do you agree with the proposed definition and scope?

The scope in para 6 is far more difficult to define. Buildings of historical interest should be treated as heritage assets only where it is their historical characteristics that contribute to the advancement of the entity's objectives. For example buildings that are used primarily to provide office accommodation or teaching facilities should not be treated as heritage assets and should be accounted for in accordance with the requirements of FRS15 'Tangible fixed assets'.

Heritage charities typically occupy buildings in order to save them so different accounting practices based on use could be confusing.

Government policy is as you know favouring community involvement in the reuse of civic assets, with further funding being made available to assist this process. This we expect will result in community groups, many of them new charities, taking over responsibility for the historic buildings that make up the fabric of their surroundings using them to provide local services of all descriptions as well as to sustain their community's identity and sense of place. We hope onerous financial accounting requirements will not deter this most welcome initiative to support the Third Sector.

9. As explained in paragraphs 8 to 12 of the Preface, the Board believes that the costs of implementing the proposals should not be disproportionate. Do you agree?

Our members are in a better position to identify and quantify significant costs. However we cannot see any benefits to a valuation approach or any circumstances where the costs would be justified.

One alternative you might consider is that if the asset is separately insured, then a note of the valuation could be disclosed in the notes to the accounts. This would inform the public without the need for excessive workload or misleading balance sheet statements of assets which do not have an 'economic life' in accounting terminology.

I hope our comments and those of our members responding from their specialist viewpoints will be taken into account.

Yours sincerely,

Kate Pugh
Secretary, Heritage Link

enc Heritage Link membership list

cc Peter Karpinski DCMS