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Accounting for heritage assets: Does measuring economic value 'kill the cat'?

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ABSTRACT

Recent changes in accounting directives for heritage assets held by government, local authorities and charities in the UK required their recognition in the financial statements and the measurement of their economic value. Subsequently, numerous sales of heritage assets by local authorities have occurred. We examine the intrusion of economic value into the realm of cultural assets and investigate two cases: the National Portrait Gallery and Tower Hamlets Council. The observation of economic and cultural value is considered. The National Portrait Gallery largely resisted the pressure to place economic values on its collections of portraiture and continues to increase its extensive collections. The London council in a deprived borough, Tower Hamlets, followed the Code of Practice on local authority accounting regarding recognition and valuation of assets and decided to sell its major heritage asset, a Henry Moore sculpture. We examine how measuring value can affect the observed reality: did the very act of measuring a heritage asset in financial terms change the situation? We develop a frame of analysis based on scientific observation theory applied within the socially constructed world of accounting. Accounting constructed a 'reality' (Hines, 1988) that included items of economic value that were primarily held for their cultural properties, but observing (measuring) their economic value may affect the perception of the cultural value of the item. Drawing on quantum physics we borrow from Schrödinger's thought experiment, commonly referred to as 'Schrödinger's cat', and from Heisenberg's uncertainty principle to suggest that though not killing the cat, observation of the economic value of an accounting element can lead to a change in the perceived cultural value. Thought experiments from quantum physics can provide new ways of exploring the measurement (observation) of different values. Precision in measuring one attribute can cause the perception of other attributes (values) to change. This is particularly important as accounting moves to reporting on an integrated value approach (International Integrated Reporting Council (IIRC), 2013).

1. Introduction

Historically heritage assets were invisible on the financial statements of UK government bodies and charities. In recent years there have been moves to include these cultural assets in the annual financial statements; firstly through disclosure and, more recently, on the balance sheet. But the measurement of the value of heritage assets is fraught with difficulties. There are many kinds of value, (economic, cultural, political, aesthetic and so on), and different measurement tools.

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Moreover, values change over time and are strongly shaped by contextual factors such as economic opportunities and cultural trends.

Accounting determines what is recognized in the financial statements: the boundaries and the items included are set out in accounting standards and underlying conceptual frameworks: 'in communicating reality we construct reality' (Hines, 1988). It is also understood both in the physical sciences and social sciences that observation or the act of measuring can change the perception of the object being measured. Heritage assets have both an economic value and a cultural value; but does the very act of measuring the economic value affect the cultural value and the observed reality?

This paper proceeds as follows: in Section 2 we investigate the controversy in the literature on accounting for heritage assets before setting out how accounting treatment has developed for government and charities in the UK. In Section 3 we develop our frame of analysis drawing on both the socially constructed accounting world and scientific theories of observation. The scientific measurement of 'difficult-to-observe' properties of physical phenomena is seen as analogous to the challenges of measuring the economic and cultural values of heritage assets. In Section 4 we describe our method and in Section 5 we proceed to explore the application of our research frame to two case study organisations: a public art gallery and a local authority. Lastly, Section 6 comprises a discussion and interpretation of our findings and in Section 7 we draw some final conclusions.

2. Accounting controversy

2.1. The recognition of heritage assets

The UK Accounting Standards Board (ASB) provided the following definition of a heritage asset in Financial Reporting Standard (FRS) 30 (ASB, 2009, p. 2):

> A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

In the recently issued FRS102, (Financial Reporting Council (FRC), 2013), which applies to the UK and the Republic of Ireland the definition is modified to also include intangible assets. In adding 'intangible' to the definition the FRC suggested digital libraries could also be regarded as heritage assets. The ASB clearly considered heritage assets as accounting assets. The intent of the holder is to contribute to knowledge or culture. These benefits, in the form of the service potential that heritage assets provide from their contribution to knowledge and culture, are the value in use rather than *cash flows*, thereby allowing them, in the ASB's view, to satisfy the definition of an asset as reinterpreted for public benefit entities (Accounting Standards Board, 2007). Heritage assets do not follow the conventional accounting asset definition in the ASB's conceptual framework (Accounting Standards Board, 1999a), but the later reinterpretation for public benefit entities (Accounting Standards Board, 2007). Heritage assets have particular characteristics: they have long lives (which can span over millennia e.g. Stonehenge); they are often unique or irreplaceable; they are often donated and are sometimes inalienable (they cannot be sold, usually because of a legal restriction).

The merits or otherwise of recognising heritage assets in the financial statements of charities and public sector entities has been the subject of much academic and professional debate. The recognition of assets in public sector financial statements is consistent with the principles of New Public Management (NPM), where public sector organisations draw on management practices from the private sector, including those from accounting, to drive greater efficiency and effectiveness and to enhance managerial accountability (Hood, 1991; Hood, 1995; Lapsley, 2009). Some academic writers support this view vis-à-vis heritage assets. Micallef and Peirson (1997) argue that heritage assets, in line with other assets, should be recognised and included in the financial statements. In a similar vein, Rowles (1992) argues that heritage assets are no different to other assets, such as plant, which may have no market value but are still required to be included in the financial statements.

However, in one of the earliest contributions to the literature Mautz (1988) used the example of the Washington Monument[1] to argue against the recognition of heritage assets in financial statements. The Monument, he maintained, represented an obligation for future cash outflows rather than inflows (Mautz, 1988, p. 123) and therefore was more characteristic of a liability than an asset. Further, Carnegie and Wolnizer (1995, 1996) argue that, as heritage assets often cannot be sold, they should not be matched against liabilities, and they cannot be valued in monetary terms. These fundamental challenges to the recognition of heritage assets are developed further by Barton (2000, p. 231) who argues that the government is often only the custodian of heritage assets:

> The government holds the heritage assets in trust for present and future generations and has a responsibility to protect and preserve them. The costs of protecting and maintaining them should be borne by each generation as they enjoy the benefits from them. As trust assets, public heritage assets should not be included in the government's own statement of assets and liabilities.

[1] The Washington Monument is an obelisk on the National Mall in Washington DC built to commemorate George Washington, the first US president. The monument is both the world's tallest stone structure and the world's tallest obelisk, standing 555 feet 5 1/8 inches (169.294 m) tall. (http://washington.org/DC-guide-to/washington-monument).