

Part 1 Introduction

This UK national supplement sets out specific requirements, together with supporting guidance, for *members* on the application of the *RICS Valuation – Global Standards (Red Book Global Standards)* to *valuations* undertaken subject to UK jurisdiction.

It places fresh emphasis on the fact that the content is supplemental to that in Red Book Global Standards, and not in substitution for it. This removes the need for an overall Introduction reproducing that in Red Book Global Standards.

1 Conventions

The following conventions are adopted throughout:

- Mandatory requirements in this national supplement are set out in bold type – the remaining material is advisory.
- Terms defined in the *Glossary* are shown in italics.
- References to Red Book Global Standards use the relevant global section identifier only, e.g. PS 1, VPS 1, VPGA 1, etc. Internal cross-references within this supplement can be recognised by the inclusion of 'UK' in the title, e.g. UK PS 1, UK VPGA 1, etc.

2 Application to members of RICS

Red Book Global Standards adopt and apply the International Valuation Standards (IVS) and also place a number of additional requirements on RICS *members*, designed to provide *valuation* users with the highest levels of assurance regarding professionalism and quality. It is, however, recognised that within individual jurisdictions statutory, regulatory or other authoritative requirements (see **PS 1 section 4**) may affect how a *member* complies with Red Book Global Standards – hence this national supplement. It reflects *valuation standards* and other authoritative requirements that are specific to the UK jurisdiction, and provides additional valuation applications guidance accordingly.

3 Effective date

The RICS material included in this UK national supplement edition takes effect from xxx 2023 and applies to all *valuations* where the *valuation date* is on or after that day. Any amendments issued to take effect after that date will be clearly labelled accordingly.

4 Currency of the text

The definitive RICS Valuation – Global Standards and UK national supplement text current at any given date is that on the [RICS website](#). Any users of this publication should take care to ensure that they have had proper regard to any subsequent amendments.

5 RICS standards framework

RICS' standards setting is governed and overseen by the Standards and Regulation Board (SRB). The SRB's aims are to operate in the public interest, and to develop the technical and ethical competence of the profession and its ability to deliver ethical practice to high standards globally.

The RICS Rules of Conduct set high-level professional requirements for the global chartered surveying profession. These are supported by more detailed standards and information relating to professional conduct and technical competency.

The SRB focuses on the conduct and competence of RICS members, to set standards that are proportionate, in the public interest and based on risk. Its approach is to foster a supportive atmosphere that encourages a strong, diverse, inclusive, effective and sustainable surveying profession.

As well as developing its own standards, RICS works collaboratively with other bodies at a national and international level to develop documents relevant to professional practice, such as cross-sector guidance, codes and standards. The application of these collaborative documents by RICS members will be defined either within the document itself or in associated RICS-published documents.

Document definitions

Document type	Definition
RICS professional standards	<p>Set requirements or expectations for RICS members and regulated firms about how they provide services or the outcomes of their actions.</p> <p>RICS professional standards are principles-based and focused on outcomes and good practice. Any requirements included set a baseline expectation for competent delivery or ethical behaviour.</p> <p>They include practices and behaviours intended to protect clients and other stakeholders, as well as ensuring their reasonable expectations of ethics, integrity, technical competence and diligence are met. Members must comply with an RICS professional standard. They may include:</p> <ul style="list-style-type: none">• mandatory requirements, which use the word 'must' and must be complied with, and/or• recommended best practice, which uses the word 'should'. It is recognised that there may be acceptable alternatives to best practice that achieve the same or a better outcome. <p>In regulatory or disciplinary proceedings, RICS will take into account relevant professional standards when deciding whether an RICS member or regulated firm acted appropriately and with reasonable competence. It is also likely that during any legal proceedings a judge, adjudicator or equivalent will take RICS professional standards into account.</p>

Document type	Definition
RICS practice information	<p>Information to support the practice, knowledge and performance of RICS members and regulated firms, and the demand for professional services.</p> <p>Practice information includes definitions, processes, toolkits, checklists, insights, research and technical information or advice. It also includes documents that aim to provide common benchmarks or approaches across a sector to help build efficient and consistent practice.</p> <p>This information is not mandatory and does not set requirements for RICS members or make explicit recommendations.</p>

Part 2 Glossary of technical terms

These terms are replicated from Red Book Global Standards, with supplementary UK-specific terms listed at the end.

This glossary defines terms used in the Global Standards and this national supplement that have a special or restricted meaning. Words or phrases not appearing in the glossary follow their common dictionary meaning. Where a term defined below is used in the remainder of this volume, it is identified in the text with *italic* font.

Members' attention is drawn to the fact that IVS includes a short, dedicated glossary with certain additional definitions specifically to assist with understanding and application of the IVS, including the convention used by IVSC to signal the status of individual IVS content, for example, whether it is mandatory, advisory, etc. These are not replicated here. The individual IVSC standards also contain definitions specific to the particular IVS, to which valuers should refer as appropriate.

Term	Definition
assumption	A supposition taken to be true. It involves facts, conditions or situations affecting the subject of, or approach to, a <i>valuation</i> that, by agreement, do not need to be verified by the valuer as part of the valuation process. Typically, an <i>assumption</i> is made where specific investigation by the valuer is not required in order to prove that something is true.
basis of value	A statement of the fundamental measurement <i>assumptions</i> of a <i>valuation</i> . In some jurisdictions, the basis of value is also known as the 'standard of value'.
cost approach	An approach that provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or construction.

date of the report	The date on which the valuer signs the report.
date of valuation	See <i>valuation date</i> .
departure	Special circumstances where the mandatory application of these global standards may be inappropriate or impractical. (See PS 1 section 6 .)
depreciated replacement cost (DRC)	The current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.
equitable value	The estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties (see IVS 104 paragraph 50.1).
external valuer	A valuer who, together with any associates, has no material links with the client, an agent acting on behalf of the client or the subject of the assignment.
Environmental, social and governance (ESG)	<p>'The criteria that together establish the framework for assessing the impact of the sustainability and ethical practices of a company on its financial performance and operations. ESG comprises three pillars: environmental, social and governance, all of which collectively contribute to effective performance, with positive benefits for the wider markets, society and world as a whole.' IVS 2020 Agenda Consultation (p14).</p> <p>Although ESG principally refers to companies and investors, ESG-related factors are also used to describe the characteristics and, where relevant, operation of individual assets. It is used throughout these standards in this context.</p>
fair value	'The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.' (This definition derives from International Financial Reporting Standards IFRS 13.)
financial statements	Written statements of the financial position of a person or a corporate entity, and formal financial records of prescribed content and form. These are published to provide information to a wide variety of unspecified third party users. Financial statements carry a measure of public accountability that is developed within a regulatory framework of accounting standards and the law.
firm	The firm or organisation for which the member works, or through which the member trades.

goodwill	Any future economic benefit arising from a business, an interest in a business, or from the use of a group of assets that is not separable.
income approach	An approach that provides an indication of value by converting future cash flows to a single current capital value.
inspection	A visit to a property or inspection of an asset, to examine it and obtain relevant information, in order to express a professional opinion of its value. However, physical examination of a non-real estate asset, for example, a work of art or an antique, would not be described as 'inspection' as such.
intangible asset	A non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and/or economic benefits to its owner.
internal valuer	A valuer who is in the employ of either the enterprise that owns the assets, or the accounting firm responsible for preparing the enterprise's financial records and/or reports. An internal valuer is generally capable of meeting the requirements of independence and professional objectivity in accordance with PS 2 section 3, but may not always be able to satisfy additional criteria for independence specific to certain types of assignment, for example under PS 2 paragraph 3.4.
International Financial Reporting Standards (IFRS)	Standards set by the International Accounting Standards Board (IASB) with the objective of achieving uniformity in accounting principles. The standards are developed within a conceptual framework so that elements of financial statements are identified and treated in a manner that is universally applicable.
investment property	Property that is land or a building, or part of a building, or both, held by the owner to earn rentals or for capital appreciation, or both, rather than for: <ul style="list-style-type: none"> • use in the production or supply of goods or services, or for administrative purposes, or • sale in the ordinary course of business.
investment value, or worth	The value of an asset to the owner or a prospective owner for individual investment or operational objectives (see IVS 104 paragraph 60.1). (May also be known as worth.)
market approach	An approach that provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available.
market rent (MR)	The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and willing lessee on appropriate lease terms in an arm's length

	transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (see IVS 104 paragraph 40.1).
market value (MV)	The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (see IVS 104 paragraph 30.1).
marriage value	An additional element of value created by the combination of two or more assets or interests where the combined value is more than the sum of the separate values.
member	A Fellow, professional member, associate member or honorary member of the Royal Institution of Chartered Surveyors (RICS).
personal property	<p>Personal property means assets (or liabilities) not permanently attached to land or buildings:</p> <ul style="list-style-type: none"> • including, but not limited to, fine and decorative arts, antiques, paintings, gems and jewellery, collectables, fixtures and furnishings, and other general contents • excluding trade fixtures and fittings, plant and equipment, businesses or business interests, or intangible assets.
plant and equipment	<p>Plant and equipment may be broadly divided into the following categories:</p> <ul style="list-style-type: none"> • plant: assets that are combined with others and that may include items that form part of industrial infrastructure, utilities, building services installations, specialised buildings, and machinery and equipment forming a dedicated assemblage • machinery: individual, or a collection or a fleet or system of, configured machines/technology (including mobile assets such as vehicles, rail, shipping and aircraft) that may be employed, installed or remotely operated in connection with a user's industrial or commercial processes, trade or business sector (a machine is an apparatus used for a specific process) or • equipment: an all-encompassing term for other assets such as sundry machinery, tooling, fixtures, furniture and furnishings, trade fixtures and fittings, sundry equipment and technology and loose tools that are used to assist the operation of the enterprise or entity.
real estate	Land and all things that are a natural part of the land (e.g. trees, minerals) and things that have been attached to the land (e.g.

	buildings and site improvements) and all permanent building attachments (e.g. mechanical and electrical plant providing services to a building), that are both below and above the ground. (Note that a right of ownership, control, use or occupation of land and buildings is defined as a real property interest in IVS 400 at paragraph 20.2.)
registered for regulation/ registered by RICS	<p>a A firm that is registered for regulation by RICS under the RICS bye-laws.</p> <p>b A member who is registered as a valuer under RICS Valuer Registration (VR).</p>
special assumption	An assumption that either assumes facts that differ from the actual facts existing at the valuation date or that would not be made by a typical market participant in a transaction on the valuation date.
special purchaser	A particular buyer for whom a particular asset has a special value because of advantages arising from its ownership that would not be available to other buyers in a market.
special value	An amount that reflects particular attributes of an asset that are only of value to a special purchaser.
specialised property	A property that is rarely, if ever, sold in the market, except by way of a sale of the business or entity of which it is part, due to the uniqueness arising from its specialised nature and design, its configuration, size, location or otherwise.
sustainability	<p>Sustainability is, for the purpose of these standards, taken to mean the consideration of matters such as (but not restricted to) environment and climate change, health and wellbeing, and personal and corporate responsibility that can or do impact on the valuation of an asset. In broad terms it is a desire to carry out activities without depleting resources or having harmful impacts.</p> <p>There is as yet no universally recognised and globally adopted definition of 'sustainability'. Therefore, members should exercise caution over the use of the term without additional appropriate explanation. In some jurisdictions, the term 'resilience' is being adopted to replace the term 'sustainability' when related to property assets.</p> <p>Sustainability may also be a factor in environmental, social and governance (ESG) considerations.</p>
terms of engagement	Written confirmation of the conditions that either the member proposes or that the member and client have agreed shall

	apply to the undertaking and reporting of the valuation. Referred to in IVS as scope of work – see IVS 101 paragraph 10.1.
third party	Any party, other than the client, who may have an interest in the valuation or its outcome.
trade related property	Any type of real property designed for a specific type of business where the property value reflects the trading potential for that business.
trading stock	Stock held for sale in the ordinary course of business, for example, in relation to property, land and buildings held for sale by builders and development companies.
valuation	An opinion of the value of an asset or liability on a stated basis, at a specified date. If supplied in written form, all valuation advice given by members is subject to at least some of the requirements of the Red Book Global Standards – there are no exemptions (PS 1 paragraph 1.1). Unless limitations are agreed in the terms of engagement, a valuation will be provided after an inspection, and any further investigations and enquiries that are appropriate, having regard to the nature of the asset and the purpose of the valuation.
valuation date	The date on which the opinion of value applies. The valuation date should also include the time at which it applies if the value of the type of asset can change materially in the course of a single day.
worth	See <i>investment value</i> .

UK glossary

Regulated Purpose Valuations	A set of valuation purposes defined by RICS upon which third parties rely. The purposes are fully detailed at UK VPS 3.
Rotation	The process of changing the valuer and/or firm engaged to undertake valuation services for a particular client. RICS' UK rotation policy is included at UK VPS 3 section 3. This is in addition to Red Book Global Standards obligations.

Part 3 UK Professional and Valuation Standards (UK PS and UK VPSs) – mandatory

UK Professional Standards (UK PS)

UK PS 1 Compliance with valuation standards within the UK jurisdiction

Members must ensure compliance with UK law – including measures enacted by, or specific to, the devolved administrations – and any other authoritative requirements when providing valuation services (as defined in PS 1 of Red Book Global Standards), which are subject to UK jurisdiction.

For the avoidance of doubt, the requirements and supporting guidance set out here modify or supplement Red Book Global Standards, with which *members* undertaking or supervising valuation services must otherwise continue to comply at all times.

Implementation

1 It is important that *members* and *firms* are aware not only of their general obligations under UK law, but also alert to specific requirements that may arise according to the particular *valuation* assignment on which they are engaged, under secondary legislation or regulation such as Rules and Codes (e.g. in connection with company takeovers) or other authoritative requirements (e.g. preparing *financial statements* under UK GAAP or IFRS).

2 Compliance with such requirements may be a matter for a valuer's client in the first instance, but the valuer is expected to provide the necessary professional advice to support the client in the discharge of that responsibility. Occasionally, however, a responsibility or duty may be placed directly on the valuer (e.g. under Rule 29 of the Takeover Code). Such instances are highlighted in the text that follows.

UK Valuation Technical and Performance Standards (UK VPSs)

UK VPS 1 Terms of engagement (scope of work) and reporting: Red Book compliance

For the purpose of VPS 1 section 3 paragraph 3.2(n) and VPS 3 section 2 paragraph 2.1(k) of VPS 3 in Red Book Global Standards (on or after the effective date of this national supplement), a *valuation* report declared simply as issued 'in accordance with the RICS Red Book' without further reference to the edition or year of issue will – for UK

jurisdictions – be taken to mean in accordance with Red Book Global Standards plus this UK national supplement.

In some instances, it may be necessary or desirable for the benefit of *valuation* users (including others such as auditors) to make explicit which edition of Red Book has been used. Valuers are reminded of the importance of ensuring that they are aware of, and familiar with, all updates to the Red Book (both to the Global Standards and to this UK supplement) relevant to the *valuation* assignment they are engaged on.

UK VPS 2 Terms of engagement (scope of work): supplementary provisions in Scotland

These supplementary provisions address the situation where, due to time restrictions sometimes created by the traditional and accepted procedures for buying residential property in Scotland, it is not possible to issue *terms of engagement* to clients, or those acting for clients, prior to the issue of a report.

Implementation

- 1 The expectation is that, *terms of engagement* will be issued to clients in accordance with the requirements of **PS 2** and **VPS 1**, including the specific requirement that the *terms of engagement* are settled prior to the issue of the report.
- 2 Where, exceptionally, this is not possible then the *member*, or their *firm*, must proceed as follows.
 - a Where the *member* or their *firm* has a website openly accessible to the public, their standard *terms of engagement* must be published on it, and the client's, or their representative's, attention drawn to it. Great care must be exercised by the *member* if any modification to the standard terms is necessary in any individual case.
 - b A written copy of the *terms of engagement* must then be sent to the client, or their representative, within 24 hours of receipt of the instruction. This may be by post or electronic means as appropriate.
- 3 It is considered to be good practice for the *member* or their *firm* to furnish their standard *terms of engagement* to referring parties (e.g. local solicitors, lenders, etc.), with their *valuation* commissions once received. A note of receipt of these terms should be sought.

UK VPS 3 Regulated Purpose valuations: supplementary governance requirements

The requirements below are supplementary to Red Book Global Standards **PS 2 section 5** – Disclosures where the public has an interest or upon which third parties may rely, and apply to Regulated Purpose *valuations*, namely:

- *valuations* for financial reporting under UK VPGA 1 and UK VPGA 2 where these are relied upon by third parties
- *valuations* of local authority assets for accounting purposes under UK VPGA 4 but only in respect of investment property valued at fair value using IFRS 13
- *valuation* reports for inclusion in prospectuses and circulars to be issued by UK companies under UK VPGA 2.1
- *valuations* in connection with takeovers and mergers under UK VPGA 2.2
- *valuations* for collective investment schemes under UK VPGA 2.3 and
- *valuations* for unregulated property unit trusts under UK VPGA 2.4.

Each one is a 'Regulated Purpose' and together 'Regulated Purposes'.

Valuers should refer to the exceptions at **VPS 1-5** under **PS 1 section 5**. For example, including but not limited to 'valuations for internal purposes only' is one that is not (or should not be) communicated to, and thus not entitled to be relied upon, by a third party.

The Regulated Purposes apply to all asset classes, including but not limited to specialist classes, for example, affordable housing and rural assets. However, the standards within this section only apply to *valuation* of those assets for a Regulated Purpose and those that are not subject to any applicable exceptions at **VPS 1-5** under **PS 1 section 5**.

The Regulated Purposes apply to all types of asset holding arrangements including, but not limited to: limited partnerships, LTAFS, open and closed ended funds, other investment trusts, public pensions funds, REITS, UCITS funds, non UCITS funds (covered by AIFMD) and any other fund, trust or collective investment scheme regulated by the Financial Conduct Authority (FCA). However, the standards within this section only apply to *valuation* of those assets for a Regulated Purpose and those that are not subject to any applicable exceptions at **VPS 1-5** under **PS 1 section 5**. For example, private funds, trusts and investments are only subject to the requirements where any related valuation would need to be relied upon by a third party and was not purely for internal purposes as defined at **VPS 1-5** under **PS 1 section 5**.

The Regulated Purposes above do not include *valuations* exclusively for secured lending, for which there is advisory content in VPGA 2, UK VPGA 10 (commercial secured lending) and UK VPGA 11 (residential mortgage).

UK VPS 3.1 Exclusion of certain properties

1 Where a Regulated Purpose *valuation* (as defined above) includes:

- a one or more properties acquired by the client within the 12 months preceding the *valuation date* and
- b the valuer, or the valuer's firm, has in relation to those properties:
 - received an introductory fee or
 - negotiated that purchase on behalf of the client,

the valuer must not undertake that regulated purpose *valuation* of the property (or properties) unless another firm unconnected with the valuer's firm has provided a *valuation* of the property for the client at the time of, or since, the transaction was agreed.

Implementation

2 There are many circumstances where conflicts of interest may potentially arise (see **PS 2 section 3** and RICS' *Conflicts of interest*). These RICS professional standards deal with, among other things, the conflict that may arise where the valuer or firm could be involved in the introduction and acquisition of property by the client and in the provision of a Regulated Purpose *valuation* of the same property.

3 Where the particular circumstances specified occur, the valuer must ascertain whether an unconnected firm, which should be identified, has undertaken such a *valuation* for the client and must include a reference to that fact in the report.

UK VPS 3.2 Disclosures

Where a *valuation* is a Regulated Purpose *valuation*, the valuer must state all of the following in the report and any draft published reference to it:

- a in relation to the firm's preceding financial year the proportion of the total fees, if any, payable by the client to the total fee income of the valuer's firm expressed as either less than 5% or, if more than 5%, an indication of the proportion within a range of 5 percentage points and
- b where, since the end of the last financial year, it is anticipated that there will be a material increase in the proportion of the fees payable, or likely to be payable, by the client, the valuer must include a further statement to that effect, in addition to (a).

Implementation

1 In complying with this valuation standard, the valuer is not required to provide a comprehensive account of all work ever undertaken by the firm for the client. A simple, concise statement that discloses the nature of other work done and the duration of the relationship is all that is required. If no relationship exists other than the current *valuation* instruction, a statement to that effect should be made.

2 It may be both impractical and immaterial to establish and evaluate every relationship between the firm and every party connected with the instructing party. However, it is the valuer's responsibility to make reasonable enquiries to identify the extent of the fee-earning relationship with all parties having a material connection with the client, and to ensure that the principles of this standard are followed. Where there is a material connection or relationship, the disclosures required by this standard relate to

the relationship of the valuer's firm with all the parties involved and the aggregate fees earned from those parties.

3 The information required under item (a) of **UK VPS 3.2** should be expressed, when required, in the form of 'between [x]% and [y]%', with the difference between the two figures being no more than 5 percentage points.

4 The purpose of item (b) of **UK VPS 3.2** is to recognise that there may be circumstances where a significant increase in the proportions of fees is anticipated between the end of the previous financial year and the *date of the report*. Because detailed information on the proportion will probably not be readily available, the valuer will need to make enquiries and form a judgement as to the likely proportions to be disclosed.

5 Where a reference to a report is to be published, the statement for inclusion in the publication (see **VPS 3 section 2 paragraph 2.2(j)**) should refer to all the information given in complying with this valuation standard. A note of the enquiries made and the source of the information used in complying with this valuation standard must be retained in the file.

UK VPS 3.3 Rotation

1 Where a *valuation* is to be undertaken for a Regulated Purpose, the valuer **must** confirm in writing that a rotation policy is in place at their firm. In order to undertake the *valuation*, the valuer **must** be able to confirm to the client in agreed written *terms of engagement* (as an addition to **VPS 1**) that the period for which the client has procured UK valuation services from the valuer and/or valuer's firm for the same Regulated Purpose (the continual contractual relationship) does not exceed five years, and will not have exceeded it by the end of the new instruction. This is save for cases where there has been a break from valuation instructions for the same client for at least five consecutive years, or where at the fifth year or earlier a service review, which is defined below, has occurred, or where the transitional provisions below apply.

2 A service review must be undertaken by an external third party acting for the client such as an auditor or one of the following independent internal roles, (or a role of equivalent power and/or authority):

- a** a non-executive director
- b** an independent chair of the firm's audit committee
- c** a corporate compliance officer.

3 A service review allows the potential for an extension of valuation services by the firm (but not the same valuer) for up to a further three years, where the external reviewer or independent internal reviewer certifies in writing that there are no conflicts of interest or other matters that might materially impact the quality, accuracy or efficacy of valuation services. Only one service review is allowed prior to any five-year break

period. A contract may only be extended following a service review where the continual contractual relationship at the end of the extension will not exceed eight years.

Transition to valuer and firm rotation

4 The dates included in the following section are subject to the approval of the RICS Standards and Regulation Board and may be subject to change.

- From 1 October 2023 the valuer and firm rotation arrangements set out in **UK VPS 3.3** become mandatory. It prescribes a maximum five-year continual contractual relationship period for *valuation* services for a Regulated Purpose, with the option of up to a three-year extension period, subject to a successful service review. This is followed by a mandatory break of five consecutive years until the next permitted instruction of that valuer and/or firm.
- A regulated valuer and/or firm considering entering into a new contract or continuance of an existing contract for valuation services in respect of a Regulated Purpose on or after 1 October 2023, **must** take into account any pre-existing contractual relationship had by the valuer and/or valuer's firm with the client prior to 1 October 2023, in assessing their compliance with the new rules under **UK VPS 3.3**.
- Subject to the terms of the transitional provisions detailed below valuers and/or firms may complete existing contracts with clients that are ongoing on 1 October 2023.
- Where a valuer and/or valuer's firm as at 1 October 2023 is engaged in an existing valuation contract for a Regulated Purpose and that contract either may or must be brought to an end on or before 30 September 2026, the valuer and/or valuer's firm may extend the contract for one period not exceeding eighteen months without a service review having occurred, even where the continuing contractual relationship exceeds or will exceed eight years, without breaching the rotation policy, in order to allow an orderly rotation to a new valuation advisor.
- Where a valuer and/or valuer's firm as at 1 October 2023 is engaged in an existing valuation contract for a Regulated Purpose which ends on or after 1 October 2026 and the continuing contractual relationship will have existed for a duration of eight years or more at the contract end date, valuers and/or valuer's firms **must** ensure that the new rotation policy stated in **UK VPS 3.3** is applied by ending or varying the contractual relationship no later than 1 October 2026 to ensure that the continuing contractual relationship does not exceed five years, where they can do so within the terms of the contract (for example a valuer's without penalty break provision; or the exercise of a right to terminate on reasonable notice; or termination by agreement (this is not an exhaustive list)) and without unreasonable penalty.

UK VPS 3.4 Terms of engagement and instructions

1 In addition to the standards set out in Red Book Global Standards **VPS 1**, the valuer must verify that the instruction or draft instruction has been made with the approval of one of the following authorities from the client (or a role of equivalent power and/or authority):

- a a non-executive director
- b an independent chair of their audit committee or equivalent
- c a corporate compliance officer or equivalent.

This should be explicitly and expressly detailed within the final instructions and *terms of engagement* and clearly stated within the *valuation* report, including within any published version.

2 The valuer should also confirm with the client in agreed written *terms of engagement* whether any of the instructing client parties receive a direct fee or benefit as a result of the *valuation*, including, where relevant, its comparison to performance indices or other benchmarks. Where this is the case, it **must** be clearly stated within the *terms of engagement* and report, including any published version.

3 Where any instructing party, including in respect of draft instructions, is an RICS *member*, the valuer should highlight to the *member* their obligations under RICS' [Rules of Conduct](#) and the current edition of RICS' [Conflicts of Interest](#). Confirmation that this has been undertaken should be included within the *valuation* report, including any published version.

4 Permission for the valuer and their firm to use client data from the *valuation* for other valuation and business activities **must** either be expressly confirmed within the written *terms of engagement* otherwise there should be a written statement confirming such data will not be used for other valuation or business activities. The valuer **must** ensure that adequate data security is in place to safeguard inadvertent or inappropriate sharing of such data, internally or externally. Valuers are reminded of the confidentiality requirements contained in **PS 2 section 3** of Red Book Global Standards.

UK VPS 3.5 Preliminary advice, draft reporting, and client discussions

1 Valuers should be familiar with **PS 2 paragraphs 3.12–3.15** covering preliminary advice, draft reporting, and *valuation* discussions.

2 The requirements of **PS 2 paragraphs 3.14 and 3.15** are amended for UK regulated purpose valuations as follows, and are therefore mandatory.

3 To demonstrate that *valuation* discussions have not compromised the *member's* independence, a file note of discussions with the client on draft reports or *valuations* **must** include:

- the information provided, or the suggestions made, in relation to the *valuation*

- how that information was used to consider a change in material matters or opinions, and
- the reasons why the *valuation* has or has not been changed.

4 A file note can be digital or based on a transcript of recorded meetings but **must** be capable of being produced for appropriate third parties where needed. **The file note should be countersigned by a: non-executive director, independent chair of their audit committee, a corporate compliance officer or a role of equivalent power and/or authority, confirming that they have overseen the resulting changes.**

If requested, this record **must** be made available to auditors or any other party with a legitimate and material interest in the *valuation*.

5 When providing a *valuation* as part of a tendering process, valuers are reminded that Red Book Global Standards and those of this UK national supplement apply. In such circumstances, valuers should be mindful of the need to provide objective and accurate *valuation* advice and should not be swayed by the opportunity to win new business.

Part 4 UK Valuation Practice Guidance Applications (UK VPGAs) – advisory

UK VPGA 1 Valuation for financial reporting: general matters

Introduction

1 *Valuations* for the purpose of financial reporting, in other words *valuations* provided to clients for inclusion in *financial statements*, require particular care as the statements have to comply strictly with the current financial reporting standards adopted by the reporting entity. Although the *International Financial Reporting Standards* (IFRS) are now widely adopted, other financial reporting standards may still apply in individual jurisdictions. This section should be read in conjunction with VPGA 1.

2 In the case of the UK and the Republic of Ireland, company law recognises two financial reporting frameworks:

- a IFRS and
- b UK and Ireland Generally Accepted Accounting Practice (UK GAAP).

The Financial Reporting Council (FRC) is the body having statutory responsibility for issuing the relevant accounting standards under UK GAAP – these are designated Financial Reporting Standards (FRSs).

3 All UK based publicly listed companies are required to apply IFRS in the preparation of their group accounts, but may choose between IFRS and UK GAAP for the preparation of their individual parent accounts. Other entities have a free choice between the two frameworks, though in practice many larger unlisted entities also adopt IFRS. While valuers may increasingly find that they are asked to provide *valuations* for companies and other entities reporting under IFRS, this is by no means universal.

4 For many years now the FRC and the Auditing Standards Board (ASB) have had a policy of converging UK GAAP with IFRS, and as such the FRSs under UK GAAP have much in common with their equivalents under IFRS. Where appropriate, the commonalities as well as the detail differences are expressly signalled. Although the valuer's role will typically be focused on the provision of advice on '*fair value*' (as defined in the applicable accounting standard), some knowledge of the broader context is likely to be helpful.

5 The objective of *financial statements* is to provide information about the financial position and performance of a reporting entity, not only to satisfy the requirements of

the UK *Companies Act* 2006 and subsequent amendments (including regulations made under it), but also to inform the decision-making process for a wide range of end users. Therefore, financial accounting information needs to be assembled and reported objectively. Third parties who rely on such information have a right to be assured that the data is free from bias and inconsistency.

6 The objectives set out in paragraph 5 are supported in relation to certain specialised industries or sectors through the issue of Statements of Recommended Practice (SORPs) by duly authorised UK bodies. Developed in the public interest, SORPs set out current best accounting practice and are intended to supplement the relevant accounting standards as well as certain other legal and regulatory requirements. As of July 2022 they cover financial reporting in relation to:

- authorised funds
- charities
- further and higher education
- investment trust companies and venture capital trusts
- limited liability partnerships
- pension schemes
- registered providers of social housing.

While reference is made to SORPs where relevant throughout this national supplement, their detailed content generally will not be relevant to the work of valuers, and so they are only lightly touched on in the guidance within this national supplement. The FRC website holds full details of all current SORPs.

7 It should be noted that accounting standards speak of ‘measurement’, namely the ‘process of determining the monetary amounts at which the elements of the financial statements are to be recognised’; the term ‘valuation’ is not used. For the sake of clarity, the material in this national supplement uses the term ‘valuation’ unless the particular context requires otherwise.

8 Valuers are strongly advised to clarify at the outset with their clients (and where appropriate with the client’s auditors) which accounting regime and standard applies, and the level and degree of valuation work and disclosure required to accompany the *valuation* in order to ensure that their client’s precise accounting needs are addressed. Valuers should refer as necessary to the standards current at the date to which the *financial statements* relate – the guidance here is not a substitute for the source material (in relation to which all references are as at July 2022) – but decisions on the

categorisation of an asset and on the 'measurement' basis to be used in any particular case are matters for the reporting entity's management.

9 Valuers should be aware that the auditor is required to check *fair value* estimates provided by the reporting entity prepared for inclusion in the *financial statements*. UK VPGA 9 Relationship with auditors, provides further details regarding the relationship between valuer and auditor.

10 In certain specific contexts, e.g. takeover situations, there are special rules and regulations that apply that extend to the role of valuers. *Members* are reminded of the general requirement in **UK PS 1** to observe and comply with such obligations.

UK VPGA 1.1 Overview

1 UK VPGA 1 provides overall guidance to valuers who furnish advice to clients for the purpose of financial reporting. While focusing on the requirements of UK GAAP, the same general principles apply to financial reporting under IFRS and, for convenience, the corresponding International Accounting Standard (IAS) references are included where applicable.

2 Although the financial reporting regime to be followed is a decision for the reporting entity, the accounting standards to be adopted and the manner in which they are to be applied will be affected by whether the assets to be valued are private sector or public sector. In the case of public sector assets, generally the reporting regime is based on IFRS, with further refinements to the detailed requirements depending on whether the assets are held by central government, local government or the wider public sector. These issues are addressed in more detail in UK VPGA 4, 5 and 6. Financial reporting in relation to registered social housing providers is covered in UK VPGA 7 and charity assets is covered in UK VPGA 8.

UK Generally Accepted Accounting Practice (UK GAAP)

3 UK GAAP applies in the UK and the Republic of Ireland and does so in relation to *financial statements*, including any valuations that support them, in accordance with the Financial Reporting Standards issued by the Financial Reporting Council (FRC).

4 There are six Financial Reporting Standards in total:

FRS 100 Application of Financial Reporting Requirements

sets out and provides guidance on the overall reporting framework.

FRS 101 Reduced Disclosure Framework

permits disclosure exemptions from the requirements of UK-adopted IFRSs (as amended for the requirements of UK law) for certain qualifying entities.

FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland

introduces a single standard that seeks consistency with, but is not necessarily the same as, IFRS.

FRS 103 Insurance Contracts

consolidates existing financial reporting requirements for insurance contracts.

FRS 104 Interim Financial Reporting

FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime.

5 The material that follows provides an overview of the main financial reporting standards (with particular reference to FRS 102) but cannot cover all aspects of compliance by the reporting entity with them.

UK VPGA 1.2 Basis of 'measurement' for property, plant and equipment

Assets included in *financial statements* prepared in accordance with UK GAAP are measured on the basis of the cost model, the revaluation model, or the fair value model as defined in FRS 102.

1 An entity is required to 'measure' (in the accounting sense – see paragraph 7 of the introduction) all items of property, plant and equipment after 'initial recognition' (meaning broadly, on first inclusion in its accounts as a discrete, quantifiable asset of the entity) using either:

- a the cost model in accordance with FRS 102 section 17 paragraph 15A (IFRS equivalent is IAS 16 paragraph 30) or
- b the revaluation model in accordance with FRS 102 section 17 paragraphs 15B–15F (IAS 16 paragraphs 31–42) or
- c in the case of *investment property* (see paragraph 3) the fair value model unless fair value cannot be measured reliably without undue cost or effort.

Where the revaluation model is selected, this is to be applied to all items of property, plant and equipment in the same class (i.e. having a similar nature, function or use in the business).

2 FRS 102 (Glossary) defines property, plant and equipment as 'tangible assets that:

- d are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- e are expected to be used during more than one [*accounting*] period.'

FRS 102 section 17 paragraph 3 clarifies that property, plant and equipment does not include:

- a 'biological assets related to agricultural activity or heritage assets [see UK VPGA 1.4 in both cases] or
- f mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.'

For the IFRS definition of property, plant and equipment see IAS 16. While similar overall, there is no reference to heritage assets, and a distinction is drawn in relation to biological assets where 'bearer plants' are included in the definition but their produce is not.

3 FRS 102 (Glossary) defines 'investment property' as 'property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

- a use in the production or supply of goods or services or for administrative purposes, or
- b sale in the ordinary course of business.'

A property held under an operating lease may also be so classified in specified circumstances – see FRS section 16 paragraph 3. For the IFRS definition of investment property see IAS 40.

4 Further detail concerning asset classification for financial reporting is contained in UK VPGA 1.4, which also includes further guidance in relation to plant and equipment.

5 In terms of accounting treatment:

- a The cost model uses cost less subsequent depreciation and impairment losses (both accumulated) – FRS 102 section 17 paragraph 15A (IAS 16 paragraph 30). It should be emphasised that this is quite different from the *cost approach* as understood in valuation terms and should not be confused with it.

- b The revaluation model uses the fair value less subsequent depreciation and impairment losses (both accumulated) – FRS 102 section 17 paragraph 15B (IAS 16 paragraph 31).
- c The fair value model under FRS 102 section 16 paragraph 7 is for investment property whose fair value can be measured reliably without undue cost or effort and is then to be so measured at each reporting date.

6 The valuer's role will normally be confined to providing advice on *fair value* for the purpose of paragraph 5b and 5c. This may involve the *market approach*, the *income approach* or the *cost approach* according to the facts and circumstances of the case.

UK VPGA 1.3 Fair value

While the UK GAAP and IFRS definitions of *fair value* differ in detail, nevertheless in the majority of cases the figure to be reported will be the same.

1 Under UK GAAP, FRS 102 defines fair value as 'the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction'. Under IFRS, *fair value* is defined as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market sector participants at the measurement date' (see **VPS 4 section 7**).

2 But while *fair value* for financial reporting, whether under IFRS or under UK GAAP, is defined using slightly different language from that in the IVS *market value* definition (see **VPS 4 section 4**), the underlying concept is essentially the same. In most cases the figure to be reported as the *fair value* of an asset is also that which would be reported as its *market value*.

3 FRS 102 section 17 paragraph 15C specifies that in the case of land and buildings, fair value is usually determined from 'market-based evidence by appraisal that is normally undertaken by professionally qualified valuers'. Similarly, for items of plant and equipment fair value is usually their 'market value determined by appraisal'. Paragraph 15D provides that 'if there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a *depreciated replacement cost approach*'. Please refer to RICS' [Depreciated replacement cost method of valuation and financial reporting](#)..

4 Where items of property, plant and equipment are revalued using the revaluation model, the following disclosures are required under FRS 102 section 17 paragraph 32A:

- a 'the effective date of the revaluation

- b whether an independent valuer was involved
- c the methods and significant *assumptions* applied [...] and
- d for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model.'

5 Similarly, for *investment property* 'measured' using the fair value model, the *financial statements* must disclose (FRS 102 section 16 paragraph 10):

- a 'the methods and significant *assumptions* applied and
- b [whether the *valuation*] is based on a *valuation* by an independent valuer holding a recognised and relevant professional qualification with recent experience in the location and class of the *investment property* being valued.'

6 Valuers may be asked to assist by providing information for such disclosures, which could include key *assumptions* such as discount rates (yields), estimated rental values, void periods and future development costs. It is emphasised that a valuation report provided in accordance with **VPS 3** will normally include sufficient information concerning the methods used and any significant *assumptions* made to satisfy the disclosure requirements. Please also refer to UK VPGA 9 Relationship with auditors. Where there are portfolios of assets, auditors do not necessarily require a full valuation report for each asset, but the portfolio valuation report (and supporting schedules) need to contain enough information for auditors and should include more detail such as:

- comments on the 'main driver' behind the change in value since the last reporting period and what changes have been made
- reference to key comparables where proportionate and relevant, and
- a brief overview of the methodology adopted.

7 FRS 102 section 17 paragraph 15B permits some flexibility in the frequency of valuations using the revaluation model – they must be carried out with 'sufficient regularity' but this does not necessarily mean annually. However, for *investment property* 'measured' using the fair value model, a fair value is required at each reporting date (section 16 paragraph 7).

8 The unit of account will usually be an individual property. However, if the valuer is requested to value an entity within which the property is owned (a special purpose vehicle for example), this should be disclosed in the valuation report and the *valuation* should take account of all aspects of the entity being valued, such as any debt and other assets/liabilities in the entity and the taxation implications.

9 In the limited circumstances where a *special purchaser* other than the reporting entity can be identified, it is recommended that the client's attention is also expressly drawn to this and the *special value* separately reported or clearly identified and disclosed when reporting the fair value, as would be the case when reporting *market value* generally.

UK VPGA 1.4 Property categorisation

Valuers should look to the entity to specify the categories of property that should be valued. Valuers should then either report each of those values separately or provide a breakdown where an aggregated figure is reported.

1 Assets need to be categorised according to the accounting policies required or permitted by the applicable accounting standard. It is for the reporting entity to undertake that categorisation – the valuer will need to establish what categorisation has been determined, and also what *assumptions* (if any) need to be made.

2 The following table illustrates the different categories of asset, with additional explanation.

Financial statement classification	Examples of asset types – <i>certain additional information is below</i>	Accounting policies available
Property, plant and equipment (other than investment property – see below)	Owner-occupied property Own use plant and equipment Property fully-equipped as an operational entity and used by the owner	Cost or revaluation model
Investment property	Land and buildings held, or in the course of development, for rental income and/or capital appreciation	Fair value model (unless undue cost or effort)
Inventories	Assets held for sale in the ordinary course of business; in the process of production for such sale; or in the form of materials or supplies to be consumed in the production process or in the rendering of services	Cost (see paragraph 11 below)
Other (to be categorised according to the facts and circumstances)	Specialised property Options and other contractual rights that may be saleable and of value	According to classification

	Mineral resources	
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Table 1: Different categories of asset

Owner-occupied property

3 Owner-occupied property measured using the revaluation model will usually be valued on the basis of *fair value*. It may be necessary to apportion the total value reported between freehold, long leasehold (over 50 years) and short leasehold properties. This should be agreed with the entity at the outset.

Specialised activities

4 FRS 102 section 34 sets out the financial reporting requirements for entities involved in certain 'specialised activities', which for this purpose include:

- a agriculture
- b extractive activities and
- c heritage assets.

a) *Agricultural property*

5 Reporting entities engaged in agricultural activity must determine an accounting policy for each class of biological asset (defined as 'a living animal or plant') and its related agricultural produce – this can be either the *fair value* model or the cost model. If the entity chooses the former, it cannot then change to the latter.

6 Farming livestock is within the definition of biological asset. It should be noted that the treatment for *financial statements* will not necessarily accord with the treatment for taxation purposes.

7 Reference should be made to FRS 102 for further detail.

b) *Extractive activities*

8 Entities engaged in the exploration for and/or evaluation of mineral resources (extractive activities) will need to apply the requirements of IFRS 6 *Exploration for and Evaluation of Mineral Resources*. In doing so, references made to other IFRSs shall be taken to be references to the corresponding relevant section or paragraph within FRS 102.

9 Exploration and evaluation assets are initially measured at cost. They are classified as tangible or *intangible assets*, according to the nature of the assets acquired. After recognition, the exploration and evaluation assets are measured using either the cost model or the revaluation model.

10 As soon as technical feasibility and commercial viability are established, the assets are no longer classified as exploration and evaluation assets. IFRS 6 therefore does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral reserves (such as activities before an entity has acquired the legal right to explore, or after the technical feasibility and commercial viability to extract resources have been demonstrated). Activities and assets outside the scope of IFRS 6 are accounted for according to the applicable standards set out in FRS 102. For example, mineral bearing land or land suitable for waste disposal purposes will be measured in accordance with the cost model or revaluation model as per FRS 102.

c) Heritage assets

11 It should be noted that the definition of heritage assets for this purpose excludes *investment property*, property, plant and equipment or *intangible assets* that fall within the scope of sections 16, 17 or 18 of FRS 102.

Inventories

12 FRS 102 section 13 covers inventories defined (FRS 102 Glossary) as assets that are:

- a** held for sale in the ordinary course of business
- g** in the process of production for such sale or
- h** in the form of materials or supplies to be consumed in the production process or in the rendering of services.

This does not however include biological assets related to agricultural activity and agricultural produce at the point of harvest.

13 Inventories are measured at the lower of cost and estimated selling price less costs to complete and sell.

Property operating under statutory consents, permits or licences

14 Certain operations can be carried out only under statutory consents, permits and licences. Any *assumption* that operations will continue should be stated specifically in the report.

15 Where a business has been closed down and the property stripped of fixtures, fittings and furniture, it will normally be available for redevelopment, refurbishment or change of use. In such cases, it should be valued accordingly. If it is intended that the property will be reopened for the purposes of the business, its value for balance sheet purposes should reflect the additional costs that would be incurred compared with an existing, fully-operational property, and this should be explained in the report.

Land and buildings in the course of development

16 Where land and buildings in the course of development are to be revalued, they are to be included in the *financial statements* at their *fair value*.

Plant and equipment

17 Subject to the particular accounting policy of the reporting entity concerned, the valuer may be requested to consider the value of the plant and equipment assets as an integrated package of assets, as may be used by market participants, rather than just the sum of individual asset values. Therefore, any incompatibility of particular plant assets, imbalances between the capacity of different production sections, underutilisation, poor plant layout and similar functional obsolescence factors that may affect the overall efficiency of the manufacturing facility should be recognised and taken into account.

18 In the context of *fair value*, the assembled subject plant and equipment assets' core draft value (a term applied to an investment that, when added to the core assets of a diversified portfolio, can potentially increase the overall return of the portfolio with minimum exposure to risk) needs to be tested/adjusted for economic obsolescence (if necessary, often as part of/in conjunction with a wider business valuation/impairment study). In the event that the valuer does not wish to test/adjust core draft values for economic obsolescence, this should be explicitly agreed as such with the client and referenced in the *terms of engagement*.

19 In the absence of relevant and meaningful market evidence, the replacement *cost approach* is usually adopted. Net current replacement cost is normally established by depreciating the gross current replacement cost to reflect age and obsolescence to arrive at the value attributable to the remaining portion of the total useful economic working lives of the assets.

20 Gross current replacement cost is the total cost of replacing an existing asset with an identical, or substantially similar, new modern equivalent asset that has a similar production or service capacity, including costs of transport, installation, commissioning, consultants' fees and non-recoverable taxes and duties.

21 The depreciation applied on a systematic basis over the economic life of the asset should take account of the age, condition, functional and economic obsolescence of the asset.

22 Where suitable market evidence is available to the valuer, any cost based *fair value* should always be benchmarked with the cost of acquiring a similar assembled asset unit/facility (as defined by how market sector participants account for subject

assets) in the open market, taking due account of the costs of transport and installation, etc.

23 Although the *market approach* is usually considered prime under *fair value* measurement, the *income approach* should also be considered where appropriate. However, as it is usually difficult to identify and/or allocate an *income approach* to individual assets, adoption of this approach is usually the exception for plant and equipment assets.

24 Reference may be made to VPGA 5 for further guidance.

Options and other contractual rights that may be saleable and of value

25 In the case of options and other contractual rights, the valuer should discuss with the client the actual terms of the options or rights and the accounting classification to establish the precise nature of the *valuation* required.

UK VPGA 1.5 Reflecting ESG and climate-related matters in valuation and financial reporting

1 Corporate and investment requirements relating to sustainability; resilience; and environmental, social and governance (ESG) are some of the most important issues facing world financial markets and are rapidly emerging as important in the valuation of assets for financial reporting purposes. In a real estate context, these requirements influence investment approaches as they may affect prospects for rental and capital growth, and susceptibility to obsolescence. Some investors, occupiers and lenders may also have minimum requirements in order to transact.

2 As per VPGA 8 section 2.6 (c), Valuation of real property interests, valuers should have a working knowledge of the various ways that sustainability and ESG can impact value:

‘While valuers should reflect markets, not lead them, they should be aware of sustainability features and the implications these could have on property values in the short, medium and longer term.’

3 These may be physical risks, transition risk related to policy or legislation to achieve ESG and sustainability targets, or simply those reflecting the views and needs of market participants. The valuer should look at evidence from current market analysis, but may also need to consider issues such as longer-term obsolescence and risk. This may include, for example, the capital expenditure required to maintain the utility of the asset.

4 VPGA 8 section 2.6 also states that: ‘Particular care should be taken when assessing or commenting on ESG factors, as valuers may not have the specialist knowledge and experience required. In appropriate cases the valuer may recommend making further enquiries and/or the obtaining of further specialist or expert advice in

respect of these matters.' In such cases, a valuer must reflect these limitations in the terms of engagement or as part of the terms agreed to refer to additional specialist expert advice.

5 As well as referring to Red Book Global Standards, valuers should refer to RICS' [Sustainability and ESG in commercial property valuation and strategic advice](#), for further advice in this area.

6 Related to this but as a separate issue, is the growing need from investors and other stakeholders for companies to provide clear and transparent ESG-related disclosures or reporting relating to non-financial matters and their governance arrangements.

7 Globally there are several competing standards for ESG/sustainability reporting, however there has been a movement for some time towards a global standard. At the 2021 COP26 conference, the IFRS foundation announced the creation of the [International Sustainability Standards Board](#) and consulted on proposals that create a comprehensive global baseline of sustainability disclosures, Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft IFRS S2 Climate-related Disclosures.

8 In the UK, The Financial Reporting Council (FRC) has helped drive improved reporting in this area with recent publications available [via their website](#).

UK VPGA 1.6 Valuations based on depreciated replacement cost

1 The *depreciated replacement cost* (DRC) method of valuation is used where there is no active market for the asset being valued – that is, where there is no useful or relevant evidence of recent sales transactions due to the specialised nature of the asset. Please refer to RICS' [Depreciated replacement cost method of valuation and financial reporting](#).

2 It is important to understand that the word 'depreciation' is used in a different context for valuation than at the accounting stage of financial reporting. In a DRC valuation, 'depreciation' refers to the reduction, or writing down, of the cost of a modern equivalent asset to reflect the subject asset's physical condition and utility together with obsolescence and relative disabilities affecting the actual asset. In financial reporting, 'accounting depreciation' refers to a charge made against a client's income to reflect the consumption of an asset over a particular accounting period (see UK VPGA 1.10).

3 For detailed guidance on the *depreciated replacement cost* (DRC) method of valuation for financial reporting, including the various matters that need to be taken into account as part of the valuation process, *members* should refer to RICS' [Depreciated replacement cost method of valuation and financial reporting](#).

4 For inclusion in accounts prepared under UK GAAP or IFRS, the value is reported as being on the basis of *fair value* (or current value where that is the basis applicable to parts of the UK public sector – see UK VPGAs 4 and 5).

5 In order to comply with **VPS 3 section 2 paragraph 2.2 (l)**, a statement is required explaining that because of the specialised nature of property, the value is estimated using a DRC method and is not based on the evidence of sales of similar assets in the market. This statement matches a requirement in FRS 102 or IAS 16 for the client to include a similar statement in the published accounts.

In the private sector

6 A *valuation* of a property in the private sector using a DRC method should be accompanied by a statement that it is subject to the adequate profitability of the business paying due regard to the total assets employed. This is especially important in the context of DRC valuations, which may ultimately be provided for accounting statements under UK GAAP or IFRS, and which will require adjustments for economic viability/obsolescence and wider market metrics.

In the public sector

7 A *valuation* of a property in the public sector using a *DRC* method should be accompanied by a statement that the *valuation* is subject to the prospect and viability of the continued occupation and use, but attention must be paid to any wider public sector IFRS-related accounting regulations (see UK VPGAs 4, 5 and 6).

Comparison with alternative use values

Value materially higher

8 As part of the process of valuing any property, the valuer needs to consider if there is potential for an alternative use that would be reflected in the *fair value*. In the case of *specialised property* that can only be valued using the *DRC* method, any alternative use value is likely to relate only to the land because the buildings or other improvements may be unsuitable for any alternative use.

9 Where it is clear that a purchaser in the market would acquire the property for an alternative use of the land (as that use can be readily identified as generating a higher value than the current use and is both commercially and legally feasible) the client should be alerted and further instructions sought as necessary.

10 Realising a *fair value* based on an alternative use may be inconsistent with the going concern *assumption* upon which *financial statements* are normally prepared and, for the wider public sector, with its IFRS related accounting regulations. In addition, the costs that an entity might incur in closure or relocation could exceed any additional value that could be realised by an alternative use. Accordingly, an entity may request

advice on the value derived from the *DRC* method, which assumes the existing use will continue, and on the value on the basis of the alternative use to assist it in quantifying the extent of any redevelopment potential.

11 Frequently, the potential for an alternative use in the event of the specialised use being discontinued can be broadly identified, but the value for that use may not be reliably determined without significant research. For example, it may require the valuer to research into the prospects of obtaining statutory consents, the conditions that would be attached to those consents, the costs of clearance, the cost of new infrastructure, etc. In such cases a simple statement that the value of the site for a potential alternative use may be significantly higher than the value derived from using the *DRC* method will be sufficient, leaving the client to issue further instructions if it requires the more detailed work to be undertaken. If *valuations* are required on alternative *assumptions* these should be clearly stated.

Value materially lower

12 If the valuer considers that the value of the asset would be materially lower if it ceases to be part of the going concern, this should be drawn to the attention of the client. However, there is no requirement to report that figure.

Assessing the implications of possible closure

13 If the client wishes to establish the impact of possible closure of a specialised facility on the value of the assets employed, it may commission valuations to reflect the 'break-up', salvage or alternative use value of the asset. This would be a separate exercise and not part of the *DRC* valuation for inclusion in the *financial statements*. Any *valuations* provided would need to be on the *special assumption* that the client had ceased operations (see **VPS 4 section 9**).

UK VPGA 1.7 Costs to be excluded

The owner's directly attributable acquisition costs or disposal costs should not be included in the *valuation* of an asset on a *fair value* basis. Where asked by the client to reflect such costs, these should be stated separately.

1 In determining the initial figure to be entered into the balance sheet on the acquisition of a property (the 'carrying amount'), FRS 102 requires that directly attributable acquisition costs (such as legal costs and stamp duty land tax) where material, be added to the cost of the property itself. On subsequent valuation/re-valuation, such costs are not added to the valuation, reflecting only the actual estimated price in exchange that is paid between the parties for the asset.

2 Similarly, while an owner would incur costs if selling a property held either for operational or investment purposes, such costs are not deducted from the reported

value. The *fair value* estimate reflects the valuer's opinion of the amount that will appear in the hypothetical sale and purchase contract (see **VPS 4**).

3 The need to disregard transaction costs only applies to the hypothetical transaction on which *fair value* (or in the case of the public sector operational property, EUV) is based. Transactional evidence used in support of the valuation will reflect the realities of the relevant market and the impact of applicable costs and taxes on agreed prices. Valuers need to apply yields in the same way that transactional evidence is analysed or yields are reported. To avoid confusion, the valuer should clearly state when using the investment method that any yields quoted 'net of purchasers costs' reflect only how the market analyses transactions to compare yields on different investments and confirms the value reported equates to the estimated price in exchange. Purchaser's costs have not been explicitly deducted in the valuer's estimate of this price and therefore an auditor does not need to adjust the reported values by adding these back.

4 For certain accounting treatments, the reporting entity may need to include an estimated disposal cost where a property is held for sale or when measuring for impairment of property held at cost on the balance sheet. If a valuer is asked to advise on the potential selling costs these must be reported separately and should not be amalgamated with the reported value.

UK VPGA 1.8 Valuation date

Valuations for inclusion in *financial statements* are to be stated at the reporting date of the financial statement.

1 The *valuation date* for *valuations* prepared for inclusion in *financial statements* should be the reporting date of the financial statement.

2 Where a preliminary *valuation* is reported in advance of the *valuation*, it should be clearly marked as a draft and *members* are reminded that **PS 2 section 3**, particularly **paragraphs 3.10 to 3.15**, will apply.

3 For the treatment of events after the end of the reporting period, see UK VPGA 1.9.

UK VPGA 1.9 Events after the end of the reporting period

Where a *valuation* may be materially affected by events after the end of the reporting period, the valuer is required to refer to those events in the report and distinguish between 'adjusting' events (those that provide evidence of conditions that existed at the end of the reporting period) and 'non-adjusting' events (those that are indicative of conditions that arose only after the end of the reporting period).

1 Under FRS 102 section 32, an entity is required to adjust its statements to reflect adjusting events that occur between the end of the reporting period and the date when the *financial statements* are authorised for issue.

2 An adjusting event is one that provides evidence of conditions (favourable and/or unfavourable) that existed at the end of the reporting period. Examples might include the determination of a sale price of a property on the market or the settlement of a rent review.

3 Events occurring after the end of the reporting period that could not have been anticipated at that time (for example, if a property is destroyed by fire) are classified as 'non-adjusting events'. These are not to be reflected in any amendment to the *valuation* figure.

4 Where non-adjusting events could nevertheless influence the economic decisions of users taken on the basis of the *financial statements*, the entity is required to disclose the nature of the event and provide an estimate of its financial effect, or make a statement that such an estimate cannot be made.

5 Any request from a client to adjust a *valuation* prepared for inclusion in a *financial statement* to reflect new evidence needs to be treated carefully by the valuer. An adjustment should only be made if the valuer is satisfied that this evidence is truly reflective of a change in the market and/or is a matter that they had not already taken into account. The general principles set out in **PS 2 section 3** are relevant here.

UK VPGA 1.10 Leasehold interests and their classification

Where the interest to be valued is leasehold, it is vital that the exact nature of the interest is clarified with the client as appropriate and then confirmed and recorded in the *terms of engagement* and report.

1 It should be noted that UK GAAP and IFRS diverge on the treatment of leases. The changes introduced under IFRS 16 (effective for annual reporting periods beginning on or after 1 January 2019) have not yet been taken up by UK GAAP. However, valuers should be aware that IFRS 16 applies to FRS 101 – Reduced Disclosure Framework, which adopts the recognition, measurement and disclosure requirements of IFRS as adopted by the UK. For lessees, IFRS 16 removes the need to separate between finance and operating leases. However, for an intermediate lessee/lessor there is a distinction between operating subleases and finance subleases. Please refer to RICS' [IFRS 16: principles for UK real estate professionals](#).

Classification of leases

2 FRS 102 section 20 paragraph 4 determines the classification of a lease. The overarching principle behind the determination of whether a lease is a 'finance lease' or

an 'operating lease' is correctly establishing who bears the risks and rewards of ownership of the asset subject to the lease. It is therefore about the substance of the transaction and not the form of the contract.

3 When, substantially, all the risks and rewards incidental to ownership of the asset are transferred from the lessor to the lessee, this will give rise to a finance lease. The asset will appear on the company's balance sheet (statement of financial position) together with a corresponding finance lease creditor. Where the risks and rewards of ownership remain with the lessor, the lease is classified as an operating lease and rentals are charged to profit or loss as incurred.

4 FRS 102 section 20 offers five examples (paragraph 5) and three indicators (paragraph 6) of situations that individually, or in combination, would normally lead to a lease being classified as a finance lease. However, it is important to understand that the indicators are not exhaustive.

Lessee accounting – finance leases

5 Once a lease has been determined as a finance lease, on initial recognition Section 20 requires a lessee to recognise an asset, with an equivalent liability, at an amount equal to the *fair value* of the leased asset or, if lower, the present value of the minimum lease payments, which are determined at the start of the lease.

6 The asset that is recognised is subsequently accounted for in the same way as an owned asset. That is to say, it may be measured using the cost model or a *fair value* model according to its nature.

Lessor accounting – finance leases

7 Lessors recognise assets that are subject to finance leases in their balance sheet (statement of financial position) as financial assets. These financial assets cannot typically be revalued for accounting purposes.

Operating lease accounting

8 Leases classified and accounted for as operating leases may not require *valuation*. One exception is where they are being valued as part of a purchase price allocation upon a business combination.

9 Where an operating lease interest is held at a rack rent, or has a short term before expiry or before a review date to full rental value, the value (or in certain cases, the liability or negative value) to the business may not be material.

10 The valuer should discuss with the reporting entity whether or not these specific leasehold interests are to be valued. If they are omitted from a *valuation* of an entire

portfolio, the report needs to contain a reference to their omission on the grounds that their values are not material.

Group leases

11 Where a property is the subject of a lease or tenancy agreement between two companies in the same group, on arm's length terms and in accordance with normal commercial practice, it is acceptable to take account of the existence of that agreement when valuing the leased property.

12 However, on consolidation of the results and balance sheets of those companies into group accounts, the existence of the lease should be disregarded and the property valued as if occupied by the group company, but subject to other leases or licences to third parties.

13 If asked to produce a *valuation* that takes account of an inter-company agreement the valuer should disclose in the report the relationship between parties to the agreement, and should draw attention to the fact that a *valuation* taking full account of the lease would not be suitable for adoption in group accounts.

UK VPGA 1.11 Depreciation accounting

The following material provides guidance on the accounting concepts and practices governing the consideration of depreciation and associated apportionments for the purposes of *financial statements* prepared under UK GAAP. Similar accounting principles are also applied under IFRS.

Valuers should be aware that entities reporting under FRS 101 (Reduced Disclosure Framework) should in general follow the principles and *basis of value* of IFRS for accounting measurement.

Depreciation – an overview

1 Depreciation, in a financial reporting context, should not be confused with depreciation adjustments made in the course of *valuation*, for instance in a *depreciated replacement cost valuation* (see UK VPGA 1.6). Depreciation for accounting is the reduction of the stated value of an asset in a financial statement staged over its 'useful life'. Components of an asset that have a cost that is significant in relation to the whole are required to be depreciated separately. Components that have a similar useful life and that are depreciated in a similar manner may be grouped. In order to establish the appropriate depreciation charge it is necessary to establish the useful life of the asset (or a component thereof) and the 'depreciable amount'. The depreciable amount is the difference (if any) between the 'carrying amount' and the 'residual value'. These terms are explained in detail in paragraph 19. While the valuer may be called on to provide input, it is the accountant who calculates the provision for depreciation based on the

'carrying amount' of the asset, or an apportionment if required. Impairment of the asset will also be considered by the accountant as appropriate (see UK VPGA 1.12).

2 More specifically, for the purpose of financial reporting depreciation refers to a charge made against income to reflect the use of the asset over its 'useful life' (defined in FRS 102 and IAS 16 as 'the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity'). This may not be the same as the asset's economic life applied for valuation purposes, which is the number of years in which the asset returns more value to the owner (or successor for the same purpose) than it costs to own, operate and maintain. A difference between the two can and will arise if the asset management policy of an entity involves the disposal of assets after a specified time or after the consumption of a specified proportion of the future economic benefits embodied in the asset.

3 While this guidance focuses particularly on land and buildings, the same general principles apply equally to plant and equipment.

4 FRS 102 (and IAS 16) requires that depreciation should be allocated on a systematic basis over the future useful life of a fixed asset. The depreciation method adopted should reflect, as fairly as possible, the pattern in which the asset's economic benefits are consumed by the entity.

5 The future useful life of an asset is described in terms of either time periods or production/other measurable units. All buildings have a limited life due to physical, functional and environmental changes that affect their useful life to the business. While routine servicing and repairs can be reflected, material extension of the useful life of the asset arising from capital expenditure on significant refurbishment or the replacement of components must be disregarded until such time as that expenditure is incurred.

6 As depreciation is normally only applied to the building element, an apportionment of the total value of the asset may or will be required – see paragraph 21.

7 In normal circumstances depreciation is not applicable to freehold land. Exceptions to this include land that has a limited life due to depletion (for example, by the extraction of minerals), or that will be subject to a future reduction in value due to other circumstances. One example would be where the present use is authorised by a planning permission for a limited period, after which it would be necessary to revert to a less valuable use.

8 Leasehold assets must, by their nature, have a limited life to the lessee although the unexpired term of a lease may exceed the life of the buildings on the land. Any

contractual or statutory rights to review the rent, or determine or extend a lease, should also be considered.

9 The assessment of the remaining useful life of the asset and accounting depreciation are the responsibility of the directors of the entity (company), or their equivalent in other organisations. However, the valuer may expect to be consulted by the entity on matters concerning remaining physical and economic life, which are relevant to the assessment.

10 The valuer may also on occasion be asked to provide useful economic life figures for the entity's consideration subject to being supplied with information on future operational plans for the asset.

Useful life

11 As explained in paragraph 2, the future useful life of a tangible fixed asset is the period during which the entity in whose accounts the asset is carried expects to derive economic benefit from that asset, reflecting the remaining economic service delivery potential of its constituent components that are in situ on the relevant *valuation date*. As future replacement of components is not recognised, this is not the same as the total period of time an entity intends to remain in occupational use of an asset, sometimes referred to as 'service delivery lifespan' or 'design life'. If there is an expectation that the asset will be sold before the end of its physical or economic life, the useful life will be shorter. Useful life for accounting depreciation cannot normally be longer than the physical or economic life that is applied for valuation purposes and may well be shorter.

12 The limited circumstances in which the remaining useful life of an asset may exceed its remaining economic life is where the entity considers some of an asset's shorter life components to be insignificant for accounting purposes and can be treated as immaterial to the overall asset for accounting depreciation purposes. Consequently, because subsequent expenditure on their replacement can be treated not as capital spend but instead charged to revenue in the year in which it occurs, these components can be given a longer useful life that reflects in advance their future replacement. However, the consequent impact on the asset's overall level of depreciation and overall remaining useful life will always be relatively small; if there were to be a substantial impact, it would indicate that those components were not in fact immaterial in terms of their individual or cumulative impact on the overall asset, either in cost or lifespan terms, and therefore should not have been so treated.

13 Many of the concepts used by a valuer to determine obsolescence adjustments when reaching a view as to the remaining economic life for valuation purposes are the same as those used to determine the remaining useful life for accounting depreciation

purposes, but the exercises remain distinct. Only the latter will reflect the entity's policy on future disposals.

14 Where asked to provide information to assist the entity to determine the useful life of an asset, the valuer will need to take into account:

- a** Physical obsolescence – the age, condition and probable costs of future maintenance (assuming prudent and regular maintenance) but not capital expenditure (see paragraph 5).
- b** Functional obsolescence – suitability for the present use, and the prospect of its continuance or use for some other purpose by the business. In the case of buildings constructed or adapted for particular uses, including particular industrial processes, the valuer will need to consult with the directors to ascertain their future plans.
- c** Economic obsolescence – a loss in value to a property caused by factors external to the property itself.
- d** Environmental factors – existing uses need to be considered in relation to the present and future characteristics of the surrounding area, local and national planning policies, and restrictions likely to be imposed by the planning authority on the continuation of these uses.
- e** Information supplied by the entity on its policy for future disposals.

15 The policy on future disposals, and in particular whether there is any policy or intention to dispose of assets before the end of their natural economic benefits lifespan, is a matter for the reporting entity and not for the valuer, even though the valuer may provide input.

16 For most multi-block sites comprising a number of separate buildings, for example a school, hospital or military base, each building will usually have its own remaining useful life. This recognises that piecemeal redevelopment is usually possible and not unusual. In circumstances where there is a strong interdependency present, such as may occur in an industrial process factory complex, for example oil refinery buildings, they may be grouped and a single useful life allocated to all buildings in each group. Such an approach can be justified by the fact that it is normally uneconomic to carry out piecemeal redevelopment in these circumstances and the life of individual buildings can usually be extended within reasonable limits by a higher standard of maintenance or minor improvement. It would not be appropriate to group buildings if they are used for different industrial processes with different accommodation

requirements, or where the entity expressly requires each building to be considered individually.

17 If consulted on the remaining useful life of leasehold assets, the valuer will need to consider the duration of the lease, any options to determine or extend, the date of the next rent review and whether this is to the full, or a proportion of, market rental value.

18 Where the valuer is requested to provide advice on the remaining useful life of an asset for accounting depreciation purposes, the use of 'banding' will not normally be sufficient for the entity's purposes. Achieving appropriate accuracy can however be difficult and it may in some instances be useful to seek the assistance of a building surveyor.

The depreciable amount

19 The following definitions from FRS 102 are relevant:

- the carrying amount is 'the amount at which an asset or liability is recognised in the statement of financial position' (in IAS 16 'the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses')
- the depreciable amount is 'the cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value' (in IAS 16 the explanatory words in brackets are omitted) and
- the residual value is the 'estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life' (in IAS 16, the definition is the same).

20 An entity may ask the valuer to provide an estimate of residual value in order to calculate the depreciable amount. It should be determined using a basis consistent with that used to determine the carrying amount of the asset. For example, where an asset is valued at *fair value*, the residual value should also be measured on a *fair value* basis. Where the residual amount is material, it should be reviewed at the end of each accounting period.

21 Where the 'useful life' of the asset is considered to be equal to the physical or economic life that is applied for valuation purposes, the valuer will need to consider whether the residual value will relate to a bare site value less relevant costs, or whether the existing buildings or other site improvements will have some continuing value, for example, for refurbishment.

22 In other cases, where the asset will become surplus or be disposed of before the end of its physical or economically useful life, the residual value will reflect the continuing life of the asset beyond the date at which the directors anticipated disposal.

Depreciation of a wasting asset

23 Provision of depreciation for a wasting asset is not primarily the concern of the valuer. Generally, the depreciable amount will be the difference between the present and the 'after-use' value, but associated costs, such as restoration costs, may also need to be taken into account. The future useful life will be assessed by the entity once it is advised of the life that the valuer has assumed for the purposes of the *valuation*.

Apportionment between land and buildings – general

24 The principle of apportionment of apportioning the value or cost of operational property between land and buildings is common to both IFRS (IAS 16 para 57–58) and UK GAAP (FRS 102 section 17 paragraph 8). For depreciation purposes land and buildings are considered to be separable assets, and an entity shall account for them separately, even when they are acquired together.

25 IAS 16 provides that land usually has an unlimited useful life and is not subject to accounting depreciation whereas buildings have a limited useful life and are subject to accounting depreciation. It also states that an increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

26 The useful life of a building is the useful life to the entity, not its economic or physical life. IAS 16 explains that an asset's expected utility drives useful life. Consequently, where an entity plans to permanently close their operations in a specific building before the end of its physical or economic life this will be the period over which the apportioned cost or value of the building must be depreciated.

27 The land and building apportionment figures are hypothetical in nature as the individual parts of such an operational property are either incapable of being, or are not normally, separately valued and marketed. Therefore, the valuer will need to emphasise in their valuation report that the land and building apportionment figures are derived solely for accounting purposes, and do not represent formal valuations of the individual elements.

28 Because of the hypothetical nature of the appointment and the need to reflect the occupying entity's future requirements for a building, there is no empirically correct approach that a valuer should always adopt. Some common approaches used are summarised below. It is always beneficial to carry out a final 'stand back and look' sense check of the outputs.

- a **The valuer uses the prevailing land value to apportion land/buildings:** the land value is based on comparable market evidence and/or a residual appraisal. The building apportionment is the remainder of the property value. In instances where existing use constrains overall property value care should be taken not to overstate the land value thereby understating the building apportionment.
- b **The valuer uses building value based on DRC to apportion buildings/land:** usually not the favoured way of apportioning value as it is time-consuming, complex and applies a method of valuation for the buildings usually only applied to specialised uses. Where existing use constrains overall property value, applying this DRC method can lead to an over-allocation to the building apportionment.
- c **Apply a percentage approach for land and buildings apportionment:** based on experience backed up by sound analysis of relevant evidence. Any percentage balance applied to the land and buildings will not be fixed over time and will change as a building ages and advances towards the end of its economic life. Change may also occur because of new capital expenditure incurred on the buildings.

29 The valuer should make it clear that in assessing the depreciable amount, the availability of government grants should be ignored, leaving the entity to make any appropriate adjustments.

30 The inclusion or exclusion of plant and equipment in a *valuation* of land and buildings should normally follow UK VPGA 5, Valuation of plant and equipment.

31 The relevant date is the effective *valuation date* or date of apportionment.

32 In the case of leasehold land and buildings, the total value will be the depreciable amount, except where the lease is likely to continue beyond the remaining useful life of the asset.

33 The valuer should make it clear that in assessing the depreciable amount, the availability of government grants should be ignored, leaving the entity to make any appropriate adjustments.

34 The inclusion or exclusion of plant and equipment in a *valuation* of land and buildings should normally follow VPGA 5, Valuation of plant and equipment.

Apportionments in respect of property that comprises only part of a building

35 Special care is recommended in dealing with the apportionment of value in respect of property that comprises only part of a building (of particular relevance in Scotland), with the remaining parts being separately owned by one or more other

proprietors. This need for care is particularly relevant in considering the residual amount representing the value of land.

36 It is commonplace in Scotland for premises to be owned in perpetuity, even though those premises do not exclusively occupy the land on which they are situated. A building can contain various proprietors, and it is quite usual for this type of ownership to carry with it a common interest on the part of the various proprietors in certain sections of the building out with the actual premises occupied by them.

37 The presence (or otherwise) of other proprietors within the building, and the existence of common interest on their part, should be established as part of the examination of titles and other documentation prior to the completion of the *valuation*.

38 The valuer dealing with an apportionment of value in cases where common interest exists has to judge to what extent, if any, the apportionment and the residual amount in particular should be adjusted to allow for that common interest on the part of other owners in the building.

39 When dealing with property where there are other proprietors in the building, and where rights of common interest might exist, the apportionment of the *valuation* of the asset for depreciation purposes should be carried out by calculating the net current replacement cost of the building.

40 There might be cases where complications are encountered in defining or ascertaining the rights of the other proprietors in the building, but it is essential that if common interest exists, its effect is taken into account. If this is done, the valuer should be able to arrive at an apportionment where the depreciable amount fairly reflects the part of the *fair value* or cost of the whole property at the time it was acquired or valued. This can be expressed at that time as the value to the business of the buildings on the land. Similarly, the residual amount should properly represent the element of land value that could be realised.

Apportionments in relation to property valued as an operational entity

41 Where the *valuation* relates to property valued fully equipped as an operational entity, the *valuation* figures may need to be apportioned between:

- a land
- b buildings and
- c fixtures and fittings.

42 In relation to trading potential, recognised accounting practice suggests that it would not be appropriate to treat that associated with the property as a separate

component of the value of the asset if its value and life were inherently inseparable from that of the property (see also VPGA 4). The *valuation* of a property valued as an operational entity reflects the trading potential that the land and buildings, together with the trade inventory, can sustain in the hands of a reasonably efficient operator, assuming availability of licenses, etc. Trading potential is a property attribute that will exist within the land and buildings whether or not operational, though the impact on value will vary dependent on the facts (and whether trade has been established or not at such point). Trading potential included in the *valuation* is not an asset considered capable of separate identification or *valuation*. As a property attribute it is intrinsic to the land and the buildings and will be reflected in the values apportioned to those assets for UK GAAP purposes. The sums apportioned must comprise the total value.

Componentisation

43 FRS 102 section 17 paragraph 16 (and IAS 16 paragraphs 43-49) states: 'If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets shall be depreciated over their useful lives as a single asset.' Entities have a degree of flexibility as to their policy on what is termed componentisation, and although it will have no impact on the level of *valuation* reported by the valuer, the latter may be called on to assist in the componentisation process by apportioning on a cost basis their non-land *valuation* figures between components or component groupings and by recommending useful lives for each.

44 The mandatory requirements under FRS 102 (and IAS 16) are to depreciate separately each part of an asset with a cost that is significant in relation to the cost of the total asset. Those significant parts with similar remaining useful lives can then be grouped together. The remaining parts are also grouped together with approximation techniques applied to reflect the parts' differing economic benefit consumption patterns to arrive at a single overall estimate of appropriate useful life which can be applied to this remainder for accounting depreciation purposes.

45 As the extent of componentisation adopted by the entity may or will impact on what information is collected on *inspection*, when providing assistance a dialogue with the entity at the outset is essential to establish their requirements as regards:

- their materiality threshold level, below which an asset need not be componentised and
- their policy as to what constitutes cost significant.

46 It may usefully be noted that under IAS 16 paragraph 47, an entity can also elect to exercise their discretion and request componentisation of as many different parts of

an asset as they wish, regardless of whether they are cost significant or have different remaining useful lives. On occasion this can give rise to requests for the depreciable amount to be fully apportioned between multiple different components, although it is questionable whether this has any material impact on improving the accuracy of the asset's total accounting depreciation figure.

47 For a non-specialised asset that has not been valued on a cost basis, an apportionment into two groupings, i.e. structure and services, may suffice. The particular request may be influenced by any additional use to which the entity intends to put out the figures, such as asset management or planned maintenance.

48 It is considered that where the discretionary approach is required by the entity, it will usually be sufficient to split the depreciable amount of a specialised asset into a maximum of perhaps five or six component groupings, such as:

- a a substructure
- b superstructure
- c finishes
- d fittings and fixtures
- e engineering services and
- f external works.

49 In each instance, the resources devoted to componentisation could usefully have regard to the materiality of the effect on the accuracy of the overall asset depreciation and any additional use to which the entity intends to put the figures, such as asset management or planned maintenance.

UK VPGA 1.12 Impairment of assets

Overview

1 FRS 102 section 27 (and IAS 36) covers the 'impairment' of assets, a situation that arises where the 'carrying amount' (i.e. the figure at which the asset appears in the relevant financial statement) exceeds the 'recoverable amount' (i.e. the figure that could be recovered through the continuing use or sale of the asset). This could arise where, for whatever reason, an asset's *market value* has declined significantly more than would be expected as a result of the passage of time or normal use or trading.

2 The impairment loss that the reporting entity must then recognise is the amount by which the 'carrying amount' of the asset exceeds:

- a in the case of inventories, its selling price less costs to complete and sell or
- b in the case of other assets, its recoverable amount (which is the higher of (1) the asset's *fair value* less costs to sell and (2) its value in use).

3 The 'value in use' is defined as the present value of the future cash flows expected to be derived from an asset. The use of the word 'value' in the expression 'value in use' does not mean that a property valuer is necessarily competent to determine the figure as there are particular rules in FRS 102 that need to be applied. The term should therefore not be regarded as an alternative *valuation* basis for fixed assets and should not be used by valuers when preparing *valuations*.

4 It should be noted that *investment property* measured at fair value, and also biological assets related to agricultural activity measured at *fair value* less estimated costs to sell, are not covered by FRS 102 section 27.

5 For entities reporting under FRS 101 (where reporting to an IFRS group entity) there may be impairment issues created by IFRS 16 where a Right of Use Asset is overrented. Valuers should refer to RICS' [IFRS 16: principles for UK real estate professionals](#).

UK VPGA 1.13 Publication statement

Valuers are reminded of the mandatory requirement in **VPS 3 section 2 paragraph 2.2(j)** that where the purpose of the report requires a published reference to it, the valuer has to provide a draft statement for inclusion in the publication.

The following examples are intended to be illustrative only of the degree of detail required for published references to *valuation* reports. The valuer will in all cases need to have due regard to the requirements of **VPS 3 section 2 paragraph 2.2(j)** and produce a statement that properly reflects the scope and nature of the asset valued.

1 Valuation by an independent valuer

The company's freehold and leasehold properties were valued as at 1 January 2022 by an external valuer, John Smith, FRICS of Alpha Chartered Surveyors. The valuations were in accordance with the requirements of the *RICS Valuation – Global Standards 2022* (which incorporate the *International Valuation Standards 2022*) and the *UK national supplement* and FRS 102 *The Financial Reporting Standard* applicable in the United Kingdom and Republic of Ireland (and any other regulatory requirements).

The valuation of each property was on the following bases of value and *assumptions*:

- owner-occupied property: valued to fair value assuming that the property would be sold as part of the continuing business

- *investment property*: valued to fair value (FRS 102 section 16 or IFRS 13) assuming that the property would be sold subject to any existing leases

(Note – measurement at fair value in FRS 102 is only required if this can be established ‘without undue cost or effort’, and if this is not possible the property is treated as if it were normal property, plant and equipment (that is, held at cost less depreciation) as set out in FRS 102 section 17.)

- surplus property and property held for development: valued to *fair value* assuming that the property would be sold with vacant possession in its existing condition.

The valuer’s opinion of *fair value* was primarily derived using (include as appropriate):

- comparable recent market transactions on arm’s length terms
- *depreciated replacement cost approach*, because the specialised nature of the asset means that there are no market transactions of this type of asset, except as part of the business or entity
- an estimate of the future potential net income generated by use of the property, because its specialised nature means that there is no market-based evidence available.

Similar comments may be appropriate where the valuation is of plant and equipment or mineral bearing land.

A full and comprehensive statement regarding disclosures (agreed with the entity and recorded in the *terms of engagement*) should be made in accordance with **VPS 3** and **UK VPS 3.2**.

2 Valuation by an internal valuer

The statements will essentially be the same as those for *valuations* by an *independent valuer*, except for the following variations of the first sentence:

The company’s freehold and leasehold properties were valued by an internal valuer, John Smith FRICS, the company’s Property Director, as at 1 January 2022.

The company’s freehold and leasehold properties were valued as at 1 January 2022, by the directors in conjunction with the company’s own professionally qualified staff.

Where appropriate, at the end of the statement, the following variation may be included:

A representative sample of properties was also valued on the same basis by external valuer, ABC Chartered Surveyors, who confirmed that values proposed by the

company's professionally qualified staff are at level(s) consistent with its own figures.

UK VPGA 2 Valuations for other regulated purposes

UK VPGA 2.1 Valuation for listings and prospectuses

Valuation reports for inclusion in prospectuses and circulars to the shareholders of UK companies should be prepared in accordance with the guidance below.

Valuations for this purpose are regulated purpose *valuations* (see **UK VPS 3**) and the various disclosure requirements will apply.

Valuers are reminded that responsibilities to third parties, whether existing shareholders or potential investors, arise as described below and that in those circumstances they are precluded from capping or limiting their liability.

1 In the UK, the Financial Conduct Authority (FCA) is the competent authority for listing pursuant to Part VI of the *Financial Services and Markets Act 2000* and is responsible for:

- the Prospectus Rules, which set out rules and guidance for companies seeking FCA approval to publish a prospectus, originally pursuant to EU Directive 2003/71/EC ('the Prospectus Directive' (PD)) and European Commission Regulation 809/2004 ('the PD Regulation') and
- the Listing Rules, which set out rules and guidance applicable to companies admitted, or seeking admission, to the Official List of the FCA (UK-listed companies) and which include, among other things, rules governing the contents of circulars issued by UK-listed companies to their shareholders.

Valuers are reminded that the legislative and regulatory framework is extensive and will continue to evolve – the references above are not intended to be comprehensive.

2 UK VPGA 2 is supplementary to **VPS 3**. It does not replace **VPS 3**, but provides guidance on the content of reports prepared for this purpose. Where the *valuation* is of a portfolio of properties, VPGA 9 is relevant.

3 Where a company is issuing a publication under either the Prospectus Rules or the Listing Rules, there are specific requirements regarding the content of any valuation report included in that publication which derive from the RICS Appraisal and Valuation Standards (5th edition) (the Red Book). It is recognised that the reports in their entirety may be substantial documents and therefore in certain circumstances, and at the discretion of the UK Listing Authority, the key content may be published in a condensed form, though the full report must still be available on display for those wishing to access it. A condensed report must still provide sufficient information to enable potential

investors to make an informed decision. It will also need to be distinguished from a publication statement under **VPS 3 section 2 paragraph 2.2(j)**.

Reports for inclusion in prospectuses

4 Property companies seeking FCA approval, under the FCA Prospectus Rules for the publication of a prospectus, must include a property valuation report by an expert valuer in the prospectus. However, the report may be in a condensed form. Property companies are defined as those issuers whose principal activity is the purchase, holding and development of properties for letting and retention as an investment.

5 A condensed valuation report may also be included when the prospectus relates to a 'property collective investment undertaking', which is a collective investment undertaking whose investment object is the participation in the holding of property long term.

Reports for inclusion in circulars

6 When a UK-listed company proposes an acquisition or disposal of property, and the transaction is classified under the FCA Listing Rules as a class 1 transaction (where the size of the transaction is 25% or more of the value of the company), the company must seek shareholder approval. It must include a property valuation report by an expert valuer in the circular to shareholders. The company decides the classification of the transaction, but full definitions may be found in the FCA Listing Rules.

7 A UK-listed company must also include a property valuation report where it makes significant reference to the value of property in a class 1 circular to shareholders.

Status of the valuer

8 The valuation report is to be prepared by an independent expert. An *external valuer* as defined in the *Glossary* meets this requirement.

9 The independent expert will need to disclose any material interest in the issuer. A material interest includes the following circumstances:

- a** ownership of securities issued by the issuer or any company belonging to the same group, or options to acquire or subscribe for securities of the issuer
- b** former employment of, or any form of compensation from, the issuer
- c** membership of any of the issuer's bodies and
- d** any connections to the financial intermediaries involved in the offering or listing of the securities of the issuer.

10 It is the issuer's responsibility to consider if the information provided will result in a material interest, taking into account the type of securities offered. The issuer is

also responsible for clarifying that these securities have been taken into account, in order to fully describe the material interest (if any) of the expert, to the best of the issuer's knowledge.

11 The valuer and the valuer's staff will need to be aware of the [Criminal Justice Act 1993](#), Part V – Insider dealing, and the valuer is responsible for ensuring compliance with the law. In cases of doubt, legal advice should be sought.

12 A valuer who attends meetings with clients and other advisers (such as lawyers, stockbrokers, accountants and investment bankers) should be aware of assuming any role that could be regarded as that of a 'financial adviser' within the provisions of the [Financial Services and Markets Act 2000](#). If this were the case, the valuer would need to be a registered *member* of a relevant professional regulatory organisation. Although the role of a valuer would not normally fall within the definition, an extended involvement could lead to this – for example, in providing forecasts or commenting on them. If valuers have any doubt about their position, they should take legal advice, preferably before attending any meeting.

Valuation requirements: the Prospectus Rules

13 The *basis of value* for the FCA Prospectus Rules is *market value*.

14 Where the issuer is a property company resident in the UK, a valuation report must be included in the prospectus, but – as referred to in paragraph 3 – it can be in a condensed form.

15 The effective *valuation date* can be up to one year prior to the date of publication of the prospectus, provided that the issuer affirms in the prospectus that no material changes have occurred since the *valuation date*. If the valuer has previously provided a *valuation* for accounting purposes and the date of that *valuation* is within the time limit, the condensed report will relate to that valuation and no additional valuation is required.

16 Where the issuer is not able to affirm that no material changes have occurred, the effective *valuation date* must be at the latest practical date. Where the material change relates to only part of the issuer's portfolio, only that part needs to be valued at the latest practical date.

17 Where the report to be published includes information considered by the issuer to be commercially sensitive, the issuer may decide to delay disclosure of that information, which is acceptable, subject to compliance with the applicable provisions of the Market Abuse Regulation, provided its omission will not mislead the public. In such cases the valuer may amend the report appropriately, but will need to make a reference

to the omission and state that this has been done on the express instructions of the issuer.

Valuation requirements: the Listing Rules

18 The *basis of value* for the FCA Listing Rules is *market value*.

19 Where the property holdings are very extensive, the valuation report to be included in the publication may be in a suitably condensed format.

20 The effective *valuation date* is required to be within 42 days of the date of the circular. The report is to be dated the same day as the circular is issued, or the same day as any other documents that will be incorporated.

Framework for condensed reports

21 A condensed report need not include descriptive details of the properties, but will need to include certain minimum information. Table 1 reproduces the minimum reporting requirements set out in **VPS 3** with which valuers will be familiar together with a number of additional matters specific to the preparation of reports under the Prospectus Rules and Listing Rules (referred to simply as ‘the Rules’), with the intention of forming a ‘checklist’ that valuers may find useful.

VPS 3 heading	Comment
Identification and status of the valuer	<p>The report will need to confirm the valuer is acting as an external valuer and as an independent expert under the Rules.</p> <p>The statement that the valuer has the knowledge, skills and understanding to undertake the valuation competently should be made in this section.</p> <p>As this is a regulated purpose valuation, the disclosures highlighted in UK VPS 3 will need to be included.</p>
Identification of the client and any other intended users	<p>The report will need to be addressed to the client, or its representatives; and as appropriate to the sponsor, underwriter(s), etc.</p>
Purpose of the valuation	<p>This may, where appropriate, include a comment that the report is a condensed version prepared for the relevant Rules.</p>
Identification of the asset(s) or liability(ies) to be valued	<p>A brief overview of the asset(s) being valued is required, i.e. the number of interests involved, whether freehold or leasehold, type (e.g. retail, industrial, leisure), location (e.g. throughout UK, in central London),</p>

	address(es) and whether held as investment(s), for development or for owner occupation.
Basis(es) of value adopted	The basis of value is <i>market value</i> .
Valuation date	This needs to be within one year of the publication date for a prospectus and 42 days for a circular.
Extent of investigation	The report will need to record the date(s) and extent of the inspection(s) undertaken.
Nature and source(s) of the information relied upon	<p>The report should be explicit as to what information has been provided (and best practice would be to record any information that was requested but not provided).</p> <p>Valuers should also include any additional information that has been available to, or established by, them that they believe to be crucial to the reader's ability to understand and benefit from the <i>valuation</i>.</p>
<i>Assumptions and special assumptions</i>	<p>All <i>assumptions</i> need to be stated together with any reservations that may be required (see VPS 4 section 8). Where property is located in more than one state, any variation of <i>assumptions</i> in each state must be made clear.</p> <p><i>Special assumptions</i> (VPS 4 section 9) will need to be clearly stated and confirmed as agreed with the client. In such instances, the value without such <i>special assumptions</i> must also be reported.</p> <p>Where the valuation reflects marketing constraints (VPS 4 section 10), restricted information (VPS 3 section 2 paragraph 2(h)) or limited inspection (VPS 3 section 2 paragraph 2(g)), the report will need to include full particulars.</p> <p>Any <i>departures</i> from the standards will need to be stated and explained (PS 1 section 6).</p>
Restrictions on use, distribution and publication of the report	<p>The condensed report will be published in its entirety, but it may be proper to reserve the valuer's rights to the material being reproduced or referred to in any other document.</p> <p>For prospectuses, the report should not include any disclaimer to the effect that liabilities to the third parties are excluded.</p> <p>For circulars, the report may include a disclaimer to the effect that liabilities to third parties are excluded but may not disclaim responsibility to the company, its directors or its shareholders.</p>

	<p>A statement that the report may not be used for any other purpose than that stated may be included, provided that the purpose of the valuation report is clearly stated in the report as being for inclusion in the issuer's prospectus.</p>
Confirmation that the valuation has been undertaken in accordance with the IVS	<p>Where the report is for inclusion in a prospectus and the company has adopted IFRS, confirmation is also required that the valuation accords with these standards and with International Valuation Standards.</p>
Valuation approach and reasoning	<p>No additional comment – this is as per VPS 3 section 2 paragraph 2(l).</p>
Amount of the <i>valuation or valuations</i>	<p>The <i>valuations</i> are to be summarised in the same categories determined under VPS 3 section 3 paragraph 2(d), identifying separately freeholds and leaseholds. Any negative values (liabilities) will need to be reported separately.</p> <p>The aggregate values and numbers of properties in each category are to be stated. Where the value of any individual property amounts to more than 5% of the aggregate valuation, the property will need to be specifically identified and the individual value disclosed.</p> <p>The currency that has been adopted must be clearly stated and, if translated into a currency other than that of the country in which the asset is located, the basis of the exchange rate.</p> <p>It may be appropriate to state that further details of individual properties are available for inspection, or on request, if this has been agreed with the client.</p> <p>Subject to any agreement that certain property information is to be kept confidential, the report should not omit information that would assist the reader to interpret the <i>valuations</i>. The following disclosures may therefore need to be made, as appropriate:</p> <ul style="list-style-type: none"> inclusion of a statement about the extent to which the values are supported by market evidence, or are estimated using other valuation techniques (which should be disclosed) because of the nature of the property, limited transactions or any combination of these factors

	<ul style="list-style-type: none"> • where <i>special assumptions</i> have been made, alternative figures – such as a <i>valuation</i> without the <i>special assumption</i> – may be required to illustrate their effect and • for property in the course of development, making clear that the market value will reflect the value of the completed property, assuming that it had been completed at the <i>valuation date</i>, less the anticipated costs to complete, including the costs of finance and other holding costs. <p>Statements may also need to be made as to whether or not:</p> <ul style="list-style-type: none"> • any allowance has been made for liability for taxation that may arise on disposal, whether actual or notional • the <i>valuation</i> reflects costs of acquisition, disposal or reorganisation.
Date of the <i>valuation</i> report	The date of the report is to be the same as the date of issue, or such other date that is the same as any other documentation to be published.
Commentary on any material uncertainty in relation to the <i>valuation</i> where it is essential to ensure clarity on the part of the valuation user	This requirement is mandatory only where the uncertainty is material. For this purpose, 'material' means where the degree of uncertainty in a <i>valuation</i> falls outside any parameters that might normally be expected and accepted.
A statement setting out any limitation on liability that have been agreed	See above. Great care is required to ensure that any limitations on liability within the report – summarised or otherwise – are compliant with the FCA Listing Rules and Prospectus Rules.

Table 1: Minimum reporting requirements

22 Valuers requiring further information about the regulatory requirements may access the full text of the rules through the FCA website.

23 Valuers may be requested to provide *valuations* for inclusion in an application for admission to the Alternative Investment Market (AIM). On initial application, the company is required only to reveal the value of property as shown in its latest accounts.

The values do not have to be current unless they are shown as such in the accounts. Where the valuer is requested to provide current *valuations*, these will need to be provided in accordance with the particular accounting standards that the company has adopted. For that purpose, either VPGA 1 or UK VPGA 1 will apply. However, where the company has been listed on the AIM for at least 18 months, the publications will need to comply with the FCA Rules and these *valuation* guidelines.

UK VPGA 2.2 Takeovers and mergers

Valuations in connection with takeovers and mergers have to be provided in accordance with the Takeover Code ('the Code') issued by the Takeover Panel ('the Panel').

Valuations for this purpose are regulated purpose valuations (see **UK VPS 3**), and accordingly the various associated disclosure requirements will apply. Valuers' attention is expressly drawn to the fact that certain requirements imposed by the Code apply directly to them.

- 1 The Panel is an independent body, established in 1968, whose main functions are to issue and administer the Code, and to supervise and regulate takeovers and other matters to which the Code applies, in accordance with the general principles and rules it sets out. The Code is designed principally to ensure that shareholders are treated fairly and are not denied the opportunity to decide on the merits of a takeover, and that shareholders of the same class are afforded equivalent treatment. The Code provides an orderly framework within which takeovers are to be conducted and promotes, in conjunction with other regulatory regimes, the integrity of the financial markets.
- 2 Valuers providing valuation advice need to be alert to the fact that the Code imposes certain obligations on them, and should only agree to act where they fully understand the nature of the obligations and the potential consequences of failing to discharge them properly. This is because the Code applies to all who advise on matters to which the Code applies, and under Rule 29 the valuer is considered to be an 'adviser'. Furthermore, all the valuer's colleagues (professional, administrative and secretarial) who provide assistance may also be considered to be advisers; other partners and employees not involved are normally excluded.
- 3 Before accepting instructions, it is essential that the valuer [checks the extant version of the Code](#) to ensure that all its requirements are met.
- 4 A register of the holdings of securities that the valuer and colleagues have in the company, or companies, concerned will need to be maintained, including 'nil' returns and the holdings of spouses and dependent children. The valuer should advise the client of the totals or of any nil return.

5 No dealings in shares and other securities, or rights over these, may be made before or during the offer. The restrictions of the *Criminal Justice Act 1993* apply, as does Rule 4, Restrictions on Dealings, of the Code. The valuer and any colleagues involved in a takeover or merger will need to ensure they strictly observe the law, which also here embraces observance by spouses and dependent children. The Rules also cover acquisitions and realisations of shareholdings, and the value will again need to comply with them.

6 The valuer may consult the Executive of the Takeover Panel directly to seek advice. It is not necessary to do this through the company's advisers. In fact, the valuer may prefer not to involve them, particularly if subject to pressure to do something that is not in accordance with professional and ethical standards and these standards.

Status of the valuer

7 The *valuation* has to be provided by a named independent valuer. The Code states that an independent valuer means a corporate *member* of RICS who is an *external valuer* as defined in the Glossary, and who has no connection with other parties to the transaction.

8 The valuer will need to be able to demonstrate compliance with **PS 2 section 2**, and with any legal or regulatory requirements that apply.

9 The Code contains various provisions relating to the independence of advisers. Where potential conflicts are identified it may not be possible to resolve them by isolating information or assigning different personnel to the transaction. 'Chinese walls' may not be regarded as adequate (see **PS 2 section 4**). Where doubt exists, the compliance unit, or a similar disinterested unit of the valuer's firm, will need to consult the Panel. Otherwise, legal advice should be sought.

10 A valuer who attends meetings with clients and other advisers, such as lawyers, stockbrokers, accountants and merchant bankers, should be wary of assuming any role that could be regarded as that of a 'financial adviser' within the provisions of the [Financial Services and Markets Act 2000](#). A financial adviser must be a registered member of a professional regulatory organisation. Although the role of a valuer would not normally fall within the definition, any extended involvement could so fall, for example, in providing forecasts or commenting on them. If *members* have any doubt about their position, legal advice should be taken, preferably before attending any meeting.

Basis of value

11 The *basis of value* will normally be *market value* as defined in **VPS 4**. If the company's accounts are prepared under UK Generally Accepted Accounting Practice (UK

GAAP) with the consent of the Panel, the *basis of value* set out in UK VPGA 1 may be used.

12 The *basis of value* will need to be clearly stated in the valuation report. Only in exceptional circumstances should it be qualified, in which case the valuer will need to explain the meaning of the words used. Similarly, *special assumptions* (see **VPS 4**) should not normally be made in a *valuation*, but if *special assumptions* are permitted by the Panel, they should be fully explained (see **VPS 3**).

13 In the case of land currently being developed or with immediate development potential, in addition to giving the *market value* in the state as at the *valuation date*, the *valuation* should include:

- a the value after the development has been completed
- b the value after the development has been completed and let
- c the estimated total cost, including carrying charges, of completing the development, and the anticipated dates of completion and of letting or occupation and
- d a statement of whether planning consent has been obtained and, if so, the date thereof and the nature of any conditions attaching to the consent that affect the value.

Reporting the valuation

14 The effective date at which the assets were valued will need to be stated together with the professional qualifications and address of the valuer. If a *valuation* is not current, the valuer will need to be able to state that a current *valuation* would not be materially different. If this statement cannot be made, the *valuation* will need to be updated.

15 The Code requires of the entity that the opinion of value is contained in the offer document, and the valuation report must also be put on display (see **VPS 3 section 2 paragraph 2.2(j)**). Where the valuation report includes material that may be commercially sensitive, the Panel may allow publication in a summarised form.

16 In some exceptional cases, it will not be possible for a valuer to complete a full *valuation* of every property. The Panel may be prepared to regard the requirements of Rule 29 as met if the valuer carries out a *valuation* of a representative sample of properties and reports those *valuations*. In such case the directors must take sole responsibility for an estimate, based on the sample, to cover the remaining properties. This procedure will be available only where the portfolio as a whole is within the knowledge of the valuer, who will be required to certify the representative nature of the sample. Where this is done, the document should distinguish between properties

valued professionally and those where the directors have made estimates on the basis of the sample *valuation*. The document should also compare such estimates with book values.

UK VPGA 2.3 Collective investment schemes

Valuations for collective investment schemes have to be in accordance with the requirements of the Financial Conduct Authority (FCA) [Collective Investment Schemes Sourcebook](#).

Valuations for this purpose are regulated purpose *valuations* (see UK VPS 3), and the various disclosure requirements will apply.

- 1 Under Part XVII of the *Financial Services and Markets Act 2000* only certain collective investment schemes may be promoted to the public. These are:
 - a investment companies with variable capital (ICVC) constituted in the UK
 - b authorised unit trusts (AUTs) constituted in the UK, which are collective investment schemes authorised by the FCA and
 - c collective investment schemes constituted outside the UK and recognised by the FCA.
- 2 To avoid confusion, valuers should be aware that the FCA Collective Investment Schemes Sourcebook (COLL) uses the term 'scheme property' in a very wide sense, which is not restricted to *real estate*. An 'immovable' is a freehold or leasehold interest in England and Wales, any interest or estate in or over land, or heritable right (including a long lease in Scotland) or, if not in either of those jurisdictions, an equivalent interest.
- 3 For more detailed information about collective investment schemes, the full text of the sourcebook is available [on the FCA website](#).
- 4 Qualified investor schemes are authorised funds that are intended only for professional clients and for retail clients who are sophisticated investors. They have a more relaxed set of rules governing their operation than that for retail schemes, particularly regarding their investment powers. A qualified investor scheme is essentially a mixed asset type where different types of permitted asset may be included as part of the scheme property, depending on the investment objectives and policy of that scheme and any restrictions in the rules.

Basis of value

- 5 Any *valuation* by an appropriate valuer or a standing independent valuer will need to be on the basis of *market value* as defined in these standards and any special provisions within the instrument constituting the scheme.

The valuer

6 The COLL requirements for an appropriate valuer and for a standing independent valuer can be found [on the FCA website](#).

Financial reporting

7 The Investment Managers Association has issued [a statement of recommended practice \(SORP\)](#) that provides guidance on the effective implementation of the accounting standards.

UK VPGA 2.4 Unregulated property unit trusts

Valuations for unregulated property unit trusts have to be on the basis of *market value*. *Valuations* for this purpose are regulated purpose valuations (see **UK VPS 3**), and the various disclosure requirements will apply.

1 Unregulated property unit trusts are a form of collective investment scheme where assets are held in trust for the participants that do not have day-to-day control over the management of those assets. They may not be marketed to the general public and are thus distinguished from authorised unit trusts (AUTs).

2 There is no regulatory requirement for an independent *valuation*, but in reality, most trust deeds require an independent valuer. If the trustee and/or the manager request an independent valuer, the valuer will need to check the criteria and confirm that they meet them (see **PS 2 section 4**).

3 *Valuations* of land and buildings are critical to the pricing of units and should be reviewed at frequent intervals. Every *valuation* should be as up to date as possible with regard to the valuer's judgement of the trends of the most recent transactions in the market, even if those trends may be short term.

4 In normal circumstances, the valuer is employed by, and reports to, the fund manager, but copies of the report should be provided for the trustees.

UK VPGA 3 Valuations for assessing adequacy of financial resources

UK VPGA 3.1 Adequacy of financial resources of insurance companies

Valuations for inclusion in the assessment of the adequacy of financial resources for insurance companies have to be in accordance with the Prudential Regulation Authority (PRA) sourcebook for insurers (INSPRU).

- 1 In the UK the [PRA INSPRU](#) provides that the value of assets for checking financial adequacy is to be the same as that adopted by the entity for its accounting purposes.
- 2 The value of assets is to be measured in accordance with:
 - a the insurance accounts rules, or the Friendly Societies (Accounts and Related Provisions) Order 1994
 - b FRS issued or adopted by the ASB and statements of recommended practice (SORPs), issued by industry or sectoral bodies recognised for this purpose by the ASB or IAS, as applicable to the firm for the purpose of its external financial reporting (or as would be applicable if the firm were a company with its head office in the UK).
- 3 *Valuations* for this purpose will therefore be in accordance with the relevant IVS (see VPGA 1 or UK VPGA 1) and will need to include a statement that they comply with the provisions of the sourcebook.

UK VPGA 3.2 Adequacy of financial resources for financial institutions

Valuations for inclusion in the assessment of the adequacy of financial resources for banks, building societies and investment firms have to be in accordance with the Prudential Regulation Authority (PRA) sourcebook for banks, building societies and investment firms (BIPRU).

- 1 In the UK the [PRA BIPRU](#) sets out detailed rules for which such assessments shall be made.
- 2 BIPRU 3.4 states:

'3.4.66 (1) The requirements about monitoring of property values ... are as follows:

 - a the value of the property must be monitored on a frequent basis and at a minimum once every three years for residential real estate;

- b** more frequent monitoring must be carried out where the market is subject to significant changes in conditions;
- c** statistical methods may be used to monitor the value of the property and to identify property that needs revaluation;
- d** the property valuation must be reviewed by an independent valuer when information indicates that the value of the property may have declined materially relative to general market prices; and
- e** for loans exceeding €3 million or 5% of the capital resources of the firm, the property valuation must be reviewed by an independent valuer at least every three years.

(2) For the purposes of (1), 'independent valuer' means a person who possesses the necessary qualifications, ability and experience to execute a *valuation* and who is independent from the credit decision process.'

BIPRU 3.4.66, © The Prudential Regulation Authority

'3.4.77 The property must be valued by an independent valuer at or less than the market value. In the UK where rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions the property may instead be valued by an independent valuer at or less than the mortgage lending value.'

BIPRU 3.4.77, © The Prudential Regulation Authority

Note that BIPRU states that 'necessary qualifications' need not be professional qualifications, but the valuer should be able to demonstrate that he or she has the necessary ability and experience to undertake the review.

3 The definition of *market value* is the same as adopted in these standards (see **VPS 4**).

4 Mortgage lending value is not normally used in the UK, but where appropriate, reference may be made to the current edition of RICS' Bank lending valuations and mortgage lending value.

UK VPGA 4 Valuation of local authority assets for accounting purposes

Scope

- 1 This UK VPGA should be read in conjunction with UK VPGA 1.
- 2 The *financial statements* of local authorities need to be prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the 'Code'), published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC), and based on the *International Financial Reporting Standards* (IFRS). The guidance provided in the Code takes precedence for valuers. The Code is reviewed continuously and issued annually. The edition of the Code that is applicable for any given financial year is based on accounting standards in effect on 1 January prior to the start of that financial year.
- 3 The material in this UK VPGA has been developed in conjunction with CIPFA. All references to the Code are made in relation to the 2022/23 edition. Valuers are strongly advised to refer to the Code relevant to the financial period in which the *valuation* is undertaken, to ensure that their client's precise accounting requirements are addressed.
- 4 While all principles are based on IFRS and produced under the oversight of the Financial Reporting Advisory Board, the Code does in some aspects diverge from the HM Treasury Financial Reporting Manual (FRm) and the Department of Health and Social Care General Accounting Manual (GAM) which are the accounting standards for central government and the NHS respectively.
- 5 The general principles underlying the *valuation* of local authority assets are no different from those of other entities, but the Code incorporates additional guidance for local authorities.
 - a Local authorities in the UK are required to keep their accounts in accordance with 'proper (accounting) practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code.
 - b The Code specifies the principles and practices of accounting required to prepare a Statement of Accounts that gives a true and fair view of the financial position and transactions of a local authority.
 - c The Code applies in Great Britain to local authorities, fire authorities (England and Wales), joint committees and joint boards of principal authorities. In Northern Ireland it applies to all district councils. The Code also applies

throughout the UK to police and crime commissioners and other police bodies, as relevant.

- d The Code constitutes 'proper (accounting) practice':
- i. in England and Wales, under the terms of section 21(2) of the [Local Government Act 2003](#)
 - ii. in Scotland, under section 12 of the [Local Government in Scotland Act 2003](#)
 - iii. in Northern Ireland, the status and authority of the local authority Code derives from regulation 2 of the [Local Government \(Capital Finance and Accounting\) Regulations \(Northern Ireland\) 2011](#) and through the relevant accounts direction issued by the Department for Communities (Northern Ireland).

6 Valuers should note that mandatory implementation of the new international accounting standard for leases (IFRS 16), has been deferred until 1 April 2024. However, both the 2022/23 and 2023/24 Codes will allow for early adoption as of 1 April 2022 or 2023.

UK VPGA 4.1 Categorisation and measurement of assets

1 Local authorities will specify the appropriate asset categorisation in accordance with Code requirements. It is for the local authority as the reporting entity, not the valuer, to undertake that categorisation based on the purpose each asset is held. However, the valuer may be requested to assist in this process and it is important that there is open dialogue between the valuer and the reporting entity regarding categorisation. The categorisation of an asset will determine the basis of measurement.

2 Table 1 below expands further on the information provided at UK VPGA 1.4 and illustrates the basis of measurement to be applied to each category of asset.

Category	Description	Measurement (valuation) basis
<p>Property, plant and equipment (PPE)</p> <p>CIPFA code section 4</p> <p>Operational assets</p>		<p><i>IAS 16 Property, Plant and Equipment</i> (as adapted by the Code)</p> <p>Current value (measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date)</p>
<p>Council dwellings</p>	<p>Dwellings within the Housing Revenue Account</p>	<p>Current value using existing use value – social housing (EUV-SH)</p>
<p>Other land and buildings (which may include assets rented to others)</p>	<p>Non-specialised assets</p> <p>Specialised assets</p>	<p>Current value in existing use (EUV) where not specialised</p> <p>Current value using depreciated replacement cost (DRC)</p>
<p>Infrastructure assets</p>	<p>Inalienable assets, expenditure on which is only recoverable by continue use of the asset created, i.e. there is no prospect of sale or alternative use.</p> <p>Example classes of asset include:</p> <ul style="list-style-type: none"> • roads • street furniture • bridges • water supply and drainage systems and • sea defences. 	<p>Historical cost</p>

Category	Description	Measurement (valuation) basis
Community assets	<p>Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal.</p> <p>Examples of community assets include:</p> <ul style="list-style-type: none"> • parks and gardens • cemeteries and crematoria (land only) • allotments (statutory sites) and • open space. 	<p>Historical cost unless the authority elects to use current value in accordance with Section 4.10 of the Code (Heritage Assets)</p>
Operational heritage assets	<p>Non-specialised heritage assets</p> <p>Specialised heritage assets</p>	<p>Current value in existing use (EUV)</p> <p>Current value using depreciated replacement cost (DRC)</p>
Non-operational assets Surplus assets	<p>Assets that are not being used to deliver services but which do not meet criteria to be categorised as either investment properties or non-current assets held for sale.</p>	<p>Current Value (IFRS 13 <i>fair value</i>)</p>
Assets under construction	<p>Assets that are either under construction or are the subject of major works which render a property unavailable for use</p>	<p>Historical cost</p>

Category	Description	Measurement (valuation) basis
<p>Heritage assets (other than operational heritage assets) CIPFA Code section 4.10</p>	<p>Assets preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the entity in pursuit of its overall objectives in relation to the maintenance of heritage.</p> <p>They are likely to be assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.</p>	<p>Carried at valuation in accordance with IFRS 102</p> <p>Valuations may be made by any method that is appropriate and relevant. If not practicable to establish a valuation, historical cost.</p>
<p>Investment property CIPFA Code section 4.4</p>	<p>Property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both</p> <p>(NB: Property that is used to facilitate service delivery, as well as for rentals or capital appreciation, is not investment property and should be recognised as PPE and measured under IAS 16)</p>	<p>IAS 40 <i>Investment Property</i></p> <p>Fair value</p> <p>(The option to measure at cost model is not permitted other than in exceptional circumstances outlined in the Code (see paragraph 4.4.))</p>
<p>Investment property under construction CIPFA Code section 4.4</p>		<p>IAS 40 <i>Investment Property</i></p> <p>Fair value once an authority is able to measure reliably the <i>fair value</i> of the investment property and at cost before that date</p>

Category	Description	Measurement (valuation) basis
Assets held for sale CIPFA Code section 4.9	The carrying amount will be recovered principally through a sale transaction rather than through continued use and meets the criteria set out in the Code.	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> Fair value Where the valuer is asked to provide an estimate of the costs to sell this should be reported separately to the fair value

Table 1: Basis of measurement applied to each asset category

UK VPGA 4.2 IFRS 13 Fair Value Measurement

Fair value (the definition adopted by the International Accounting Standards Board (ISAB)) in IFRS 13 *Fair Value Measurement* is:

‘The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date’.

The IFRS 13 definition of *fair value* is based on exit values and market prices for assets and liabilities.

1 Further information is set out at UK VPGA 1.3 and **VPS 4.7**.

UK VPGA 4.3 Operational property, plant and equipment

For operational land and buildings, current value is to be interpreted as the amount that would be paid for the asset in its existing use. This requirement is met by providing a *valuation* on the basis of:

- existing use value (EUV) for non-specialised operational assets
- existing use value – social housing (EUV-SH) for council dwellings
- depreciated replacement cost (*DRC*) for specialised operational assets.

Existing use value (EUV)

1 Further information on existing use value is set out at UK VPGA 6 Local authority and central government accounting: existing use value (EUV) basis of value.

Existing use value – social housing (EUV-SH)

2 Further information on existing use value – social housing is set out at UK VPGA 7 Valuation of registered social housing providers' assets for financial statements.

3 In England, Scotland and Wales the current value of council dwellings is measured using EUV-SH (see CIPFA Code section 4.1).

4 Guidance, including the valuation approaches that can be used, is available on the [government website](#) published by the Department for Communities and Local Government in November 2016. This includes guidance on both the beacon approach and discounted cash flow valuation approaches.

5 In Scotland, the Local Authority Scotland Accounts Advisory Committee (LASAAC) has issued guidance on dwelling valuation methodology within [Mandatory Guidance on the Valuation Methodology for Council Dwellings](#) (dated October 2010). This requires that the *valuation* of council dwellings is to be achieved using a beacon approach (Adjusted Vacant Possession) methodology.

6 In Wales the *basis of value* is also EUV-SH, but there is no specific *valuation* guidance covering the housing revenue account.

7 In Northern Ireland the District Councils are not responsible for social housing.

Depreciated replacement cost (DRC) method

8 The valuer will need to have regard to the requirements of UK VPGA 1.6. In addition, RICS' [Depreciated replacement cost method of valuation for financial reporting](#) contains detailed information on the use and application of *DRC* when valuing for *financial statements*.

UK VPGA 4.4 Historical cost

1 For assets where the Code provides that historical cost is to be used, *valuations* will not be required for financial reporting purposes.

UK VPGA 4.5 Valuation reporting

1 Valuers should be aware that **VPS 3** requires that 'where the basis of value is not a market-based figure and the valuation is materially different from market value, an explanatory statement to that effect may be appropriate, where necessary to ensure that the user of the valuation is alerted to the possibility that, although relevant for the specified purpose, the valuation may not bear a relation to the price that could be obtained if the asset or liability were placed on the market for disposal'.

2 Where such explanatory statements are made, it should be made clear that no account has been taken of issues such as reducing the service potential or disruption,

and the associated costs, that would be incurred in achieving that alternative use. Unless agreed otherwise in the terms of engagement, the valuer is not required to provide a *valuation* on an alternative *basis of value*.

3 The Code requires revaluations of PPE to be made with sufficient regularity to ensure that the carrying amount of assets does not differ materially from that which would be determined using the current value at the end of the reporting period. The overriding imperative is that the current value of all the assets need to be materially accurate as at 31 March (Code 4.1.2.37 – 4.1.2.38).

4 Local authorities often adopt a rolling programme of asset valuations for financial statements. Where this is the case, should the valuer become aware of valuation movements that have the potential to mean assets valued in previous years of the programme might be materially inaccurate at the reporting date, they should alert the client as soon as possible.

UK VPGA 4.6 Disclosures

1 The entity is required to disclose its accounting policies and certain information in the statement of accounts. For example, where significant to the financial statements, there are disclosure requirements for assets measured at IFRS 13 fair value, as set out in the Code at 2.10.4.

2 The *terms of engagement* should clearly establish which, if any, information is to be provided by the valuer for this purpose.

UK VPGA 4.7 Service concession arrangements: local authority as grantor

1 Where there is an agreement with a third party to run a council service using local authority owned assets, these may be classed as service concession arrangements and fall under the accounting requirements set out in the Code at section 4.3. Typical examples include private finance initiative (PFI) and public-private partnership (PPP) arrangements.

2 From a valuation perspective, the assets may often be treated like any other PPE asset and measured under accounting standard IAS 16. The valuer must ensure that the client provides clear instructions as to which assets require a *valuation* and on what basis. In most instances, instructions agreed will be that service concession assets should be valued as authority owned operational assets, disregarding the service concession arrangements.

UK VPGA 4.8 Depreciation accounting

General guidance on depreciation accounting is given in UK VPGA 1. The guidance includes the approaches available to valuers in the provision of apportionment figures between land and buildings (paras 24-42).

The guidance also includes information relating to componentisation. In addition, an explanation of the principles and the accounting requirements for local authority financial statements is set out in the [CIPFA Local authority Accounting Panel \(LAAP\) Bulletin 86: Componentisation of property plant and equipment \(update\)](#).

UK VPGA 4.9 Lease accounting

The Code mandates adoption of IFRS 16 *Leases* for 2024/2025 onwards, with local authorities encouraged to adopt the standard on a voluntary basis before that. Until adoption, local authorities are required to account for leases in accordance with IAS 17 *Leases*.

Where authorities elect to adopt IFRS 16 in 2022/23, they must follow the requirements in Appendix F (Accounting provisions on the voluntary adoption of IFRS 16 Leases from 1 April 2022).

- 1 UK VPGA 1.10 addresses leasehold interests and their classification for financial reporting.
- 2 At transition from IAS 17 to IFRS 16, local authority leases previously recognised as operating leases will be brought onto the balance sheet measured using the IFRS 16 Leases cost model. Leases previously recognised as finance lease will be carried in the balance sheet as at the previous end of year date. Valuer input at this stage may be limited to the provision of right-of-use asset measurements based on *fair value* for peppercorn leases (where the lease classification was previously operational).
- 3 Subsequent measurement is current value. IFRS 16 contains a practical expedient that allows the cost model to be used where this will result in a reliable proxy for current value. The cost model is to be used unless deemed 'inappropriate'. Valuer input where the cost model can be used is likely to be limited.
- 4 In circumstances where the cost model is deemed an inappropriate proxy for current value, measurement using the revaluation model will be required. For further information on the IFRS 16 revaluation model valuation approaches for both non-specialised and specialised right-of-use assets, valuers should refer to RICS' [IFRS 16 principles for UK real estate professionals](#) which introduces the new accounting standard to property professionals.

UK VPGA 5 Valuation of central government assets for accounting purposes

Valuations of central government assets for *financial statements* are to be prepared in accordance with the [Government Financial Reporting Manual](#) (FReM), prepared by HM Treasury and the devolved administrations.

For National Health Service (NHS) bodies in England, Scotland and Wales, the [Department of Health's Group Accounting Manual](#) (GAM) essentially mirrors the FReM provisions.

Local authorities have separate specific guidance contained within the *Code of Practice on Local Authority Accounting in the UK* prepared by CIPFA LASAAC which in some aspects diverges from the FReM (please refer to UK VPGA 4).

- 1 The *Government Financial Reporting Manual* (FReM) (the Manual) is the technical accounting guide to the preparation of *financial statements* and sets out the detailed requirements that entities are required to follow when dealing with accounting for tangible fixed assets.
- 2 FReM complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland. The Manual is prepared following consultation with the Financial Reporting Advisory Board (FRAB). In addition to the FReM, HM Treasury provides illustrative *financial statements* and supporting guidance on accounting matters helpful to those preparing *financial statements*.
- 3 The Manual applies *International Financial Reporting Standards* (IFRS) and is kept under constant review to reflect, among other things, developments in IFRS. The use of IFRS in general text in the Manual should be taken to include International Accounting Standards (IAS) and interpretations of IAS and IFRS issued by the Standards Interpretations Committee (SIC) or the International Financial Reporting Interpretations Committee (IFRIC).
- 4 With regard to operational property, plant and equipment, FReM currently adopts IAS 16 *Property, Plant and Equipment*, interpreted and adapted for the public sector.
- 5 For in-use, non-*specialised property* assets (operational assets), FReM requires assets that are held for their service potential (i.e. operational assets used to deliver either front line services or back office functions) should be measured at their current value in existing use. For non-*specialised* assets current value in existing use should be

interpreted as *market value* in existing use, which is defined in UK VPGA 6 as existing use value (EUV). For specialised assets current value in existing use should be interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. Where a *DRC* approach is used to value specialised assets, the 'instant build' approach (which aligns the *valuation* of both the land and the buildings at the same date) is applied.

6 Assets that were most recently held for their service potential but are surplus should be valued at current value in existing use if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market, the surplus asset should be valued at *fair value* using IFRS 13.

7 The authoritative version of the Manual for any financial year is available by the start of the financial year to which it relates. The valuer should check the version applicable to the relevant financial year before preparing *valuations*.

UK VPGA 6 Local authority and central government accounting: existing use value (EUV) basis of value

Neither IFRS 13 nor FRS 102 make reference to existing use value (EUV) as a basis of *valuation*.

However, when instructed to value operational property plant and equipment (PP&E) for local authorities, central government and other public sector bodies which have adopted IFRS, valuers should be aware that as a result of an adaptation made to IAS 16 upon its public sector adoption, the Code of Practice on Local Authority Accounting (CIPFA 'Code') – see UK VPGA 4 – and the Government Financial Reporting Manual (FRReM) – see UK VPGA 5 – require that the *basis of value* used is existing use value and not *fair value* as defined in IFRS 13.

Valuers should be aware that non-operational 'surplus' PP&E that is capable of separate disposal, and assets classified as being either 'held for sale' or investment property, is measured at *fair value* arrived at in accordance with IFRS 13.

Valuations based on EUV should adopt the following definition:

The estimated amount for which a property should exchange on the *valuation date* between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its *market value* to differ from that needed to replace the remaining service potential at least cost.

Application

1 Existing use value (EUV) is to be used only for valuing property that is classified as PP&E under IAS 16 by public sector entities for inclusion in their *financial statements*. This is property that is regarded as being occupied by the owners of the interest being valued for the purpose of their service delivery function for the foreseeable future.

2 Under the CIPFA/LAASAC Code of Practice, the definition of PP&E to which EUV is applied is extended, for local authorities only, beyond the interests of owners in occupation to the situation where a local authority has chosen to classify as PP&E a property lease which it has granted for the purpose of facilitating the production or delivery of goods and services that support or complement the authority's wider policy objectives (e.g. social/community/economic). This is instead of the local authority treating the asset as being held solely for earning rentals or for capital appreciation. Where a local authority has so classified their interest, it will be regarded as being an

owner in occupation of the property, rather than their interest being subject to the lease, and therefore, the actual terms of the lease may not be relevant to the *valuation*.

Premise

3 The definition of EUV is taken from the wording of the *market value* definition with one additional *assumption* and a further requirement to disregard certain matters. In practical terms, the definition of EUV can be seen generally to accord with the conceptual framework of **VPS 4**, but subject to the commentary below.

4 The underlying premise is that the value being measured is the present value of the in-situ asset's remaining service potential for the continued delivery of the existing operational function to which the asset is being put. This can be assumed to be equal to the amount required to replace that required service potential at least cost in a market transaction.

5 The starting point for an EUV assessment is the collection and analysis of available market transaction evidence. When extrapolating from this evidence to arrive at EUV, the valuer must consider and apply the disregards stated in the EUV definition. These require the disregarding of potential alternative uses that are incompatible with the continuance of the existing service delivery function and the disregarding of any characteristics of the asset that would cause its market value to differ (in either direction) from that needed to replace the remaining service potential at least cost. Application of these disregards may result in the EUV being higher or lower than *market value*.

Service potential

6 'Service potential' in the context of EUV is a measure of the property's potential to provide the service needs of the current occupier's existing operations, rather than the property's potential for use for any other purpose even if this does not need planning consent.

7 EUV is the amount an entity would pay to replace, at least cost, the service potential that enables the continued operational delivery of the existing service function to which the property is being put. The current owner is included among those who constitute the market.

8 One means of reflecting the objectives and motivations of the current owner but otherwise disregarding their specific characteristics, including any goodwill and the impact of their reputation, is to envisage a hypothetical purchaser in the market at the valuation date, with the same objectives and service obligations, who will buy the property to occupy it on that date, stepping into the shoes of the existing entity for the

purposes of continuing delivery of the same use and service purpose. The hypothetical purchaser cannot be assumed to necessarily be a public body, notwithstanding the nature of the service being delivered.

Vacant possession

9 The reference in the EUV definition to assuming that vacant possession would be provided on acquisition of all parts of the property occupied by the incumbent entity does not imply that the property is to be regarded as empty, but simply that physical and legal possession would pass on completion of the sale at the *valuation date* to an incoming entity.

10 EUV is based on the premise that the existing service delivery function for which the property is being used is required to seamlessly be continued without interruption. The existing operational use to which the property is being put has not ceased and it is therefore inappropriate to assume when valuing the property that it is lying empty at the *valuation date*.

11 This *assumption* also means that it is not appropriate to reflect any possible increase in value due to special investment or financial transactions (such as sale and leaseback), which would leave the entity with a different interest from the one that is to be valued. It follows that if there is a lack of relevant vacant possession transactions to provide directly comparable price data and a hypothetical rent and yield method is used, the covenant of the hypothetical tenant is to be assumed to be that of a typical tenant for this type of property, not the covenant of the actual owner.

12 A property otherwise owner-occupied may be subject in part to a minor occupation by third parties which is ancillary to, and supportive of, the purposes of that owner-occupation, for example a residential presence of employees, ex-employees or their dependants. Notwithstanding the reference to vacant possession, such parts are to be valued subject to these occupations, reflecting any statutory protections. These circumstances are not to be confused with the circumstances described in paragraph 2 above.

All parts of the property required by the business

13 If parts of the property are not being used to meet the requirements of the existing service delivery function, with there being no intention of bringing those parts back into use, their treatment will depend upon whether or not they are capable of being sold or leased separately at the *valuation date* without interference with the ongoing service function being provided from the retained parts.

14 If they are not capable of this, they will continue to be valued to EUV as PP&E, together with the operational parts. However, such unused parts will contribute only a

nominal sum to EUV as they do not contribute to the service potential of the property for its existing delivery function. That nominal contribution means EUV may differ from the *market value* where a potential purchaser for their purpose requires the use of the entire property.

15 If unused parts of the property are capable of being sold or leased separately without interference to the retained operational parts, they may be classified by the entity as being either surplus PP&E or 'held for sale', and then valued to *fair value*.

16 The potential existence of unused parts of a property highlights the importance of dialogue between the valuer and the entity on the subject. While classification is ultimately a decision for the entity, which is best placed to advise on the service potential required from the accommodation, valuers should always be prepared to appropriately engage with the entity and query the identification and treatment of unused parts or where potential under-utilisation may be present, as well as any other classification issues. However, unless instructed otherwise by the entity following such dialogue, the valuer will assume that the whole of the property currently in use by the entity will continue to be required for that use.

Disregarding of potential alternative uses

17 Disregarding 'alternative uses' in the context of EUV means that the valuer should disregard any uses, including those within the same planning use class, that would drive the value above that needed to replace the service potential of the property for the existing and continuing function to which it is being put. In seeking to replace this potential at least cost, value arising from alternative uses or development potential irrelevant to that purpose is not to be reflected. The valuer should therefore ignore any element of 'hope value' for alternative uses that could prove more valuable.

18 However, it would be appropriate to take into account in EUV, any additional value attributable to the possibility at the *valuation date* of extensions or further buildings on undeveloped land, or redevelopment or refurbishment of existing buildings, if undertaking that work is an operational requirement. This will only be the case where such extensions, redevelopment or refurbishment would be required and occupied by an entity tasked with the responsibility of continuing the existing service being provided. Further, such construction must be capable of being undertaken legally and without causing major interruption to the existing and ongoing business function being provided by the property. In the absence of such an operational requirement, simply adding an element of 'hope value' is not appropriate.

Disregarding characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost

19 There are circumstances where it may be appropriate for the valuer to ignore factors that would adversely affect the *market value* or *fair value* but not EUV, creating the potential for the EUV figure to be higher. Where a valuer considers that such circumstances exist, it is important that the valuer captures the adjustments applied in arriving at the EUV and record their reasoning in the case file.

Examples include:

- where an occupier is operating with a personal planning consent that could restrict the market in the event of the service delivery requirements of the entity ceasing, and the property being offered for sale
- where a property is known to be contaminated, but the continued occupation for the existing use is not inhibited or adversely affected, provided there is no current duty to remedy such contamination during the continued occupation
- where a multi-building facility on a site is overdeveloped, and the extra buildings have either limited the *market value* or detracted from it, but would need to be replaced to fulfil the service potential provided to the existing service delivery function
- where the existing buildings are old and, despite their age and condition, remain suitable for the existing service delivery function, but in the absence of that requirement would have a limited *market value*, lower than the replacement cost to an entity for that existing service delivery function
- where the property is in an unusual location, or is oversized for its location, with the result that it would have a low *market value* were the existing service delivery function requirement to cease, but where the cost of replacing the service potential would be significantly greater and
- where the market is composed predominately of investors, with the resulting *market value* reflecting that, but the valuer can appropriately evidence that the replacement cost (the price agreed between a willing vendor and willing purchaser for owner-occupation for the purposes of the existing service delivery function) may be higher.

20 In practical terms, property assets are valued by whichever method is most appropriate. Special classes and categories of asset will be valued in different ways because of how the market values them. Where market evidence is absent or EUV

cannot be reliably extrapolated from the evidence available, the *DRC* method may be used to ascertain EUV.

21 As the alternative uses to be disregarded for EUV include those within the same planning class, care is needed to avoid confusing the figure produced by the EUV basis with a market *valuation* figure which has been restricted to the existing planning use of the property, as the latter may potentially differ.

UK VPGA 7 Valuation of registered social housing providers' assets for financial statements

Valuations of social housing for *financial statements* of registered social housing providers are undertaken on a basis of either:

- existing use value for social housing (EUV-SH) for housing stock held for social housing or
- fair value in accordance with IFRS 13 for housing stock that is classified as surplus assets.

EUV-SH is an opinion of the best price at which the sale of an interest in a property would have been completed unconditionally for a cash consideration on the *valuation date*, assuming:

- a a willing seller
- b that prior to the *valuation date* there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest for the agreement of the price and terms and for the completion of the sale
- c the state of the market, level of values and other circumstances were on any earlier assumed date of exchange of contracts, the same as on the *date of valuation*
- d that no account is taken of any additional bid by a prospective purchaser with a special interest
- e both parties to the transaction had acted knowledgeably, prudently and without compulsion
- f that the property will continue to be let by a body pursuant to delivery of a service for the existing use
- g the vendor would only be able to dispose of the property to organisations intending to manage their housing stock in accordance with the regulatory body's requirements
- h that properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession and
- i that any subsequent sale would be subject to all the same *assumptions* above.

1 *Financial statements* for registered social housing providers are prepared broadly in accordance with UK GAAP but are subject to the provisions of the current version of a specific Housing Statement of Recommended Practice (SORP). This applies to all registered social housing providers in the UK and provides essential guidance on, and interpretation of, accounting standards (including the *basis of value*) for the sector.

2 A registered social housing provider is a social landlord that is registered in one of the registers by the Regulator of Social Housing or the Welsh Government in England and Wales respectively under the *Housing Act 1996* (as amended), the Scottish Housing Regulator in Scotland under the *Housing (Scotland) Act 2001* (as amended) and the Department for Communities in Northern Ireland under the *Housing (Northern Ireland) Order 1992* (as amended). For the avoidance of doubt, residential dwellings retained by local authorities through their housing revenue account are also registered social housing providers within the scope of the respective regulator of social housing in each jurisdiction.

3 Valuers will need to ensure that they are familiar with the latest publication when undertaking any *valuation* work in this sector.

4 Importantly, valuers need to ensure that an accurate reflection of the registered provider's current stock holding is provided at the *valuation date* and must be satisfied with the accuracy and completeness of the data in respect of the inventory provided by the instructing party.

Basis of value

5 EUV-SH is similar to *market value*, but with additional *assumptions* reflecting the continued use of the property for social housing. Although it shares some of the characteristics of EUV, it should not be confused with this basis. The essential similarity is that both are aimed at establishing the service potential of the properties, but in the case of EUV-SH it is specifically for the delivery of the registered social housing provider's objectives. Therefore, any value that may attach to a sale of property with vacant possession for use other than social housing is to be ignored.

6 Properties owned by a registered social housing provider may be shown in their accounts at historic cost, net of housing association grant (HAG) or social housing grant (SHG), or at *valuation*. Where the properties are shown at *valuation*, the figure should reflect the valuer's opinion of the recoverable amount, which should in turn appropriately reflect the income generating potential of the asset and its remaining service potential.

7 If a registered social housing provider has embarked on a policy of disposing of specific, subject properties with vacant possession (or has declared an intention to do so in relation to specific subject properties), and those properties are to be valued, then

those properties may be surplus to requirements (subject to the *valuation date* and to the valuer discussing the matter with the provider). In this case they should be valued to *fair value*. Any properties valued on this basis will need to be separately identified in the report.

8 Valuations will also need to be split between properties held for letting, shared ownership properties and properties for outright sale, with each element of the *valuation* stated separately.

9 The report will need to show the values of completed schemes separately from those for any properties under construction. Where properties in the course of development are valued, the *valuation* should be in accordance with UK VPGA 1 on land and buildings in course of development.

10 For the avoidance of doubt, any shared ownership properties that have reached practical completion, but for which the initial tranche of equity remains unsold, are not to be treated as properties in the course of development.

11 Where a *DCF* method has been used to derive EUV-SH, the valuer will need to state the key *assumptions* made, together with the discount rate(s) used.

12 A registered social housing provider may request *valuations* on alternative bases, for example, *fair value* or *fair value* with vacant possession, and these alternative figures may be disclosed in the notes to the accounts.

13 The registered social housing provider's portfolio may include properties not used for housing purposes, for example, lock-up shops. These properties should be valued to *fair value* in accordance with IFRS 13.

14 Where registered social housing providers have a market rented portfolio, these properties are to be valued at *fair value* in accordance with IFRS 13.

UK VPGA 8 Valuation of charity assets

Overview

There are various statutory provisions that apply to charities. These include:

- the [Charities Act 2022](#)
- the [Companies Act 2006](#)
- the [Charities Act 2011](#)
- the [Trusts of Land and Appointment of Trustees Act 1996](#) and
- the [Trustee Act 2000](#).

In addition, the Charity Commission publishes various booklets giving advice on specific topics that are [available on its website](#). Booklets CC33 Acquiring Land, and CC28 Sales, leases, transfers or mortgages, together with their operational guidance, are particularly useful.

Members who require more information about the powers of trustees or any other matter related to charities should seek advice from the charity's own professional advisers.

UK VPGA 8.1 Acquisitions

1 Where trustees propose to acquire land, there is no requirement for them to obtain professional advice, unless such a requirement is in the trust deed. However, the Charity Commission strongly recommends that they obtain a report from a 'qualified surveyor' (as defined in CC33 and given in paragraph 2.2) who is acting solely for the trustees.

2 Where the proposed transaction requires the trustees to obtain an order of the Charity Commission before acquiring land (for example, acquiring land other than freehold land, buying land from one of the trustees or where there is no power to acquire land), it is anticipated that the Commission will expect such an application to be accompanied by a surveyor's report.

3 A 'qualified surveyor' is defined in CC33 as 'a fellow or professional associate of the Royal Institution of Chartered Surveyors (RICS)'. Pending any review of this publication, the reference with regard to RICS may be read as referring to any 'member' of RICS, as defined in RICS' Rules of Conduct.

4 When considering the purchase of land, the trustees must take all reasonable steps to ensure that, among other matters:

- the property is suitable for its intended use and, in particular, is not subject to any legal or planning restrictions or conditions that might conflict with that use, or with which it may be difficult for the trustees to comply
- any necessary planning permission is obtained
- the price or rent is fair compared with similar properties on the market and
- when acquiring a lease, they understand the obligations to which they will be subject under the lease and ensure that the terms of the lease are fair and reasonable.

Basis of value

5 Although there is no basis of value specified in the Charity Commission guidance, the presumption is that it will be *market value* or market rent.

6 There may be circumstances where a charity is in a special position – for instance, where it has the benefit of certain tax exemptions or is a special purchaser – and therefore may be able to justify paying more than *market value*. Such circumstances, which are assessments of worth, are not to be reflected in the *valuation* but should be referred to in the general advice as to what the trustees should offer to pay or bid at auction.

Matters to be included in the report

7 While complying with the general requirements of **VPS 3**, the valuer will need to have regard to the Commission's recommendation to include:

- a description of the land
- details of any planning permission needed
- a *valuation* of the land
- advice on the price that the trustees ought to offer to pay, or the maximum bid they ought to make at auction
- a description of any repairs or alterations the trustees would need to make and their estimated cost
- a positive recommendation (with reasons) that it is in the interests of the charity to purchase the land and
- anything else the surveyor thinks is relevant, including a description of any restrictive or other covenants to which the land is subject.

UK VPGA 8.2 Disposals

- 1 The [Charities Act 2022](#) received Royal Assent on 24 February 2022.
- 2 The *Charities Act 2022* will be implemented in stages up until Autumn 2023, with updated provisions relating to charity land (Sections 17 – 23) expected to come into force by Spring 2023.
- 3 The new Charities Act aims to provide a simpler and more flexible framework for the disposal of charity land and there are several key updates in this respect.

Advisors

- 4 The [Charities Act 2011](#) limited the advisors with the ability to advise charity trustees on land disposals. The new legislation now updates this requirement by replacing references to 'qualified surveyor' with 'designated advisor', meaning that that advisors in this regard no longer have to be members of RICS.
- 5 Further fellows of both The Central Association of Agricultural Valuers and The National Association of Estate Agents are now included within the expanded permitted category of advisors.
- 6 The new Act also now allows charity trustees, officers and employees to provide advice to the charity on land disposals, even in the course of their employment with the charity.

Restrictions

- 7 Part 7 of the [Charities Act 2011](#) contained restrictions on charities disposing of and mortgaging land. The new Charities Act clarifies the existing restrictions by confirming that they will only apply to land where the whole of the land being disposed of is held either beneficially solely for the charity's own benefit (in the case of a corporate charity), or in trust solely for that charity (in the case of an unincorporated charity).
- 8 In practice, this means that the restrictions would not apply where:
 - a charity is one of several beneficial joint tenants of the land, the entirety of which is being disposed of by the trustee of the land
 - a charity is one of several tenants in common of the land, and the entirety of the land is being disposed of by the trustee of the land
 - land that is being disposed of is left to multiple beneficiaries under a will, one or more of which is a charity or
 - a trustee holds land on trust for multiple beneficiaries, one or more of which is a charity.

Exceptions

9 The new legislation amends and clarifies the exceptions to the general restrictions on disposal and mortgage of charity land as set out in sections 117 to 124 of the *Charities Act 2011*.

10 Falling under the new exceptions to the restrictions is a disposal or mortgage of charity land by a liquidator, provisional liquidator, receiver, lender or administrator.

11 A further exception is when a charity disposes of their land to another charity. This exception will only apply where the disposal is neither a commercial transaction intended to achieve the best price possible nor a social investment furthering the charity's purposes and achieving a financial return.

12 The requirement that disposals of this type must be authorised by the trustees of the charity has been removed.

Residential tenancies

13 Under the *Charities Act 2011*, Charity Commission consent was needed before a disposal of charity land could be made to an employee of that charity, as an employee is regarded as a 'connected person'.

14 The 2022 Act amends the definition of a 'connected person' to exclude the employees of a charity where the disposal is the grant of a short, fixed-term or periodic tenancy (of one year or less) to use as their home.

Advertising

15 The *Charities Act 2011* contained a requirement for charities to advertise a proposed disposal as advised in the surveyor's report.

16 This requirement has been removed by the new Act meaning that advertising the disposal is no longer mandatory. Now the charity must instead only consider the contents of the report and any advice on advertising received by their surveyor or designated advisor.

Content of contracts

17 The *Charities Act 2022* introduces a statement that must be included in contracts relating to disposals or mortgages of charity land. This statement must confirm that the charity has complied with the requirements of Part 7 of the *Charities Act 2011*. The person responsible for giving this statement will be the person who executes the contract.

Content of reports

18 Previously under the *Charities Act 2011*, the content of an advisor's report regarding charity land disposals was rigidly controlled. These prescriptive rules are now amended in the new Act, providing an advisor with more scope in their reporting to the charity trustees. The report should give advice concerning:

- the *market value* of the land
- how to increase that *market value*
- marketing the land
- any other reasonable steps that could be taken to make the disposal as successful as possible, and
- any other matters the trustees should be aware of.

19 The new Act also stipulates that an advisor must certify that they have the appropriate experience and expertise to advise the charity and that they have no conflicts of interest.

UK VPGA 8.3 Financial statements

1 The Charity Commission for England and Wales, the Office of the Scottish Charity Regulator, the Charity Commission for Northern Ireland and the Charities Regulatory Authority for the Republic of Ireland are the joint SORP-making body for charities – see UK VPGA 1 paragraph 6. For reporting periods starting on or after 1 January 2016 all charities must follow the Charities SORP (as periodically updated) that applies the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). An October 2018 bulletin effects changes for reporting periods on or after 1 January 2019.

UK VPGA 9 Relationship with auditors

Auditors have a statutory obligation, for UK incorporated entities, to express an opinion on whether the accounts:

- have been properly prepared in accordance with the *Companies Act 2006* (in particular, in accordance with its disclosure requirements)
- have been prepared in accordance with applicable accounting standards and
- give a true and fair view.

In order to express this opinion, auditors may need to obtain reasonable assurance from valuers that *valuations* prepared for *financial statements* under UK GAAP are correct at the *date of valuation* and further information may be requested.

1 The International Standards on Auditing (UK) (ISAs (UK)) and International Standard on Quality Control (UK) (ISQC (UK)) are based on the International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC) of the same titles that have been issued by the International Auditing and Assurance Standards Board (IAASB). The latest editions can be accessed via the [Financial Reporting Council website](#). It is important that valuers acting as experts as described in this guidance have a working knowledge and understanding of their content so far as it applies to them. As they are revised and updated from time to time, they are not reproduced here.

2 An independent auditor may look to an expert for information or assistance in determining whether the values of assets or liabilities included in *financial statements* are reasonable and well supported. Where this is so, it is important for the valuer to be clear about the exact nature of their role and the responsibilities involved.

3 The valuer may be either:

- a engaged by the reporting entity to supply a *valuation* figure for inclusion in the relevant financial statement (management's expert) or
- b engaged by the auditor to assist with independent review of the relevant entity's report (auditor's expert).

The role of the independent auditor

4 The responsibility of the auditor is to design and perform audit procedures to obtain sufficient appropriate evidence to be able to draw reasonable conclusions on which to base their audit opinion and report. Procedures to obtain audit evidence can include *inspection*, observation, confirmation, recalculation, re-performance and analytical procedures, often in some combination, in addition to inquiry.

5 The auditor has to obtain 'reasonable assurance' that the *financial statements* as a whole are free from material misstatement and present a 'true and fair' view of the reporting entity's position. Reasonable assurance is a high but not absolute level of assurance, due to the inherent limitations of an audit – much of the evidence on which auditors draw their conclusions and base their opinions is persuasive rather than conclusive. In evaluating evidence, auditors are required to apply professional scepticism in reaching a judgement as to whether that evidence is relevant, reliable, sufficient and appropriate.

6 Consistent with the reasonable assurance objective, auditors also apply the concept of materiality in performing their work. Under most financial reporting frameworks, misstatements (including omissions) are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions taken on the basis of the *financial statements*.

7 Auditors remain solely responsible for the audit opinion at all times, and regardless of the degree of use of an expert's work as audit evidence. For entities that apply the *UK Corporate Governance Code* in the preparation of their annual report – principally Premium Listed entities on the London Stock Exchange (LSE) Main Market – the auditors have to disclose the scope of their audit and how that scope addressed the assessed risks of material misstatement. In doing so they could be expected to make reference to their use of the work of experts (where applicable). A company can list on the Main Market of the LSE in either the Premium or Standard segment in accordance with the Financial Conduct Authority (FCA) listing categories. For other entities, auditing standards expressly preclude auditors from referring to the work of an expert in their report and, if they do make such a reference, indicate that this reference does not reduce their responsibility for their opinion.

The valuer as management's expert

8 Under ISA, a management expert may be either an individual or an organisation, and may be either employed (in the case of an individual) or engaged by the reporting entity – in other words, they could be an *internal valuer* or an *external valuer*.

9 If information to be used as audit evidence has been prepared using the work of a management's expert, the auditor will need to consider and evaluate the significance of the expert's work having regard to:

- a the competence, capabilities and objectivity of the expert
- b an understanding of the work of the expert and
- c the appropriateness of the expert's work as evidence for the 'relevant assertion' (in this particular context, the *valuation* opinion).

10 If accepting an instruction to provide a *valuation(s)* for financial reporting, valuers should establish whether they may be required to discuss the *valuation(s)* with the client's auditors and if so, cooperation with an auditor should be considered as being within the scope of a valuers' instructions.

11 From the auditor's viewpoint there could potentially be a greater threat to a valuer's objectivity through being an employee of the entity rather than being independently engaged by it. This is something that both entity and expert will need to bear in mind.

12 Other considerations the auditor will need to take into account include:

- a** the relevance and reasonableness of the expert's findings or conclusions, their consistency with other evidence, and whether they have been appropriately reflected in the *financial statements*
- b** the relevance and reasonableness of any significant *assumptions* or methods and
- c** the relevance, completeness and accuracy of significant source data used.

13 The nature, timing and extent of audit procedures to assess these various criteria will depend on a number of factors, relating to:

- the nature of the valuer's employment/engagement relationship with the entity
- the valuer's scope of work and how much control over that work is exercised by the entity
- the valuer's professional standards and how they are regulated
- the risk of error affecting value and
- what alternative evidence is available (to the auditor).

The valuer as auditor's expert

14 An auditor's expert can again be either an *internal valuer* or an *external valuer*. Thus, the expert could be a partner or a staff member of the auditor's firm or a network firm, including a temporary staff member. Where the audit firm does not have an in-house capability, or chooses to supplement its resource, then an external appointment might be made.

15 In all cases, the auditor will need to check the valuer's competence, capabilities and objectivity for the relevant purpose, which will include checking for any potential or actual conflict of interest.

16 It is essential that the *terms of engagement* are clear, particularly regarding:

- the roles and responsibilities of both auditor and expert
- the communication arrangements between the two and
- the nature, scope and objectives of the work itself.

17 In general, similar criteria apply as in paragraph 12 in relation to the auditor's reliance on the work of the expert.

18 In most cases, an auditor's expert will not be requested to provide an independent opinion of value, assuming they can satisfy the criteria necessary to do so, but instead will be asked to focus on matters such as the valuation approach, the evidence relied on and the *assumptions* made. Attention is drawn to the requirements of **PS 2 section 6** in this latter regard.

The auditor's requests and the valuer's response

19 Quite apart from its obligations under UK law, it is clearly in a reporting entity's interest overall to facilitate the process of audit and deal properly with requests for information or clarification. Where acting as management's expert, a valuer would expect to support the entity in this aim, but there are some points that such an expert will need to bear in mind. For obvious reasons, where acting as auditor's expert, such provisos do not arise as there is a direct (contractual) relationship between valuer and auditor.

20 More specifically, legal advice obtained by RICS indicates that there is no legal relationship between the auditor and an *external valuer* acting as management's expert. An *external valuer* can therefore refuse to produce the file, and even refuse to answer an auditor's questions, though the valuer should be satisfied that there are reasonable grounds for refusal before taking this action. This does not apply to an *internal valuer*, who is an officer of the company within the meaning of the *Companies Act 2006*, and so must cooperate.

21 However, if an *external valuer* refuses to cooperate this could constitute a limitation on the scope of the auditor's work. It may therefore lead the auditor to qualify any report on the accounts and make some comment that it was not possible to obtain all the information and explanations necessary to achieve the reasonable assurance sought.

22 Cooperation with an auditor should be considered as being within the scope of a valuers' instructions. The valuer should therefore be prepared to cooperate reasonably and responsibly with any auditors, an aspect that any *external valuer* accepting instructions to undertake a *valuation* for inclusion in a *financial statement* might wish to

take into account when settling the *terms of engagement*. In order to avoid any breach of a duty of confidentiality, client's written instructions should always be obtained before cooperating with any request from the auditors. Where necessary the directors' permission to override any confidentiality obligations in the valuer's engagement contract with the company should be obtained.

23 The auditor will usually obtain a copy of the expert's report, either from the audited entity or directly from the expert, review the report and, as appropriate, discuss it with the expert, among other things addressing the issues and questions previously mentioned. The valuer should also be expected to provide the auditor with a copy of the detailed *valuation* calculations for each property. For development properties this would include a copy of the residual appraisal where such methodology has been adopted.

24 As the role of the auditor is to understand the valuer's approach, methodology and any evidence used in forming an opinion of value, the valuer needs to be able to provide enough information to support their opinion. Any evidence and methodology will often be stated in the valuation report. In the case of large portfolios however, detailed commentary of evidence and approach for each property may not be feasible within the valuation report. In such cases valuers should give consideration to the inclusion of a summary schedule of valuation which lists tenancy data and key *valuation* inputs, for example, *market rent*, voids and yield profile.

25 Commentary on the reason for any change in value since the last reporting period would be helpful (this may simply be market movement, or new tenancy for example).

26 Prior to issuing the report, the valuer should also be prepared to bring to the auditor's attention, and discuss as appropriate, matters relating to the *valuation* that may have an impact on the audit and the auditor's responsibilities. This is important because it is an offence under UK company law to make a statement to an auditor that is knowingly or recklessly misleading, false or deceptive. Additionally, there will be occasions when the valuer will welcome the opportunity to verify information and *assumptions* relevant to *valuations*. In some cases, a discussion between the auditor and the valuer before the latter starts to fulfil the audited entity's instructions can be helpful to both parties, and will promote smooth completion of the audit. Needless to say, a valuer acting as management's expert must maintain good liaison with their client to ensure that there are no misunderstandings regarding compliance with the law and maintenance of confidentiality.

27 Some properties will be selected by auditors for detailed review, in which case the following information will typically be required.

- a A short description of each property including commentary on quality, location and other important *valuation* characteristics that impact value. Sometimes this can be found in one-page proforma reports provided to the client already, which could be shared with the auditors to avoid additional work.
- b Key evidence per property/sector that is used in assessing rent and yield.

Summary of the auditor's evaluation and commentary on the valuer's response

28 The following table provides some cross-references that may be useful when fielding questions from auditors on the previously mentioned issues.

Acting as management's expert	Acting as auditor's expert	Valuer's response
Details of the expert's experience, qualifications, membership of professional body or similar and the relevance of the expert's specialism to the matter being audited.		Member qualification and experience requirements, including RICS Valuer Registration requirements, are covered in PS 2 .
Details of published papers or books written by that expert.		A matter of fact in each individual case – though publication of books or papers is not a requirement in order for a valuer to demonstrate sufficient expertise.
An understanding of the expert's knowledge of relevant accounting requirements.		A matter of fact in each case.
Details of any interests and relationships that may create threats to objectivity and any applicable safeguards against this, including financial interests, business and personal relationships, provision of other services. (Note: Where the expert is an employee of the entity they will not be regarded as being more likely to be	Details of any interests and relationships that may create threats to objectivity and any applicable safeguards against this, including financial interests, business and personal relationships, provision of other services. A written representation about these interests or	Independence and objectivity requirements are covered in PS 2 , which also addresses issues and risks concerning conflicts of interest. Note that a valuer who is in the employ of either the enterprise that owns the assets, or the accounting firm responsible for preparing the enterprise's financial records and/or reports is an internal valuer.

objective than other employees of the entity.)	relationships may be requested.	
<p>What professional or other standards and regulatory or legal requirements apply to the expert's work.</p>		<p>Compliance and regulation in relation to Red Book Global Standards is covered in PS 1. Valuers should be alert to any other regulatory or legal requirements that apply in individual cases.</p>
<p>What <i>assumptions</i> and methods are used by the expert and whether they are generally accepted within that field and appropriate for financial reporting purposes.</p>		<p><i>Assumptions</i> are covered in VPS 4. Note that <i>special assumptions</i> should not normally be used where <i>valuations</i> are to be included in <i>financial statements</i> – see VPS 4. Methods are a matter of judgement for the valuer, and their general acceptance and appropriateness are matters that will depend on individual circumstances.</p>
<p>The nature of internal and external data or information the expert uses.</p>		<p>The nature and source of the information relied on is covered in VPS 3.</p>
<p>Obtain a copy of the expert's engagement contract or other written agreement between the expert and management.</p>		<p>The valuer should provide the auditor with a copy of the <i>terms of engagement</i> agreed with the client and any subsequently agreed variations of those terms.</p>

Table 1: Fielding questions from auditors

UK VPGA 10 Valuation for commercial secured lending purposes

Overview

The UK commercial *real estate* lending industry has evolved significantly in recent years, and valuers are servicing a more diverse client base than before. As the 'mainstream' established lenders are subject to enhanced regulatory and capital requirements, a range of alternative lenders have emerged who may operate on different business models. The due diligence requirements, risk governance structure and risk appetite can therefore vary significantly across the lending industry.

It is impractical to devise a rigid protocol for all commercial secured lending, as lender requirements will vary. The valuer and lender may therefore agree and document a *departure*, as defined in **PS 1**. The overriding objective is that the valuer should understand the lender's requirements and the lender should understand the advice that is given. UK VPGA 10 therefore reflects the general requirements of the lending market, on which liaison with UK Finance is maintained. It also provides supplementary guidance to valuers on mitigating risks and ensuring that the *terms of engagement* and reporting are fair and reasonable for all parties involved.

UK VPGA 10.1 Application of the RICS Valuation – Global Standards

The global guidance for secured lending valuations is contained in VPGA 2, *Valuation of interests for secured lending*. This remains wholly applicable to UK secured lending, and valuers should have full regard to this in conjunction with this UK-specific guidance.

- 1 UK VPGA 10 applies specifically to *valuations* for commercial secured lending against investment, development and owner occupied real property. For this purpose, the definition of commercial property includes 'standard' asset classes, operating assets, and residential assets that are considered to fall within the professional investment sector.
- 2 *Members* are reminded that the DRC method is conceptually unsuitable for use as the sole or primary *valuation* method for secured lending purposes, but may in appropriate circumstances provide a useful crosscheck to help inform where other methods have been applied.

UK VPGA 10.2 Independence, objectivity and conflicts of interest

Members are reminded that they must comply with the requirements set out in the current edition of RICS' *Conflicts of interest* in addition to complying with the standards and guidance in Red Book Global Standards, with particular reference to **PS 2** and VPGA 2.

1 Lenders usually have distinct internal risk and compliance policies, which are supplementary to the satisfaction of regulatory requirements. In this context, a valuer's opinion of what circumstances could give rise to a conflict may differ from the perspective held by a lender. Therefore, it is best practice for the valuer to make a full and transparent disclosure of any involvement that is, or may be perceived to be, a conflict of interest, irrespective of the valuer's assessment of the materiality of that situation. This is fully in accord with the last sentence of **PS 2 section 5.3 paragraph 5.3.1**.

2 Valuers are reminded that the criteria against which they should judge whether there is an actual, perceived or potential conflict of interest is set out in the current edition of RICS' *Conflicts of interest* and having regard to the provisions of **PS 2, VPGA 2** and this guidance.

3 A discussion should, as necessary, take place about the valuer's proposals to manage any conflict or perceived conflict with a view to reaching agreement. The lender will review this in the context of their policies and if the proposed solution does not meet the lender's criteria, they may be unable to instruct the valuer. It is not within the scope of this guidance to comment further, as policies will vary across the lender community, but a valuer acting in full compliance with the RICS standards and guidance referred to previously is not under any obligation to agree to terms or measures that they believe to be unduly onerous when settling *terms of engagement*. See also UK VPGA 10.3.

Valuer communication with a borrower

4 The valuer should take instructions from the lender in regard to the method of obtaining information that is not publicly available. If the lender elects to open a communication channel directly between the borrower and the valuer in order to promote an efficient exchange of data, it is good practice for the valuer to request these instructions in writing.

Status of valuer

5 The provision of advice that is objective and free from bias assumes particular importance in relation to secured lending, and therefore the valuer providing the opinion of value on which the lending decision will ultimately be made will – at a minimum – be expected to be an *external valuer* as defined in the *Glossary*. However, as **PS 2 section 3 paragraph 3.4** makes clear, some lending clients may adopt specific criteria that a valuer must meet, using terms such as 'independent valuer' in this connection. As there is no universally recognised definition of this or other similar terms, it is essential that the valuer ensures the instructing client has defined the term or terms employed in writing, so the criteria for independence being applied are crystal clear. It follows that the valuer must meet those criteria before agreeing to act.

6 See UK VPGA 10.4 regarding the other roles that valuers may perform in relation to the secured lending process.

UK VPGA 10.3 Instructions and disclosures

Valuers are reminded of the need to mitigate risk in *valuation* work, in line with the current edition of RICS' *Risk, liability and insurance*. RICS *Rules of Conduct* require that the *terms of engagement* are fair and reasonable for all parties involved. Prior to accepting any instruction, valuers may or will need to discuss with clients the principle of liability caps and the reliance that will be placed on the *valuation*. The resultant agreement must be unambiguously documented in both the *terms of engagement* and the *valuation* report.

1 Many lenders deploy framework agreements or 'panel agreements', which may be made directly with the *valuation* firms or managed via a third-party panel management firm. Where these are agreed and adopted by the parties concerned, they may have the benefit of standardising terms of instruction/engagement and the associated reporting requirements. However, great care must be exercised to ensure that where such agreements are in place, they are and remain appropriate in relation to individual *valuation* assignments. This is of as much importance to the lender as to the valuer. The great diversity of circumstances relating to property assets that may be considered for secured lending means that *members* should be alert to instances where, for specific and identified reasons, standardised *terms of engagement* may not be appropriate. Such cases should be identified and discussed with the instructing client as appropriate – but *members* should not feel obliged to undertake assignments under unduly onerous or inappropriate terms and must always bear in mind the requirements of PS 2 and in particular section 2 paragraph 2.4. In short, *members* must not undertake work that is outside their remit and competency.

2 Panel agreements may require revisions from time to time to reflect changes in regulation or market practice. Valuers are therefore advised to keep such agreements under regular review to ensure relevance and clarity of the expectations on both parties to the agreement.

3 VPGA 2 sets out guidance on agreeing *terms of engagement* with those lenders who do not issue panel agreements, and on responding to requests for *valuations* by brokers and prospective borrowers. For *valuations* undertaken in the UK, it is strongly recommended that any loan security report is addressed only to the named lender, and not to a broker or potential borrower.

Limitation of liability

4 The actual limits of liability to be agreed between the lender and the valuer in relation to the *valuation* are a matter for commercial negotiation. However, both parties

should have regard to the requirement that any cap in liability should be reasonable and proportionate to the nature of the instruction and their respective exposures to risk. Particular care is required, both to understand the potential extent of liability and to understand its management, if the valuer is asked to provide advice or assurance in relation to matters that would trigger the need for action under **PS 2 section 2 paragraph 2.4**.

Limitation of reliance

5 As a default position, the *terms of engagement* should limit reliance only to the addressee, who should be the named lender. They should also state as default that any third-party reliance is specifically excluded. However, if any other beneficiaries are to be included, as appropriate to the nature of the instruction, these should be specifically named.

UK VPGA 10.4 Reporting

Valuers usually need to review a range of technical reports and other due diligence information sources in arriving at their opinion of value. The key topics are listed within VPGA 2, though it is not intended as an exhaustive list. It is important for the valuer to recognise the limits of their expertise and to restrict any comments to observations of fact. Valuers should always recommend that the relevant specialists, e.g. legal, technical and environmental advisors, review where appropriate their interpretation of those reports, and revert if they are not correct.

Regulatory requirements

1 A lender may request the valuer to provide an opinion of asset quality in accordance with categories established by regulatory authorities. In these instances, the valuer should confine their response to a direct answer to the questions. Any limitations on the valuer's ability to complete these questions accurately should be noted.

Suitability for loan security

2 It is wholly the responsibility of the lender to assess and take the final decision on the suitability of the asset for loan security, as this will involve factors other than the property being taken as collateral. Any comments by the valuer should be limited to those property or market factors that could or may have an impact on cash flow, value or liquidity.

3 The valuer is only expected to provide an opinion based on information that is readily available in the market and/or is reasonably foreseeable. Where forward-looking advice is provided to the lender, it must meet the requirements of **VPS 3 section 2 paragraph 2(e) subparagraph 3** and **VPS 4 section 11**.

Extensions of validity and revaluations

4 In the event that the completion of a loan is delayed, a lender may revert to a valuer to ask for confirmation that a *valuation* is still valid. The valuer must exercise caution should there be any material change in the facts and circumstances that may influence the *valuation*, but nevertheless may confirm the *valuation* where appropriate.

5 An instruction for a revaluation without *re-inspection* should follow the guidance in **VPS 2**. The valuer should additionally ascertain whether the loan is being treated as an extension of the original loan, or a new loan, which may have different consequences regarding valuer liability.

UK VPGA 11 Valuation for residential purposes

These overarching principles are designed to achieve a uniform approach to the provision of valuation advice for residential purposes with a primary focus on, but not limited to, UK residential secured lending. Where the nature of valuation advice is provided for UK residential secured lending purposes, these principles cover the provision of advice to prospective lenders where the security to be offered is either:

- a an individual residential property that is intended to be occupied, or is occupied by the prospective borrower or
- b an individual residential property purchased as a buy-to-let investment (for further guidance, see the current edition of RICS' [Valuation of buy-to-let and HMO properties](#)).

In addition to these principles, RICS will be providing separate, detailed guidance to residential valuers operating in the UK. This guidance will sit alongside the existing suite of residential valuation-related guidance (see VPGA 11.13), so there is ease of access and use for practitioners. In the interim period, while the guidance is currently in the process of development, RICS valuers may use the relevant archived material in *RICS Valuation – Global Standards 2017: UK national supplement 2018*:

- UK VPGA 11 Valuation for residential mortgage purposes
- UK VPGA 12 Valuation of residential property for miscellaneous purposes
- UK VPGA 13 Residential secured lending guidance for other related purposes including RICS HomeBuyer Service.

For the avoidance of doubt during this interim period, in the unlikely event of a conflict, the principles contained within this publication supersede those in the archived content.

The property market in the UK is becoming increasingly diverse and there are a growing number of areas (such as new build, leasehold property, and valuation of buy-to-let and houses of multiple occupancy) that require specialist knowledge in the provision of advice to clients in accordance with their existing obligations set out in **PS 2** in relation to conduct and competence.

Technology has and continues to evolve to support valuers in the development of their professional opinion. There is also an increasing amount and variety of data available to valuers. Valuers should at the very least consider information (usually online) that is freely available to the public and subscription-based websites.

Overview

1 When valuing UK residential properties on behalf of clients including building societies, banks, equity release providers and other lenders for mortgage purposes, the valuer is expected to follow the guidance in this VPGA unless otherwise agreed in writing, in advance, with the client.

2 In [Scotland](#), the procedures for buying residential property differ from those in England, Wales and Northern Ireland. This guidance is nevertheless of general application, save for the practicalities concerning agreement of *terms of engagement* in Scotland – see **UK VPS 2**.

3 Most lenders have standard *terms of engagement* and/or an over-riding service level agreement (SLA), or overall contract with their panel valuers. The valuer must ensure that in confirming the terms, whether as a generic standing instruction or for an individual instruction and/or in accordance with an over-riding SLA/contract, all the requirements of **VPS 1** are addressed, unless otherwise agreed in writing with the client.

4 Where a lender's request incorporates special requirements – for instance a limited inspection, or no inspection, or *special assumptions* – the valuer must expressly confirm and as necessary clarify them in the *terms of engagement* or their *report*, and consider any potential impact on the fee, before accepting the instruction.

5 Valuers are reminded of their reporting obligations are in accordance with **VPS 3** and any specific requirements set out in an over-riding SLA/contract.

6 In general, *firms* that provide *valuation* advice in relation to residential mortgages do so in a wider regulatory framework which encompasses *valuations*. *Mortgage Conduct of Business* ([MCOB](#)), *Prudential Sourcebook for Mortgage and Home Finance Firms*, and *Insurance Intermediaries* ([MIPRU](#)) and *Prudential sourcebook for Banks, Building Societies and Investment Firms* ([BIPRU](#)) (which underpin lender conduct and prudential regulatory requirements) all include sections on valuation and the importance of reliable standards for the valuation of residential property. RICS valuers and their *valuation* advice have an important role to play in fulfilling lender requirements on these. Valuers should be aware of their obligations to help their clients to help meet their regulatory requirements.

7 The regulations apply to 'regulated mortgage contracts'. See the [FCA website](#) for more information.

UK VPGA 11.1 Application of the RICS Valuation – Global Standards

1 The global guidance for secured lending valuations is contained in VPGA 2. This remains wholly applicable to UK *valuations* for residential purposes including secured lending, and valuers should have full regard to this in conjunction with this UK-specific guidance, which addresses in particular the full level of *inspection* and investigations appropriate.

The valuer's role and remit

2 The role of the valuer is to advise their client on:

- a. the nature of the property and factors revealed during the *inspection* that are likely to materially affect its value

- b. the *market value* (and/or *market rent* if required), with specified *assumptions* or *special assumptions* and
- c. where there are serious cases of disrepair or obvious potential hazards revealed during the *inspection* that may have a material impact on its value.

UK VPGA 11.2 Bases of value – specific to residential secured lending

The primary bases of value to be adopted for residential purposes are *market value* or *market rent* as defined in the glossary.

1 Where an existing property has, or has a reasonable prospect of obtaining, planning approval for future development, that value is to be excluded from the assessment of *market value* by way of a *special assumption* (VPS 4 section 9) unless instructed otherwise by the lender.

2 Where, in exceptional cases, a 'projected value' is to be provided (i.e. relating to a date after the date of the report) and the valuer has provided consent, great care should be taken to ensure that any associated provisos or disclaimers are accurately stated in the report. Valuers are reminded of the supporting material provided in VPS 4 section 11.

UK VPGA 11.3 Valuation inspections

The purpose of an *inspection* for residential *valuation* purposes is to ensure the provision of a *valuation* upon which the client can identify and report those matters that may have a material effect on the value.

Unless otherwise instructed, the valuer will inspect the property to be valued.

Inspection

1 The visual *inspection* to be undertaken in the present context covers as much of the exterior and interior of the property as is readily accessible without undue difficulty or risk to personal safety. Although personal judgement has to be used, this *inspection* should include all of the property that is visible when standing at ground level within the boundaries of the site and adjacent public/communal areas, and when standing at the various floor levels.

Valuation advice without a full inspection

2 The valuer may be asked for *valuation* advice without an internal or physical *inspection*, and with or without the benefit of an earlier report. Such a request may be complied with, but the consequential limitations on the valuer's liability need to be drawn to the attention of the client.

3 Where a desk top opinion is sought without any form of *inspection* of the property itself, the valuer should exercise additional caution particularly as to the intended use of the *valuation*. The valuer should ensure that the source of information

and the rationale used in arriving at the desk top *valuation* are documented and retained, given that there will be no site notes.

Re-inspection

4 A 're-inspection' is a further visit to a property for which the valuer has previously provided a report where the lender has either imposed conditions or made a retention. Further information will be available in separate forthcoming publications.

UK VPGA 11.4 Valuation investigations

1 The valuer should not only use their local knowledge in the course of their investigations within the agreed *terms of engagement/SLA* but they should at the very least consider information that is freely available to the public (usually online).

2 The RICS *member's* knowledge will, at times, lead to a suspicion that a visible defect identified during the course of an *inspection* may affect other concealed building elements. In these circumstances, the RICS *member* should recommend that a further investigation is undertaken.

3 However, the RICS *member* should not recommend further investigation just because a given building element is inaccessible within the confines of a normal *inspection*. Examples include where the covering of one roof slope cannot be seen from any reasonable vantage point, but there is no evidence of defect in the roof void. In such cases, RICS *members* should inform the client of the restriction and advise on the implications. The RICS *member* should exercise professional judgement and not call for further investigations only to cover themselves against future liabilities.

4 Where a further investigation is recommended, the RICS member should include the following information in the client's report:

- a description of the affected element and why a further investigation is required
- when the further investigation should be carried out and
- a broad indication of who should carry out the further investigation (for example their qualifications, membership of a trade body, competent person scheme).

UK VPGA 11.5 Factors with a material impact on value

1 The *inspection* and investigations may reveal various factors that could have a material impact on the value. These factors need to be carefully considered by the valuer in the context of the *valuation*. The valuer may wish to alert their client, in advance of any final report, of any matters that raise significant concern from a *valuation* perspective. Valuers are reminded the final report must be in accordance with client instructions and any additional reporting requirements in excess of the original

terms of engagement is a matter of commercial discussion and agreement between the valuer and the client.

UK VPGA 11.6 Assumptions and special assumptions

During the course of a *valuation* for residential purposes, and in the absence of any client-provided information, a valuer is expected to make oral enquiries of an owner/occupier or selling agent (if applicable) regarding any elements of the property that may have an impact on value.

Valuers are reminded of their existing obligations as set out in **VPS 4**. The use of *assumptions* and *special assumptions* should be sparing and always supported with an appropriate rationale.

Legal and planning matters

1 Overall, it is not necessary for the valuer to make detailed enquiries into legal or planning matters. These should be left to the client's or, in the case of secured lending, the borrower's legal advisers. Any obviously visible breach of planning control or evident legal concern, however, should be reported. The client should also be advised of any obvious, recent and significant alterations and extensions, so that the client's legal adviser is alerted to the possible need to make enquiries.

2 The valuer is not obliged to search for statutory notices, although the client's legal advisers may ask if any such matters that come to light during their own searches have a material effect on value. Nevertheless, the valuer should be aware of the latest requirements in the [National Trading Standards Material Information for property listings](#). Consideration may have to be given to known, or suspected, planning restrictions or conditions. The valuer is under no duty to search, but may be called on for advice as to any material effect on value if adverse matters are disclosed.

Contamination and environmental hazards

3 No enquiries regarding contamination or other environmental hazards are to be made but, if a problem is suspected, the valuer should recommend further investigation. The valuer will not carry out an asbestos inspection and will not be acting as an asbestos inspector in completing a mortgage *valuation inspection* of properties that may fall within the [Control of Asbestos Regulations 2012](#).

Other matters

4 In the absence of details and considering the limited nature of an *inspection* for a typical mortgage *valuation*, the valuer is entitled to make reasonable *assumptions* with regard to the state of the property and other factors that may affect value.

5 Unless limited enquiries reveal otherwise, the following *assumptions* and *special assumptions* may be made without verification.

- a The property will be transferred with vacant possession, unless it is a buy-to-let instruction being valued with the tenant in situ.
- i All required valid planning permissions and statutory approvals for the buildings and for their use, including any extensions or alterations, have been obtained and complied with.
- j In the case of a building that has not yet been constructed, the valuer will, unless instructed otherwise, provide a *valuation* on a *special assumption* that the development had been satisfactorily completed, as at the date of the inspection, in accordance with planning permission and other statutory requirements.
- k No deleterious or hazardous materials have been used in the construction. However, if the limited inspection indicates that there are such materials, this must be reported and further instructions requested. Valuers should refer to the latest edition of RICS' *Valuation approach for properties in multi-storey, multi-occupancy residential buildings with cladding* for further information.
- l The site is not contaminated and is free from other environmental hazards.
- m The property is not subject to any unusual or especially onerous restrictions, encumbrances or outgoing, and good title can be shown.
- n The property and its value are unaffected by any matters that would be revealed by a local search (or their equivalent in Scotland and Northern Ireland), or in replies to the usual pre-contract enquiries or by any statutory notice that may indicate that the property and its condition, use or intended use are, or will be, unlawful.
- o An *inspection* of those parts that have not been inspected, or a survey *inspection*, would not reveal material defects or cause the valuer to alter the *valuation* materially.
- p There is unrestricted access to the property and the property is connected to, and has the right to use, the reported main services on normal terms.
- q Sewers, main services and the roads giving access to the property have been adopted, and any lease provides rights of access and egress over all communal estate roadways, pathways, corridors, stairways and use of communal grounds, parking areas and other facilities.
- r In the case of a newly constructed property, it has been built under a recognised builder's warranty or insurance scheme approved by the lender, or has been supervised by a professional consultant capable of fully completing the UK Finance Professional Consultant Certificate acceptable to the lender.

- s There are no ongoing insurance claims or neighbour disputes and the property is insurable under normal terms.

6 Where the inspection reveals matters that affect any *assumption* or the value of the property, the details are to be included in the report together with, if appropriate, recommendations for further action to be taken.

7 Where RICS has published guidance on specific areas of valuation, the valuer should have regard to this. See VPGA 11.3 for further information.

Leasehold properties

8 Leasehold data including unexpired lease term, ground rent and any further relevant information should be considered and reflected in the *valuation* based upon data that can be sourced freely and openly, on the day of *inspection* or beforehand from either the vendor or the selling agent as applicable following reasonable investigation. However, the valuer cannot give any absolute assurance that, if verbally provided, such data is reliable – verification will be a matter for the client’s legal representatives as appropriate.

9 For further information, valuers should refer to the current edition of RICS’ [Valuation of residential leasehold properties for secured lending purposes \(England and Wales\)](#).

UK VPGA 11.7 Reporting

1 In the case of secured lending, the lender will often provide a standard *valuation* report format. In circumstances where the client has not stated what their preferred format is, the valuer should provide a report in compliance with **VPS 3** and the principles set out within this publication.

UK VPGA 11.8 Treatment of incentives

1 Sales incentives and the marketing of property, especially new-build homes, have become increasingly more innovative and sophisticated. Incentives can differ between development sites, between properties being sold and between the types of purchaser being attracted by the seller (owner-occupier or buy-to-let investor).

2 More detailed guidance on the treatment of incentives and how to report on their impact is contained in RICS’ [Valuation of individual new-build homes](#).

UK VPGA 11.9 Estimates for insurance purposes

1 Where the client requests that an insurance replacement cost be provided it should be in accordance with appropriate market indices which are clearly referenced in the report.

UK VPGA 11.10 Valuations subject to 'restricted marketing periods'

1 In the UK, particularly for secured lending purposes, valuers may receive requests to provide a *market value* subject to a restricted marketing period. Valuers are reminded of their existing obligations in **VPS 4**, which states that a *special assumption* of a restricted marketing period may only be made if the assumed reason for the restriction is also stated. For clarity, where a *market value* is provided without the constraints being provided, this *valuation* advice is not in accordance with *RICS Valuation – Global Standards*.

2 Unless the details of the constraints are provided, a valuer is unable to discharge their duty of assessing the likely impact these constraints will have on their professional opinion. In addition, the definition of *market value* assumes a 'proper marketing period'. Providing advice on this basis without appropriate supporting rationale is therefore contrary to the definition of *market value*.

3 If, following a discussion with their client on the ramifications of the provision of advice on this basis, and the client and the valuer agree to proceed, the valuer should do so with extreme caution. To ensure transparency in the advice provided, the valuer should document:

- in their *terms of engagement* and report, that this request is not in accordance with *RICS Valuation – Global Standards*
- in their report the limitations of this figure and the risks of relying on it.

4 Where information regarding the financial impact is provided, e.g. there is a defined financial penalty for failing to sell a property outside a time-frame, then this could be considered reasonable and allow the valuer to assess the impact of the constraint on value.

'Forced sale value'

5 In a similar vein, valuers receive requests to provide a 'forced sale value', for example, in the event of a repossession. For clarity, this is not a defined *basis of value*.

6 Using the principles set out above alongside the existing commentary in **VPS 4**, a valuer may, following discussion with their client, proceed on the following basis:

'The valuer's opinion of the best price that could reasonably be obtained selling the property to achieve legal completion within 90 days from the date of inspection, bearing in mind the sellers motivation to sell and the fact that the property will be vacant and not presented for sale.'

7 The mortgagee as vendor has a duty to secure the best price available in the prevailing market conditions and has to act reasonably.

8 In Scotland, in recognition of the Single Survey, the *basis of value* for a lender's repossessed property, which is being exposed to the market, will be the same as any other property being brought to the market, that is, *market value*. Should the lender

require any other method of *valuation*, this must be made clear in the *terms of engagement* and the report.

UK VPGA 11.11 Retype and lenders transcriptions reports

- 1 A 'retype report' is the generic name applied to a request for a 'copy report' or 'transcription', which is commonly requested by brokers and lenders.
- 2 Valuers should seek specific instructions from their clients. Where there is a request for an amendment to the original report, valuers should consider whether this constitutes a new set of *terms of engagement* and a new *valuation* instruction.

Retype reports in Scotland

- 3 When producing a Home Report, the valuer has the option to provide a Generic Mortgage Valuation Report (GMVR) in addition to the Single Survey. Buyers will be in the same position as before in having this prior to making an offer.
- 4 Valuers should refer to the separate residential guidance on the *RICS HomeBuyer Services* and *Home Report in Scotland*.

UK VPGA 11.12 Valuations without internal inspection

- 1 When an opinion is provided on this basis, it must be confirmed in writing, and the manner of *valuation* and the restrictions under which it is given clearly stated (see VPS 1).
- 2 Where a desk top opinion is sought without any form of *inspection* of the property itself, the valuer should exercise additional caution particularly as to the intended use of the *valuation*. The valuer should ensure that the source of information and the rationale used in arriving at the desk top *valuation* are documented and retained, given that there will be no site notes.

UK VPGA 11.13 Supporting RICS valuation guidance

Where RICS has published guidance on specific areas of valuation, the valuer should have regard to this. As at the date of publication these include:

- [Valuation of individual new-build homes, 3rd edition](#)
- [Valuation of properties in multi-storey, multi-occupancy residential buildings with cladding, 1st edition](#)
- *Valuation approach for properties in multi-storey, multi-occupancy residential buildings with cladding*, 1st edition
- [Leasehold reform in England and Wales, 3rd edition](#)
- [Comparable evidence in real estate valuation, 1st edition](#)
- [Japanese Knotweed and residential property, 1st edition](#)
- [Valuing residential property purpose built for renting, 1st edition](#)
- [Valuation of residential leasehold properties for secured lending purposes, 1st edition](#) and

- [Valuation of buy-to-let and HMO properties, 2nd edition](#)

UK VPGA 12 Valuation of residential property for miscellaneous purposes

The content of this UK VPGA has been merged into UK VPGA 11.

UK VPGA 13 Residential secured lending guidance for other related purposes including RICS HomeBuyer Service

The content of this UK VPGA has been merged into UK VPGA 11.

UK VPGA 14 [insert]

UK VPGA 15 Valuations for Capital Gains Tax, Inheritance Tax, Stamp Duty Land Tax and the Annual Tax on Enveloped Dwellings

Scope

UK VPGA 15 provides guidance to valuers who give *valuation* advice to clients reporting in accordance with UK capital taxation requirements.

Overview

- 1 Capital Gains Tax (CGT), Inheritance Tax (IHT), Stamp Duty Land Tax (SDLT) in England and Northern Ireland, Land and Buildings Transaction Tax (LBTT) in Scotland and Land Transaction Tax (LTT) in Wales, and the Annual Tax on Enveloped Dwellings (ATED) are included in self-assessment procedures where the taxpayer is responsible for calculating the appropriate amount of tax based on the *valuation* provided to the tax authority.
- 2 CGT, IHT, SDLT and ATED are complex taxes and *members* should take care to understand the background to the event triggering a potential or actual tax liability before proceeding.
- 3 Further information is available on the HM Revenue and Customs (HMRC) pages on GOV.UK, which gives access to HMRC's internal guidance manuals, and on the Valuation Office Agency (VOA), which gives access to the instructions to its valuers in preparing *valuations* for tax purposes.

Capital Gains Tax (CGT)

- 4 In the case of individual taxpayers, business partnerships, self-employed sole traders and trusts, any CGT calculation will be included in the tax return for the tax year in which the transaction requiring the tax computation took place.
- 5 Large companies, on the other hand, pay their corporation tax on any capital gains in advance by instalments based on a prediction of their results for that tax year. A large company is one whose profits for the accounting period in question are at an annual rate of more than the 'upper limit' in force at the end of that period.

Inheritance Tax (IHT)

- 6 In IHT cases the personal representatives are required to submit an IHT account that identifies all 'appropriate' property and its value.

Stamp Duty Land Tax (SDLT)

- 7 Stamp Duty Land Tax (SDLT) is paid on the purchase of a property or land over a certain price in England and Northern Ireland. It is also paid when taking a new lease

and in some other circumstances. SDLT no longer applies in Scotland and Wales – Land and Buildings Transaction Tax (LBTT) is payable in Scotland and Land Transactions Tax (LTT) in Wales.

Annual Tax on Enveloped Dwellings (ATED)

8 Annual Tax on Enveloped Dwellings (ATED) is an annual tax payable mainly by companies that own UK residential property valued at more than £500,000.

9 An ATED return to HMRC is required if the property:

- is a dwelling
- is in the UK and
- is valued at more than a specified threshold.

UK VPGA 15.1 Application of statute

The *valuations* used by taxpayers in their tax computations are subject to examination by valuers in the Valuation Office Agency (VOA) on behalf of the HMRC. It is therefore essential that any *valuation* used in those tax calculations has been prepared on the statutory basis having due regard to case law and in accordance with best practice.

1 It is of great importance, when preparing a *valuation* for taxation purposes, to apply the statutory rules appropriately and to have a proper understanding of the basis of *market value* for taxation purposes.

2 If, following discussion with the VOA, a different *valuation* or apportionment is agreed or determined and results in a materially different tax bill, a taxpayer could be faced with a claim for interest and, in some cases, additional penalties. Where the taxpayer has paid too much tax, the HMRC may pay interest.

3 *Valuations* for tax purposes are based on the concept of a hypothetical sale for which a statutory definition is required. In some cases, it may also be necessary to undertake apportionments of value. The statutory definition and interpretation of market value for tax purposes is not exactly the same as the definition of *market value* in VPS 4. In particular, the existence of a *special purchaser*, where relevant, is a factor that is to be reflected properly.

4 UK VPGA 15 is based on interpretations arising from cases that have been determined by the Upper Tribunal (Lands Chamber) or higher courts on appeals made by taxpayers against tax assessments based on the value of property. It is recognised that there may be circumstances where the client wishes to challenge an aspect of the tax calculation, including the interpretation of the statutory basis or the method of *valuation*. If the valuer is instructed to give *valuations on specified assumptions* that differ

from those in this guidance, the procedures in **VPS 3 section 2 paragraph 2.2(i)** will need to be followed.

UK VPGA 15.2 Basis of value

Definitions of the *basis of value* for:

- Capital Gains Tax (CGT) can be found in section 272, [Taxation of Chargeable Gains Act 1992](#)
- Inheritance Tax (IHT) in section 160, [Inheritance Tax Act 1984](#)
- Stamp Duty Land Tax (SDLT) in section 118, [Finance Act 2003](#) and
- the Annual Tax on Enveloped Dwellings (ATED) in section 98(8) of the [Finance Act 2013](#).

These definitions are written in similar terms and broadly define market value as:

‘the price which the property might reasonably be expected to fetch if sold in the open market at that time, but that price must not be assumed to be reduced on the grounds that the whole property is to be placed on the market at one and the same time.’

The definitions are similar to those used in earlier tax acts and their practical application has been examined in considerable detail by the courts over the years. Thus, case law has established that, in arriving at market value, the following *assumptions* must be made:

- the sale is a hypothetical sale
- the vendor is a hypothetical, prudent and willing party to the transaction
- the purchaser is a hypothetical, prudent and willing party to the transaction (unless considered a *special purchaser*)
- for the purposes of the hypothetical sale, the vendor would divide the property, i.e. asset to be valued, into whatever natural lots would achieve the best overall price
- all preliminary arrangements necessary for the sale to take place have been carried out prior to the *valuation date*
- the property is offered for sale on the open market by whichever method of sale will achieve the best price
- there is adequate publicity or advertisement before the sale takes place so that it is brought to the attention of all likely purchasers and
- the *valuation* should reflect the bid of any *special purchaser* in the market (provided that purchaser is willing and able to purchase).

1 UK VPGA 15 deals solely with the statutory basis of *market value* for Capital Gains Tax (CGT) (including corporation tax on capital gains), Inheritance Tax (IHT), Stamp Duty Land Tax (SDLT) in England and Northern Ireland, Land and Buildings Transaction Tax

(LBTT) in Scotland, Land Transactions Tax (LTT) in Wales, and Annual Tax on Enveloped Dwellings (ATED), and does not cover *valuations* that may be required for income tax or corporation tax (such as capital allowances).

2 *Valuations* for CGT, IHT, SDLT and ATED purposes are based on a statutory definition of 'market value', which is similar to the definition used in *RICS Valuation – Global Standards 2022*. However, the statutory definition has been the subject of interpretation by the Upper Tribunal (Lands Chamber). Valuers should be aware of the differences between the definitions, to ensure their *valuations* are made on the correct basis.

3 Clients will often request a *valuation* for 'probate purposes', when they actually need a *valuation* for IHT purposes. When confirming instructions and in the report, the valuer must make it clear that although the *valuation* is required as part of the procedure for obtaining a 'grant of probate', the *basis of value* will be in accordance with the statutory definition. Valuers should therefore avoid using the term 'probate value'.

4 The definition of *market value* for tax purposes may be broken up into elements that have been defined in case law, as can be seen in the following paragraphs.

The price...'

5 In *Duke of Buccleuch v IRC* (1967) 1 AC 506 the price that the property might reasonably be expected to fetch was defined as the gross sale price for the property without deducting any selling costs.

6 In *Ellesmere v IRC* [1918] 2 KB 735 the price was held to mean the best possible price that would be obtainable in the open market, if the property was sold in such a manner (and subject to such conditions) as might reasonably be calculated to obtain for the vendor the best price for the property.

7 However, it should not be assumed that the best price is automatically the highest possible price that could be achieved. What is required, in *valuation* terms, is an estimate of the price that could be realised under the reasonably competitive conditions of an open market on a particular date.

'... the property...'

8 In *Duke of Buccleuch v IRC* it was held that the reference to 'the property' was not a reference to the whole estate being valued, but meant any part of the estate that was proper to treat as a unit for *valuation* purposes. Similarly, in *Ellesmere v IRC*, it was held that the market price was a price based on the separate values of the various parts. It was also indicated that the price must be estimated on the basis that the properties were sold in whatever lot(s) would realise the best price.

9 In *IRC v Gray (Executor of Lady Fox decd.)* [1994] STC 360 it was held that the property must be valued as it actually existed, even if, in reality, a vendor would most likely have made some changes or improvements before putting it on the market. Although this case referred to variations in the way in which the property was held by the parties (rather than physical works), it identified the general principle of valuing the property as it stands at the *valuation date*.

10 As a consequence, in preparing any taxation *valuation*, it is important to have proper regard to the most viable lotting of the property (or properties) to be valued, in order to maximise the overall price. This is effectively a notional marketing exercise, commonly referred to as 'prudent lotting'.

'... if sold...'

11 The statutory definitions of *market value* are concerned with a hypothetical sale, not an actual one. As originally held in *IRC v Crossman* [1937] AC 26, and confirmed unanimously in *Duke of Buccleuch v IRC* and in *Lynall v IRC* [1972] AC 680, in arriving at the value, it is irrelevant to consider what would have been the circumstances attending an actual sale.

12 The price that the property would have actually realised in the open market, or the potential impossibility of putting the property on the market at the *valuation date*, is also irrelevant. In other words, one does not have to assume that the property actually had to be sold, as a hypothetical market must be assumed, as at the *valuation date*.

13 In *IRC v Gray (Executor of Lady Fox decd.)*, it was said that the property must be assumed to have been capable of sale in the open market, even if it was in fact inherently unassignable or held subject to restrictions on sale. The relevant question is what a purchaser would have paid to enjoy whatever rights were attached to the property at the relevant date, assuming a hypothetical sale.

'... in the open market...'

14 In *Lynall v IRC* it was held that the property must be valued on the basis of a hypothetical sale between a hypothetical willing vendor (not the actual owner of the property in question) and a hypothetical willing purchaser. The hypothesis used was that potentially no one was excluded from buying (the hypothetical purchaser thus potentially including the actual owner).

15 The statutory definitions refer to 'the open market' and not 'an open market'. This has been interpreted to mean a real market made up of real people. In *Lynall v IRC* the open market was regarded as a blend of reality and hypothesis. It was held that the conditions under which the hypothetical sale is deemed to take place should be built on a foundation of reality as far as is possible. However, it was deemed even more

important not to defeat the intentions of statute by an undue concern for reality in what is essentially a hypothetical situation.

16 Case law has further refined the components of the open market definition and, in particular, those parties assumed to be active in it. In *Lynall v IRC* it was held that the statute implied that there had been adequate publicity or advertisement before the sale, and that steps had been taken (before the sale) to enable a variety of persons, institutions or financial groups to consider what offers they would be prepared to make.

17 However, in *IRC v Gray (Executor of Lady Fox decd.)* it was said that it could not be emphasised too strongly that although the sale is hypothetical, there is nothing hypothetical about the open market in which it is supposed to have taken place. The hypothetical sale envisaged (in order to ascertain the *market value* for taxation purposes) presupposes a willing vendor and a willing purchaser.

'... at that time...'

18 This is defined by statute for the purposes of the *valuation* exercise in question. The *assumption* regarding the definition of the date is that all the preliminary arrangements have been made prior to the *valuation date* so that a hypothetical sale can take place at the statutory point in time. The objective is to ascertain the value of the asset at the prescribed time (and not at any other time), and this can only be achieved by assuming that all preliminary arrangements have been made beforehand.

Further interpretation

19 As part of the consideration of the definition of *market value* for tax purposes, the courts have also given guidance on other terms that, although not appearing in the statutory definition, are used in the interpretation.

20 A 'willing vendor' or 'willing seller' is one who is prepared to sell, provided that a fair price is obtained. It does not mean a vendor who is prepared to sell at any price and on any terms. In short, the hypothetical vendor is assumed to be a reasonable and prudent person.

21 A 'willing purchaser' presupposes that the open market includes everyone who has the will and the money to buy. It has been said that the buyer, like the vendor or seller in paragraph 20, must be a person of reasonable prudence.

22 In *Palliser v HMRC* [2018] UKUT 71 (LC) it was made clear that 'hope value' as it is often described (i.e. the 'expectation' of additional value being created in the future by the prospect of development – see **VPS 4 section 4 paragraph 4.4**) is to be properly reflected in a *valuation* for taxation purposes.

23 A *special purchaser* is one who has a particular interest in acquiring a property. The case of *IRC v Clay* [1914] 3 KB 466 effectively established that where there is a known purchaser in the market who is willing to buy at a considerably higher price than anyone else, the value of the asset for tax purposes is represented by the higher price the *special purchaser* is willing to pay, or by a close approximation to this. This is a very important difference from the general definition of *market value* in **VPS 4**, and valuers need to ensure both they and their clients are alert to it wherever it arises.

24 In *Walton v IRC* [1995] EWCA Civ 61 it was held that it was a question of fact – to be decided by evidence – whether or not there were any *special purchasers* in the market and what price they would be prepared to pay.

UK VPGA 15.3 Methods of valuation

For the taxes covered by this guidance, no particular method or methods of *valuation* are prescribed, either by statute or by case law.

1 In practical terms, property assets are valued or appraised by whichever method is most appropriate. Special classes and categories of asset will be valued in different ways because of how the market values them.

2 A presumption of the *Lynall* case is that the vendor, when advertising the property, makes such information available to purchasers of that type of asset as they would expect to receive, or to be able to access, in a normal market transaction.

Special cases

3 It is not unusual for *valuations* for taxation purposes to be required in relation to interests in land that are rarely (as in the case of undivided shares) or never (as in the case of unassignable agricultural tenancies) sold in the real world. The approach to be used in such instances has been considered on a number of occasions by the courts and tribunals, and those involved in such matters should study the relevant HMRC and VOA manuals and guidance as well as ensure they are familiar with current case law.

4 There are also occasions where, under the capital gains regime, a historic *valuation* is required, i.e. as at 31 March 1982. [RICS' website](#) lists a number of potential sources for accessing market evidence around that date, though it is emphasised that such evidence must always be viewed and interpreted with caution in terms of its relevance to the particular valuation assignment.

5 *Valuations* relating to apportionments for part-disposal calculations or in connection with capital allowances are beyond the scope of this *valuation standard* – those involved in such matters are again referred to the relevant HMRC and VOA manuals and guidance.

Annual Tax on Enveloped Dwellings (ATED)

6 Unlike CGT, IHT, SDLT, LBTT and LTT – which are event-based – ATED is an annual tax payable mainly by companies that own UK residential property with a value above a specified threshold. While most residential properties (dwellings) are owned directly by individuals, in some cases they may be owned by a company or other collective investment vehicle. In these circumstances the dwelling is said to be ‘enveloped’ because the ownership sits within a corporate ‘wrapper’ or ‘envelope’. An annual charge is levied on the taxable value of a single-dwelling interest, which is its *market value* at the end of the most recent *valuation date*. *Market value* for this purpose follows the same principles as set out in UK VPGA 15.2. The *valuation date* is a fixed date, as specified in the legislation, unless there have been substantial acquisitions or part disposals involving the dwelling concerned during the course of any year.

UK VPGA 16 Valuations for compulsory purchase and statutory compensation

Scope

UK VPGA 16 will be included in the UK national supplement subject to a separate consultation.

The wording will replicate the relevant sections of *Surveyors advising in respect of compulsory purchase and statutory compensation* professional standard that is subject to a public consultation, starting 14 November 2022. If compulsory purchase is an area in which you practice, you are advised to respond to the separate consultation on the proposed updated professional standard.

UK VPGA 17 Local authority disposal of land for less than best consideration

Overview

1 Local authorities have wide land disposal powers under sections 123 and 127 of the [Local Government Act 1972](#) and section 233 of the [Town and Country Planning Act 1990](#). However, they have traditionally been required to seek specific consent from the relevant Secretary of State where the consideration is less than the best that can reasonably be obtained.

England

2 In England, the [Local Government Act 1972: General Disposal Consent \(England\) 2003](#) removes the requirement for authorities to seek specific consent from the Secretary of State for any disposal of land where the difference between the unrestricted value of the interest to be disposed of, and the consideration accepted (the 'undervalue'), is £2 million or less.

3 *Valuation* advice may also be sought where the undervalue is less than £2m, and where *valuation* figures are required to form part of a committee report where the authority ensures that it is satisfied that the 'well-being' test is met and the amount of undervalue is understood by members.

4 The detailed *valuation* requirements are set out in the technical appendix to the Consent, which specifically incorporates this guidance and the definition of *market value* in VPS 4.

Northern Ireland

5 In Northern Ireland, a local authority must seek the approval of the Minister to dispose of any land at less than best price, at less than best rent or otherwise on less than best terms that can be reasonably obtained.

6 Local authorities are granted authority in law to dispose of land under two main pieces of legislation:

- [Interpretation Act \(Northern Ireland\) 1954](#) and in particular Section 45: *References relating to land*, and

- [Local Government Act \(Northern Ireland\) 1972](#) and in particular Section 96: *Acquisition, etc., of land.*

7 This is the legal basis on which councils may dispose of land at less than best price after Ministerial approval has been granted.

8 The specific wording in Section 96(5) is, 'The right of a council to dispose of land shall be subject to the following restrictions—(a) except with the approval of the Ministry, any disposal of land shall be at the best price or for the best rent or otherwise on the best terms that can be reasonably obtained'.

9 In Northern Ireland, valuers involved in this process should have regards to Department of Communities (Northern Ireland) [Guidance for District Councils Local Government Disposal of Land at Less Than Best Price](#) produced by the Local Government and Housing Regulation Division in January 2021 and contained in Local Government Circular 21/2020.

Scotland

10 In Scotland, local authorities have vested powers when considering the disposal of land and the relevant statute is section 74 of the [Local Government \(Scotland\) Act 1973](#) as amended by section 11 of the [Local Government in Scotland Act 2003](#).

11 It is a legal requirement that local authorities in Scotland sell land in for the best consideration that can reasonably be obtained, unless section 74(2A) applies or the disposal is made in accordance with regulations made under section 74(2C).

12 If land that the Council has an interest in is under consideration for disposal 'at less than the best consideration that can reasonably be obtained' (less than best consideration) then [The Disposal of Land by Local Authorities \(Scotland\) Regulations 2010](#) will apply to that disposal.

13 Local authorities can only dispose of land at less than best consideration where such a proposal meets the requirements of [The Disposal of Land by Local Authorities \(Scotland\) Regulations 2010](#), i.e.:

- a the value of the land (best consideration) is less than £10,000 (the 'threshold amount'), or
- b the difference between the best consideration and proposed consideration (the 'marginal amount') is 25% or less of the best consideration.

14 The local authority must follow the 'procedure' set out in the disposal of land Regulations, which requires that the local authority:

- a appraise and compare the costs and other dis-benefits and benefits of the proposal, and

- b determine that the 'circumstances' set out in Regulation 4 are met including the promotion or improvement of economic development or regeneration, health, social well-being, or environmental well-being.

15 Valuers should have regards to [Disposal of Land by Local Authorities \(Scotland\) Regulations: General Guidance](#) published by the Scottish Government incorporating Annex A of [The Disposal of Land by Local Authorities \(Scotland\) Regulations 2010](#) and which supplements the statutory guidance at Annex B Statutory Guidance on the Duty to Appoint a Suitable Qualified Surveyor.

16 In addition, there is a later more generic guide at [Best Value: revised statutory guidance 2020](#) which directly references land disposal and also refers to the [Scottish Public Finance Manual](#). This has a section on [Property acquisition, disposal and management – Scottish Public Finance Manual](#) which applies to the Scottish government, non-departmental public bodies and related bodies.

Wales

17 In Wales, the *Local Government Act 1972: General Disposal Consent (Wales) 2003* removes the requirement for authorities to seek specific consent from the National Assembly for Wales (NAW) for any disposal of land where the difference between the unrestricted value of the interest to be disposed of, and the consideration accepted (the 'undervalue'), is £2 million or less.

18 *Valuation* advice may also be sought where the undervalue is less than £2m, and where *valuation* figures are required to form part of a committee report where the authority ensures that it is satisfied that the 'well-being' test is met and the amount of undervalue is understood by members.

19 The circular accompanying the 2003 Consent provides that the valuer shall have regard to the guidance on local authority disposals of land at an undervalue in these standards.

20 The local authority decides whether any proposed disposal requires specific consent, as the Secretary of State and the NAW have no statutory powers to advise in any particular case.

England and Wales

21 The valuer may be asked to provide a *valuation* so that the local authority may consider whether or not an application for consent is necessary, or to support a submission for a specific consent. For either request, *valuation* must be provided in England following the advice in the technical appendix and in Wales following the advice in paragraph 4 of the circular.

22 The guidance contained below within UK VPGA 17.1–17.11 applies only to interests in *real estate* held by local authorities in England and Wales where there are parallels in the process.

UK VPGA 17.1 Bases of valuation

1 The consent requires the valuer to provide the following figures:

- unrestricted value
- restricted value and
- the value of voluntary conditions.

Unrestricted value

2 The unrestricted value is the best price that is reasonably obtainable for the property. It is the *market value* of the land, as defined in **VPS 4**, except that it should take into account any additional amount that is, or might reasonably be expected to be, available from a purchaser with a special interest.

3 The valuer should take account of any uses that might be permitted by the local planning authority if these would be reflected by the market, and not only a use (or uses) intended by the parties to the proposed disposal. It should also ignore the reduction in value caused by any voluntary condition imposed by the local authority (see restricted value).

4 The valuer should assume that the freehold disposal is made, or the lease is granted, on terms that are intended to maximise the consideration. For example, where unrestricted value is based on the hypothetical grant of a lease, at a rack rent or ground rent, with or without a premium, the valuer should assume that the lease would contain those covenants normally included in such a lease by a prudent landlord. The valuer should also assume that the lease would not include unusual or onerous covenants that would reduce the consideration, unless these had to be included as a matter of law.

Restricted value

5 The restricted value is the *market value* of the property having regard to the terms of the proposed transaction. It is defined in the same way as unrestricted value, except that it should take into account the effect on value of any voluntary condition.

6 Where the local authority has invited tenders and is comparing bids, the restricted value is normally the amount offered by the local authority's preferred transferee. Otherwise it is normally the proposed purchase price.

The value of any voluntary conditions

7 Sales may be subject to voluntary conditions. These are any term or condition of the proposed transaction that the local authority chooses to impose. Voluntary

conditions do not include any term or condition that the local authority is obliged to impose, for example, as a matter of statute or a condition that runs with the land. They also do not include any term or condition relating to a matter that is a discretionary, rather than a statutory, duty of the local authority.

8 Their value is the total of the capital values of voluntary conditions imposed by the local authority as terms of the disposal, or under agreements linked to the disposal, that produce a direct or indirect benefit to the local authority that can be assessed in monetary terms. It is not the reduction in value (if any) caused by the imposition of voluntary conditions, and any adverse effect these may have on value must not be included in this figure.

9 The proposed disposal, or an agreement linked with it, may give rise to non-property benefits to the local authority. For example, these might include operational savings, or income generated as a result of the transaction where the local authority has an associated statutory duty. The monetary value of these benefits to the local authority should be included in the value of voluntary conditions in the valuer's report.

10 The valuer will often be able to assess the value of a voluntary condition of disposal to the local authority. However, there may be cases where a question arises about the status, in law, of such value (whether or not it is capable of forming part of the consideration). In such cases, the local authority may need to seek legal advice as to whether the value of the voluntary condition is such that it may form part, or all, of the consideration the local authority proposes to accept. Conversely, there may also be cases where a term or condition of disposal is, in law, capable of forming part, or all, of the proposed consideration, but it has no quantifiable value to the local authority, or its value is nil.

11 Where the valuer is not qualified to assess the value of any benefits (for example, of share options) the report should make clear the extent to which the valuer accepts liability for the figures. Where the valuer does not accept full responsibility, the report should make clear who was responsible for assessment of the remainder, and copies of any *valuations* or advice received from accountants or other professional advisers should be annexed.

UK VPGA 17.2 Purpose of the valuation

1 In addition to stating the overall purpose of the *valuation*, the valuer will need to provide a summary of the proposed transaction, noting the key terms and any restrictions to be imposed by the local authority.

2 Where the local authority proposes to grant a lease, a copy of the draft lease should be attached to the report.

3 Where this is impracticable, a copy of any heads of terms agreed or a summary of the key terms of the proposed lease should be provided.

UK VPGA 17.3 The report

The general requirements of PS 1, PS 2 and VPS 3 apply.

UK VPGA 17.4 Description

1 The report will need to include a written description of the site and buildings, the location and surroundings. A plan (to which the Secretary of State will refer if giving consent) that is sufficiently accurate to identify the land is also to be provided.

UK VPGA 17.5 Assumptions as to planning

1 Where there is no detailed scheme, the valuer should make reasonable *assumptions* about the form of the development.

2 This should include a note of the existing use(s), current planning consents and use(s) likely to be permitted with regard to the development plan.

3 Where the unrestricted value has been based on an assumed planning use other than that for which the property has been sold, a detailed explanation of the planning *assumptions* made is required.

UK VPGA 17.6 Tenure

1 A note will need to be included identifying the local authority's tenure and giving details of the purpose(s) for which the land is held (which is normally for the purposes of the power under which it was acquired, or taken on lease, unless it has since been formally appropriated).

2 The note will need to include a summary of the details of any leases, or encumbrances such as easements, to which the land is subject.

UK VPGA 17.7 Leasehold disposals

1 The valuer is required to assess the unrestricted value in capital terms. The unrestricted value should be assessed by valuing the authority's interest after the lease had been granted, plus any premium payable for its grant. In other words, it will be the value of the right to receive the rent and any other payments under the lease, plus the value of the reversion when the lease expires.

UK VPGA 17.8 Options

1 Where a disposal involves the grant of an option, the valuer is required to consider both the payment for the option and consideration that might be received, were it to be exercised as either, neither or both may involve a discount.

2 Paragraphs 19 to 21 of the technical appendix to the General Disposal Consent provide more detailed guidance on the treatment of options.

UK VPGA 17.9 Discount

This is the amount by which the value of the actual consideration is less than that of the best consideration reasonably obtainable.

It is given by the formula:

$$\text{unrestricted value} - (\text{restricted value} + \text{value of conditions})$$

Otherwise, where the value of the consideration for the disposal differs from the restricted value, it is given by this formula:

$$\text{unrestricted value} - (\text{value of consideration} + \text{value of conditions})$$

1 The Secretary of State or NAW must be made aware of cases where the proposed consideration is more or less than the value of the interest to be disposed of, subject to the proposed voluntary conditions, so that this can be taken into account when reaching a decision on whether to allow the proposed transaction to proceed.

2 Accordingly, where the value of the consideration differs from the restricted value, both figures must be given.

UK VPGA 17.10 Existence of a special purchaser

1 The effect on value of the existence of a purchaser with a special interest should be described (see **VPS 4 section 4** and the *Glossary*).

UK VPGA 17.11 Valuations

1 The unrestricted and restricted values, together with the value of conditions, should be given. Where any of these is nil, this should be expressly stated.

2 Where the value of a scheme is less than the development cost (that is, there is 'negative development value'), the advice in paragraph 23 of the technical appendix to the Consent should be followed.

3 Where the value of land may be affected by the availability of grants, the advice in paragraph 24 of the technical appendix to the Consent should be followed.

4 The *valuation date* should not be more than six months before the submission of the application to the Secretary of State.

UK VPGA 18 [insert]