

Foreword

Confronted by the need to absorb a myriad of international accounting standards, interpretations of those standards for the UK public sector, RICS Red Book guidance, the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom* and associated other material, the task of providing asset valuations for financial reporting purposes can be a daunting prospect for experienced staff as well as for those fresh to the work.

I am therefore delighted to welcome the arrival of this revised and expanded edition of the CIPFA handbook on property asset valuation. Almost four years have elapsed since the first edition of this handbook was published and during that time the world of asset valuations and financial reporting standards has not stood still or become any less complex. IFRS 13 has been introduced to the UK public sector and there have been significant changes to the CIPFA Code of Practice, including the introduction of the new current value basis of measurement. What remains unchanged of course is the importance to valuers and accountants alike of ensuring both consistency and accuracy in the practices adopted and the results obtained.

By helping to illuminate and clarify the paths to follow, this updated handbook serves as a very useful addition to the field. Having myself prepared a great deal of guidance material for colleagues over the years, I am well aware of the considerable time and effort that authors need to invest in such an enterprise and Chris Brain and Susan Robinson are to be congratulated.

I am pleased to see that this handbook is aimed at both accountants and property professionals. Both employ their own jargon, and worse, sometimes use identical terms for different things, but it is essential that accountants and valuers have a mutual understanding not only of the evolving IFRS requirements but also of the underlying principles dictated by each other's professional bodies in relation to the asset valuation process, and the complexities that exist.

So as readers now embark on steering themselves through the intricacies of issues such as componentisation for depreciation accounting, cost significance and the fair value hierarchy, I would simply suggest one caution – and that is not to lose focus on the bigger picture among the detail. While it is important, for example, to give close attention to matters such as fine-tuning how parts of the depreciable amount are to be allocated for separate depreciation purposes, be careful not to lose sight of the even more vital task of first ensuring that you arrive at an accurate total value for the property, an appropriate apportionment between its land and non-land elements, and appropriate remaining life estimates. It is these figures that will ultimately have the greatest impact on the overall accuracy of the depreciation amounts entered onto the balance sheet.



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CHAPTER ONE

Introduction

BACKGROUND

- 1 Local authorities throughout the UK are required by statute to produce accounts in accordance with the 'proper accounting practice' specified in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) prepared by the CIPFA/LASAAC Code Board.
- 2 The 2010/11 Code required local authorities, for the first time, to prepare their accounts in accordance with International Financial Reporting Standards (IFRS), as interpreted and adapted by the Code. The 2015/16 Code for the first time adopted IFRS 13 which introduced a new definition of fair value and some new terminology, adopted some changes to valuation basis for certain assets and requires additional disclosures for the assets concerned.
- 3 The Code is updated annually.

SUMMARY OF CHANGES AFFECTING LOCAL AUTHORITIES

- 4 This second edition of CIPFA's valuation handbook has been published to reflect changes in accounting standards and practice since the first handbook was published in 2012. The principal changes follow the adoption from 1 April 2015 of IFRS 13 within the CIPFA Code, and can be summarised as follows:
 - adoption of current value as the measurement basis for property, plant and equipment (PP&E) assets
 - adoption of depreciated replacement cost (DRC) as a basis for measurement for specialised PP&E assets
 - adoption of IFRS 13 fair value measurement for surplus assets, investment property and assets held for sale.
- 5 The implications of these changes are explored in more detail throughout this handbook.

PURPOSE OF THE HANDBOOK

- 6 This handbook has been published to help local authority property and finance professionals comply with the requirements of the Code in relation to the valuation of property assets for financial reporting purposes. This handbook is not concerned with the valuation of local authority infrastructure assets, whether highway infrastructure or other infrastructure. This updated version of the handbook supersedes the previous edition and any other CIPFA publications in relation to asset registers and valuations.

- 7 The handbook examines in detail the many complex issues surrounding local authority property assets including classification, valuation and component accounting. It further explores these areas by providing practical examples based on situations that are likely to arise in practice. The handbook also provides readers with a comprehensive understanding of the asset valuation process, the associated data requirements and how asset valuations can be used as a tool for good asset management.
- 8 The practical assistance that this handbook offers will arm local authority professionals with clear and concise direction to ensure that property assets in local authorities are appropriately classified, properly valued and accurately depreciated, so that such assets are correctly and fairly stated in the accounts.
- 9 **This handbook does not form part of *RICS Valuation – Professional Standards: Global or UK Editions (the Red Book)* or the IFRS-based Code and does not therefore have any statutory basis. It has been produced to assist local authority professionals in their own application of both the Red Book and the Code requirements.**
- 10 Although the handbook provides practical guidance and examples in relation to the valuation of property assets in local authorities, it cannot address every situation. Consequently, professionals will need to interpret the guidance to suit their own local circumstances. Furthermore, this handbook is not a substitute for professional judgement and does not remove the need for professionals to refer to their own professional standards and guidance.
- 11 This handbook is based on the accounting and valuation practices as at the date of publication, and therefore reflects the requirements of the RICS Red Book UK Edition January 2014 (as amended), the RICS Red Book Global Edition June 2015 and the 2016/17 Code (but see paragraphs 18 and 19). The RICS Red Book will be referred to in this publication as either simply ‘the Red Book’ or the ‘Red Book (UK)’ or ‘Red Book (Global)’ as appropriate. This handbook will be reviewed and updated as necessary to take account of new developments, changes to key accounting and valuation guidance and requirements and feedback from its users.

WHO SHOULD USE THIS HANDBOOK?

- 12 The handbook has been written by the CIPFA Property and Local Government Faculty teams. It has been designed primarily for use by local authority valuers and other property professionals but should also be used by local authority accountants, and other non-property professionals.

HOW TO USE THIS HANDBOOK

- 13 The coverage of the handbook is as follows.
 - Chapter two – The Asset Valuation – explores in detail the reasons for asset valuations, the regulatory framework and the impact of asset valuation on both accounting and asset management.
 - Chapter three – The Asset Valuation Process – outlines who needs to be involved in the valuation process and explores the various valuation methods and how the valuer applies these in practice; their applicability under the Code; the frequency of valuations; how

property assets should be classified; and many other practical topics. This chapter has significant changes over the previous edition of this handbook to reflect the adoption of IFRS 13 from 1 April 2015.

- Chapter four – Information Requirements – explores the importance of accurate and reliable data for robust local authority property asset valuations and for the effective management of those assets.
 - Chapter five – The Commissioning Process – provides useful guidance on instructing internal and external valuers; the required skills and qualifications that property professionals should hold; the relationships that should exist between accountants and property professionals; the form and content of valuation reports; and other useful information relating to this process.
 - Chapters six and seven give practical guidance on component accounting and depreciated replacement cost valuations, including worked examples to help illustrate approaches to be taken.
- 14 Towards the end of chapters two to seven there is a section called ‘common pitfalls’, illustrating some of the more common accounting and valuation errors or misconceptions that can occur.
- 15 This handbook is not intended to be read cover to cover; it is intended as a resource that users can consult as and when they need guidance on valuation or other related matters concerning property assets in local authorities.
- 16 It is strongly recommended that when referring to any of the examples included in the handbook, users also read the background information to understand the context.
- 17 As indicated above, it is essential to note that this publication is meant to be used as a general guideline and property and other professionals should refer back to their own professional standards and guidance in the unlikely event that any conflict arises or if the practical examples and illustrations do not address their local circumstances.

STANDARD TERMS AND DEFINITIONS

- 18 Any references to the *Code of Practice on Local Authority Accounting* (the Code) are based on the 2016/17 edition. As the 2016/17 Code Guidance Notes had not yet been published at the time of drafting this publication all references to the Guidance Notes are based on the 2015/16 edition of that publication. However, those paragraphs in the 2015/16 Guidance Notes that are referred to in this publication are not expected to change substantially in the 2016/17 edition of the Guidance Notes (ie either in numbering or in content).
- 19 Non-current assets include all categories and classes of assets referred to in chapter four of the 2016/17 Code, ie property, plant and equipment (PP&E); investment property; intangible assets; non-current assets held for sale; and heritage assets. This handbook is not concerned with the valuation of local authority infrastructure assets, whether highway infrastructure or other infrastructure.