Public Sector Asset Valuations

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Public Sector Asset Valuations

Major Changes

FReM – Whole of Government

FReM applies to entities (within Whole of Government Accounts)

- FReM adopts IFRS 13 but also uses International Accounting Standards (IAS)
- IAS 16 - Property, Plant and Equipment
- IAS 40 - Investment Property
- IAS 41 - Agriculture
CIPFA Code – Local Authorities

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 - CIPFA

CIPFA code fully adopts IFRS 13 for:

• investment property

• non-current assets held for sale

• surplus assets
FRS 102 - Arms Length Bodies

UK Generally Accepted Accounting Practices and Financial Reporting Standards 102 (FRS102) for unlisted entities – issued in March 2013
Statements of Recommended Practice

Statement of Recommended Practice applies to some entities under FReM or Financial Reporting Standards 102

- SORP Further & Higher Education 2014 and
- SORP Charities (FRS 102)
Basis of Value

IAS 16 defines Fair Value;

‘The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction’.

IFRS 13 defines Fair Value as;

‘The price that would be received to sell an asset or paid to transfer a liability in an orderly transactions between market participants at the measurement date”. (Highest and Best Use).
IAS 16 defines Fair Value;

‘The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction’.

FReM slightly adapts IAS 16 for the public sector context:

- Non-specialised operational assets current value in existing use should be interpreted as market value for existing use.

- For specialised operational 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.
IFRS 13 defines Fair Value as:

‘The price that would be received to sell an asset or paid to transfer a liability in an orderly transactions between market participants at the measurement date”. (Highest and Best Use)

Under the CIPFA Code IFRS adapted

Operational asset - Current Value should be reported.
Specialised Properties

‘A property that is rarely, if ever, sold in the market, except by way of sale of the business or entity of which it is part, due to uniqueness arising from its specialised nature and design, its configuration, size, location, or otherwise’.

DRC used

- a modern equivalent asset in line with the Red Book.
- ‘instant build’ approach
- the choice of an alternative site will normally hinge on the locational requirements of the service that is being provided.
Public Sector Asset Valuations

The RICS Red Book refers Valuers to the general guidance in respect valuations of operational assets for financial statements given in IVS 300.

- ‘that the assets will continue to be used as part of the business of which they form part’.
Public Sector Asset Valuations

Frequency of Valuations

These can be Quinquennial, Annual or a rolling programme.

Important to note that with effect from 1 April 2015, under IFRS 13 the following categories must be valued annually:

- Investment,
- Assets held for immediate sale,
- Assets declared surplus.
Disclosure Rules

- Confirmation that in valuer's opinion the valuation represents the "highest and best use" for the property, as defined by IFRS 13;

- Provide key inputs to enable compliance with the disclosure requirements of IFRS 13

- Sensitivity

- Staff are members of RICS

- Independence of staff from appointing body

- Terms of engagement

- Percentage accuracy

- Sources of information such as areas
THE NEED FOR IPMS

Historic measurement standards are not consistent.

• Property is measured in many different ways around the world.

• Depending on the standard used, the floor area measurement can vary dramatically…
THE NEED FOR IPMS

<table>
<thead>
<tr>
<th>In Spain, residential property measurements often include <strong>swimming pools</strong>.</th>
<th>In parts of the Middle East, floor measurements can include <strong>hypothetical areas</strong>.</th>
</tr>
</thead>
<tbody>
<tr>
<td>In India, floor measurements can include off-site <strong>car parks</strong> as well as common areas.</td>
<td>In the U.S. sometimes the <strong>air-conditioned space</strong> is used instead.</td>
</tr>
</tbody>
</table>
Global property measurements can vary by as much as 24% depending on the basis of measurement adopted…
THE SOLUTION

- International Property Measuring Standards (IPMS)
- Professional bodies from more than 150 countries
- Internationally agreed measuring standard
Understanding IPMS

- APPLICABLE TO OFFICE BUILDINGS ONLY AT PRESENT
- Existing standards such as the RICS Code of Measuring Practice have been revised to achieve compliance
- It is forward guidance—retrospective updates not required
1. *RICS Property Measurement for Professionals* - applies to office measurements only
2. *IPMS: Office Buildings* – Full text applies to office measurements only
RICS PROFESSIONAL STATEMENT

- PROFESSIONAL STATEMENT
- CODE OF MEASURING PRACTICE APPLICABLE FROM MAY 2015
- PROFESSIONAL STATEMENT FOR THE MEASUREMENT OF OFFICE BUILDINGS IS APPLICABLE FROM END OF 2015

Elements of this document are mandatory for RICS members and will be subject to regulation by RICS. Other elements are professional best practice and practitioners are strongly advised to follow them.
# RICS Hierarchy of Standards

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>Mandatory for RICS members from November 2015 unless the client instructs otherwise</td>
<td>Mandatory for RICS members from November 2015 unless the client instructs otherwise</td>
<td>No longer applicable</td>
</tr>
<tr>
<td>Residential</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Professional best practice – RICS members are strongly advised to follow</td>
</tr>
<tr>
<td>Industrial</td>
<td>Not applicable</td>
<td>Not applicable</td>
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</tr>
<tr>
<td>Retail</td>
<td>Not applicable</td>
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Use of the Professional Statement

Professional Statements are Mandatory but depend on Client Instructions

If the client requires another standard then a dual reporting basis is recommended- to include IPMS
3 new measuring standards set out in Measurement of Office Buildings:

- IPMS 1
- IPMS 2 – Office
- IPMS 3 – Office
IPMS 1

- Equivalent of GEA
- Same principal for all building classes
- Used to measure area of the building, including external walls
IPMS 1 is used for:

- Planning purposes
- Summary costing of development proposals.
IPMS 1

Inclusions & Exclusions

- Inclusions
  - Basements

- Exclusions
  - High level atria
  - External stairs
IPMS 2 – Office

- Equivalent of GIA
- Only used for Offices
- Used to measure internal areas
- Internal Dominant Face
- Component Areas
IPMS 2 - Office

Inclusions & Exclusions

• Inclusions
  – Internal walls and columns

• Exclusions
  – Upper levels of atria
  – External car parks
IPMS 2 – Office

IPMS 2 is used by:

- Asset managers
- Brokers
- Cost consultants
- Facility managers
- Occupiers
- Owners
- Property managers
- Researchers

<table>
<thead>
<tr>
<th>Component area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component area A</td>
<td>Vertical penetrations&lt;br&gt;Examples of vertical penetrations include stairs, lift elevator shafts and ducts but any penetration of less than 0.25m² [2.3 sq. ft] is to be disregarded.</td>
</tr>
<tr>
<td>Component area B</td>
<td>Structural elements&lt;br&gt;This comprises all structural walls and columns that are to the inside of the internal dominant face.</td>
</tr>
<tr>
<td>Component area C</td>
<td>Technical services&lt;br&gt;Examples of technical services include plant rooms, lift elevator motor rooms and maintenance rooms.</td>
</tr>
<tr>
<td>Component area D</td>
<td>Hygiene areas&lt;br&gt;Examples of hygiene areas include toilet facilities, cleaners' cupboards, shower rooms and changing rooms.</td>
</tr>
<tr>
<td>Component area E</td>
<td>Circulation areas&lt;br&gt;This comprises all horizontal circulation areas.</td>
</tr>
<tr>
<td>Component area F</td>
<td>Amenities&lt;br&gt;Examples of amenities include cafeterias, day-care facilities, fitness areas and prayer rooms.</td>
</tr>
<tr>
<td>Component area G</td>
<td>Workspace&lt;br&gt;The area available for use by personnel, furniture and equipment for office purposes.</td>
</tr>
<tr>
<td>Component area H</td>
<td>Other areas&lt;br&gt;Examples of other areas include balconies, covered galleries, internal car parking and storage rooms.</td>
</tr>
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</table>
Internal Dominant Face

Internal surfaces of external walls

‘The inside finished surface comprising 50% or more of the surface area for each Vertical Section forming an internal perimeter.’
Internal Dominant Face

- Divide external walls into vertical sections
- Any section protruding or recessed from the main wall surface
- Measure to the dominant surface in that section
- Over 50% of the area of the vertical section
- Ignore perimeter columns
Component Areas

- Component Area A - Vertical Penetrations
- Component Area B - Structural Elements
- Component Area C - Technical Services
- Component Area D - Hygiene Areas
- Component Area E - Circulation Areas
- Component Area F - Amenities
- Component Area G - Workspace
- Component Area H - Other Areas
- Limited use areas
IPMS 3: Office

- Equivalent of NIA
- Only used for Offices
- Used to measure internal areas in exclusive occupation
- Measure to internal dominant surfaces
- Includes internal walls and columns
IPMS 3: Office

IPMS 3: Office can be used by:

- Agents and Occupiers
- Asset managers
- Facility managers
- Property managers
- Researchers
- Valuers
Standard Facilities

Standard Facilities are those parts of a Building providing shared or common facilities that typically do not change over time.

This includes stairs, escalators, lifts/elevators and motor rooms, toilets, cleaners’ cupboards, plant rooms, fire refuge areas and maintenance rooms.
IPMS 3: Office

Inclusions & Exclusions

• Inclusions
  – Internal walls and columns

• Exclusions
  – Standard facilities
Further Guidance