



Public Sector Valuer Rotation Working Group – December 2024 final report

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Executive summary

Introduction

- ES1 This report considers the recommendation of the RICS Independent Review of Real Estate Investment Valuations (2022) related to the requirement for valuer rotation (which is the process of changing the responsible valuer and/or firm engaged to undertake valuation services in respect of a particular asset) in the public sector.
- ES2 Recommendation 3 of the review stated that ‘RICS should develop a time specific, mandatory procurement and rotation process for valuers’. This recommendation has already been implemented via changes to [RICS Valuation – Global Standards](#) (Red Book Global Standards) and [RICS Valuation – Global Standards: UK national supplement 2023](#) (Red Book: UK) for the private sector.
- ES3 The principal question for the group was ‘**Should public sector investment property valuations for financial reporting purposes now be considered as being Regulated Purpose Valuations and be subsequently ruled into the UK National Supplement of the Red Book Regulated Purpose Valuation (RPV) definition?**’
- ES4 The question is whether in the public sector the same risks exist, requiring the same or similar rotation solution, or are there already other regulations existing and processes carried out in that sector that negate the need for RICS rotation?

Considerations

- ES5 The main consideration for the group was whether public sector valuers needed extra regulation relating to RICS valuer rotation in addition to the existing regulatory framework for UK public sector financial reporting.
- ES6 It was determined and agreed that the existing oversight framework for public sector entities is materially different to that for the private sector.
- ES7 In simple terms, were there already enough checks and balances in that framework to ensure that investment property valuations were sufficiently transparent and appropriate to protect the public?

- ES8 It was recognised that public sector valuers, in addition to their full compliance with Red Book Global Standards and Red Book: UK, also have reporting, procurement and audit responsibilities to various governmental and other regulatory bodies that are different to those in the private sector.

Conclusions and recommendation

- ES9 After rigorous discussion, it was felt that public sector valuations of investment properties (whether undertaken by an internal team or by an external valuation firm) are distinct from valuations of investment property counterparts in the private sector in terms of both actual risk and public perception.
- ES10 In the public sector, the valuation is not a figure on which third-party investors rely. Any public sector debt is considered in total and not relative to individual property values.
- ES11 It was agreed that the existing oversight mechanisms of other bodies, such as the government, together with the annual external audits of all valuations, for which third-party valuers are usually included in the audit teams, are robust and ensure that all investment valuations are reviewed.
- ES12 **The recommendation is:** Public sector investment property valuations for financial reporting **should not** be considered as regulated purpose valuations under the RPV definition of *RICS Valuation – Global Standards: UK national supplement 2023*.

Report and recommendation

1 Introduction and background

- 1.1 In early January 2022, the findings and recommendations of the RICS Independent Review of Real Estate Investment Valuations chaired by Peter Pereira Gray was published.
- 1.2 The report was commissioned by the RICS Standards and Regulation Board (SRB) in 2021 with a brief to provide a recommended framework that would ensure confidence in property valuations in today's markets. This will apply particularly to regulated purpose valuations which are relied upon by third parties.
- 1.3 The review made 13 recommendations. Recommendation 3 related to the requirement of the valuer rotation and stated:

Recommendation 3 – Rotation

RICS should develop a time specific, mandatory procurement and rotation process for valuers.

- 1.4 Rotation is the process of changing the responsible valuer and/or firm engaged to undertake valuation services in respect of a particular asset.
- 1.5 This recommendation and the majority of the other recommendations have already been implemented via changes to [RICS Valuation – Global Standards](#) (Red Book Global Standards) and [RICS Valuation – Global Standards: UK national supplement 2023](#) (Red Book: UK).
- 1.6 However, the RICS Valuation Review Implementation Committee (VRIC) decided in their report of 2023 that Recommendation 3 relating to the valuer rotation policy **should not** initially apply to public sector valuations.
- 1.7 The public sector includes central government, local government, devolved governments, executive agencies, NHS bodies and public corporations.
- 1.8 For the private sector, RICS is the principal regulatory body for UK valuations and has previously published good practice (non-mandatory) rotation requirements (for rotation at intervals not exceeding seven years) since the 1990s. However, for UK valuations, it has been decided that valuer rotation should now be mandatory for private sector valuers. These UK requirements are in addition to those of Red Book Global Standards, which state that good practice suggests a rotation of valuers on a seven-year cycle.

- 1.9 Full details of the relevant section on UK rotation policy (UK VPS 3.3) of Red Book: UK can be found in [Appendix B](#). But, in summary, RICS has introduced a mandatory valuer rotation policy in the UK, at an individual asset level, from May 2024 for private sector valuers undertaking the valuation of non-public sector assets where the valuation is relied upon by a third party. The rotation is a five-year period for the individual responsible valuer and a ten-year period for valuation firms.
- 1.10 The valuations for which rotation is mandatory are known as regulated purpose valuations (RPV). The purposes covered are fully detailed at UK VPS 3. RICS' UK rotation policy is included at UK VPS 3.3. It was noted that when the concept of RPV status was introduced following the 2002 Carsberg report (on the impact of client influence on the valuation of investment property in the private sector) the valuation of public sector assets for financial reporting purposes was excluded from RPV status, and that currently remains the case.

2 Public sector regulation and oversight

- 2.1 Having implemented mandatory valuer rotation in the private sector, RICS felt that the same provisions should be considered for the valuation of public sector assets, while, at the same time, recognising that the situation and framework for such valuations is not as straightforward as in the private sector, there being a mix of internal (in-house) valuers as well as external firms involved. The client/ valuer relationship may therefore not be as distinct, and there may be potential for other consequential impacts if actioned.
- 2.2 The reason for excluding public sector valuations in 2023 was to allow RICS to fully consider the advantages and disadvantages of mandatory rotation requirements in an arena where there are already additional regulation and reporting requirements from other bodies.
- 2.3 Valuations of public sector assets are undertaken either in-house or externally, depending upon the policy (and resourcing) of each individual public sector entity.
- 2.4 Where it is decided that valuations will be undertaken externally, public sector entities are usually required to go through a rigorous and regular, fair and open public procurement process ([The Public Contracts Regulations 2015](#) or, for procurements starting on or after 24 February 2025, the [Procurement Act 2023](#)), with direct awards uncommon and only possible in limited circumstances. This open procurement approach is not exercised to the same degree in the private sector.

2.5 The regulatory context for UK public sector financial reporting provides an oversight framework that is materially different to that for the private sector.

2.6 The main elements of the regulatory context for UK public sector financial reporting are:

a Financial reporting standard setters for central government and health sectors

These are HM Treasury standards in respect of central government, the Scottish government, the Northern Ireland executive and the Welsh government in respect of central governance and the health sector in their countries, and the Department of Health and Social Care (DHSC) and NHS England in respect of the health sector in England. HM Treasury is responsible for annually producing the *Government financial reporting manual* (FReM), which sets out core technical guidance on preparing government annual reports and accounts in the United Kingdom by all public sector bodies excluding local government, NHS bodies and public corporations that are not trading funds. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland. For the NHS, the *DHSC group accounting manual* and the *NHS foundation trust annual reporting manual* are compliant with FReM, other than for specific divergences.

b Financial reporting standard setters for local government (UK)

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 annually by the Chartered Institute of Public Finance and Accountancy and the Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC) Code Board. The Code is prepared under International Financial Reporting Standards (IFRS), which have been adopted as the basis for public sector accounting in the UK.

c Public sector audit

The financial audits of UK public sector bodies are performed under International Standards on Auditing (UK). These are interpreted for the public sector by *Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom*. Public sector audit in the UK has a much broader remit than the private sector and includes value for money audit, conclusions on arrangements over the management of public spending, investigations, grant certification and public reporting such as public interest reports. Public sector audit work is carried out by the four national audit agencies, which are the National Audit Office, Audit

Scotland, Audit Wales and the Northern Ireland Audit Office. Some work is carried out on behalf of the agencies by audit firms. In England, all local authorities and the NHS are audited by audit firms.

- 2.7 There are also further reporting requirements for public sector bodies regarding capital expenditure and receipts including property outside of the financial statements.
- 2.8 Standard-setting bodies also collaborate with valuers to produce publications (e.g. CIPFA/LASAAC's *Code of practice on local authority accounting in the United Kingdom* and HM Treasury's *Government financial reporting manual*) and guidance to aid valuers in preparing reports to match financial reporting requirements and to, hopefully, provide consistency between different public entities. Where appropriate, these are discussed below.
- 2.9 It is the fact that public sector valuers have reporting, procurement and audit responsibilities to various bodies, in addition to compliance with RICS' requirements, that influenced the VRIC decision to set up a working group to consider the need for rotation for public sector valuations.
- 2.10 Red Book: UK contains a mandatory requirement of rotation in the UK for all RPVs. This is in addition to Red Book Global Standards, which recommends rotation (on a seven year or fewer basis) in any valuation situation as best practice, although not mandatory.
- 2.11 This Red Book Global Standards non-mandatory requirement was introduced after the 2002 Carsberg report for similar reasons to the valuation review recommendation of 2022. The wording of Red Book Global Standards rotation practice has been updated in the revised version, effective from 31 January 2025. See [Appendix B](#).
- 2.12 Most, but not all, public sector valuers who undertake Red Book-compliant valuations are likely to be registered as individuals as part of the RICS Valuer Registration Scheme and so subject to visits by the Profession Support and Assurance (PSA) team.
- 2.13 The RICS Public Sector Valuer Rotation Working Group was convened in August 2024. The membership of the group is a broad cross-section of various stakeholders, including representatives from CIPFA, the previous VRIC, private sector valuers, local authority valuers and other public entity valuers. In addition to the deliberations of the working group, RICS' PSA team and the RICS Consumer Working Group have also been consulted and have commented on the proposal.

3 Remit and scope of working group (full details of the ambit of the group are included at Appendix C)

3.1 The principal question for the group was ‘**Should public sector investment property valuations for financial reporting purposes now be considered as being Regulated Purpose Valuations and be subsequently ruled into the UK National Supplement of the Red Book Regulated Purpose Valuation (RPV) definition?**’

3.2 However, this question opens up a myriad of other questions and considerations.

- a What are the actual and perceived risks, if any, in UK public sector valuations of investment properties in terms of independence and objectivity?
- b Is it logistically possible to impose mandatory rotation provisions on both external providers of public sector valuations and entities’ internal valuers who provide this service, treating both equally?
- c As many public sector valuations are internal valuations (in many cases undertaken by internal valuers by one department for another, for example by Estates for Finance), could they be considered as ‘exceptions’ and treated as outside the RPV definition anyway?
- d Internal valuations in particular may bring into question the independence of the valuer, and hence this creates risk to the perceived objectivity of valuations. A key issue to be addressed is therefore considered to be: are current RICS requirements in respect of valuer independence in the UK public sector (including those undertaken by in-house teams) sufficient?
- e Does RICS have the authority and the ability to dictate public sector policy around valuer appointment given the existence of various layers of external rules governing public sector valuation potentially beyond RICS’ own control?
- f Would an alternative solution be to provide additional guidance for internal valuers and for the finance teams which commission valuations of public sector investment properties?
- g Can RICS promote and further support the expertise, experience and market knowledge of RICS members working as in-house valuers undertaking valuations of investment properties for financial reporting?

- h Are there any unintended consequences of introducing mandatory valuer rotation in the public sector and, if so, how can these be mitigated?

- 3.3 The working group agreed that they would structure their deliberations on two levels. Initially, they would consider the 'ideal' solution regardless of cost or implementation, but then they would place those views in the context of what is financially and logistically possible.
- 3.4 It was also recognised that in the public sector the bulk of investment property which exists is held by local authorities and, as such, it might be appropriate to concentrate primarily on local authorities.
- 3.5 The working group considered a range of possible outcomes, as detailed in section 4.

4 Possible outcomes

- 4.1 The working group considered the following options.

- a Do nothing – status quo remains, with an explanation of why this is appropriate.
- b Introduce valuer rotation for all public sector investment properties on the same basis as for private sector investment properties.
- c Introduce valuer rotation for all public sector investment properties on a different basis/schedule to that for private sector investment properties.
- d Consider (b) and (c) for local authority investment properties only.
- e Do not introduce rotation but work closely with CIPFA and other stakeholders to provide a defined framework/guide of best practice (with associated training and support). This could include new RICS practice information for the valuation of public sector investment properties. There are already substantial RICS documents relating to the valuation of the operational assets of public sector entities, and there may be future scope for these documents and the suggested new practice information to be merged into one document that could cover both operational and non-operational assets.

- 4.2 There were detailed and rigorous discussions on the merits and otherwise of each of the above; the salient points of that debate are noted below.

5 Issues and considerations

5.1 The reasoning behind the need for rotation

- a As with the private sector, there are two issues to be considered when looking at the need to introduce mandatory rotation of valuers. These are: (i) the real risks that will be mitigated by so doing and (ii) the ‘public perception’ of the same. For a full discussion of the risks associated with public perception, see the House of Commons Library research briefing by Mark Sandford entitled [Local government: commercial property investments](#) (2022).
- b Rotation in the private sector was introduced to increase transparency and to reinforce independence in the valuation process.
- c The question is whether in the public sector the same risks exist requiring the same or similar rotation solution, or are there already other regulations existing and processes carried out in that sector that negate the need for RICS rotation?
- d It is important to consider that in local authorities revaluation gains and losses do not directly impact the taxpayer as they are reversed out of a local authority’s General Fund under statutory accounting requirements and put to a capital adjustment account. This is not exactly the same in the private sector where **artificially inflated** properties would directly impact retained earnings and could benefit the shareholder.
- e While the debt is not attached to a property, it will still increase the overall debt (and thus covenant) of the public entity. This was noted by the working group, but as it will not be directly captured in the asset valuations, it was felt that this was a risk outside the consideration of valuer rotation.
- f This potential perceived bias in valuations is a known issue in the private sector but may be less likely to exist in the public sector due to the different purposes/impacts of the valuations. Valuation has a direct impact on the performance measurement of private assets as the capital and income return is measured against current and historic market values. But as public sector assets are not measured in this way, any possible bias will have less impact, if any.

- g The biggest difference between local authority investment assets and private sector investment assets is the purpose of accounts for each. Local authorities' commitment is to provide services and achieve value for money, whereas the private sector is producing accounts for investment decisions.
- h As the debt is not usually secured against specific properties for local authorities, the valuations are not relied upon by third parties, like they would be in the private sector.
- i The point is made that as per Red Book Global Standards, if an in-house (or external) valuer is incapable of doing a valuation or cannot do it independently or objectively, they should be refusing the instruction.

5.2 Local authority investment property

- a The CIPFA code takes the International Public Sector Accounting Standards (IPSAS) 16 definition of investment property, which is based on the International Accounting Standards (IAS) 40 definition but includes a public sector interpretation of investment property.

'Investment property is property (land or a building – or part of a building – or both) held solely 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 operations.'

If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for as property, plant and equipment rather than investment property. Social housing is delivering a service and shall be accounted for as property, plant and equipment.

- b Under this definition, an investment property is one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property under IPSAS 16 and is accounted for as property, plant and equipment.
- c The working group looked only at local authorities, who were considered to be the principal, albeit not the only, public sector entity when it came to owning investment property portfolios. This was partly due to the local

authorities being able, historically, to borrow to buy income-producing assets primarily to supplement the annual income budget of that local authority. There have since been changes to the rules relating to such purchases, so debt should not be used to facilitate their acquisition and most such investment properties are now legacy purchases. This is why one of the options above refers to the potential treating of local authorities separately for the consideration of mandatory rotation. For a full discussion of local authority investment portfolios and the risks and issues attached, please see the House of Commons Library research briefing by Mark Sandford [Local government: commercial property investments](#) (2022). This document was central to ratifying the working group's views on the discussed issues relating to 'public perception'.

- d Some members of the working group felt that there appears to be an issue with the inconsistent application of asset categorisation in some instances by different entities in terms of what is regarded as constituting operational property, called property, plant and equipment (PPE – which is valued to existing use value (EUV) and subject to depreciation) and investment properties (held at fair value). For example, some local authorities might include a letting of a scout hut as an investment property whereas others only include 'true' high-value investment assets let to third-party occupiers not providing any public service. This would normally be a best practice issue outside the brief of this working group but may present issues if mandatory rotation of valuers is introduced.
- e It was also felt that a blanket requirement to have rotation for all investment property may capture lower-value investment properties (assuming they have been classified correctly) that probably do not need to have mandatory rotation of valuers. If that option is chosen, then it would be prudent to introduce a minimum income/value to which 'investment property' applies, to exclude secondary assets such as scout huts and similar.
- f In terms of classification, there are property investments that could also be providing services. Indicative comments from the working group suggested that some public entities will classify these as operational, others as investments.
- g Conversely, some entities already classify what appear to be high-value investment assets as operational assets on the grounds of there being what appears to be a very minor/materially 'de minimis' public sector presence, or on the grounds of the asset being held for some 'broad policy

objective', which may not be well defined by the auditors who review the properties in each classification as presented.

- h Auditors do look at the classification against the investment property definition (which requires properties to be held solely for rentals or capital appreciation, or both), but if RICS provided further guidance (see below) then it may be possible to provide greater clarity for all parties.
- i Thus, implementing rotation may motivate some entities to switch from 'investment' to 'PPE' categorisation as a loophole so that assets do not need to be valued every year. Alternatively, it may provide more focus on what actually constitutes an 'investment property'.
- j That said, the choice of classification is within the gift of each local authority, and auditors will audit that judgement when each classification is presented to them. Further RICS guidance on the best practice of identifying the appropriate classification may be helpful, although this is outside the ambit of this report (see [Appendix E](#)).

5.3 Other considerations

- a The point was made that recruitment and retention of in-house valuers is an issue with some local authorities, which leads to a natural rotation of valuers.
- b As with the private sector (see the Carsberg report), there might be a perception that valuers in the public sector may be influenced by a desire to show positive performance of assets bought as investments. However, after long discussions, the working group felt that this was an erroneous assertion as all valuers undertaking Red Book-compliant valuations, whether in the public sector or the private sector, are required to provide independent and objective assessments of market value.
- c There could be impacts on local authorities if either mandatory 'firm' rotation was introduced or it was alternatively prescribed that no investment asset valuations could be undertaken in-house – this could affect both the financial cost of contracting out and the viability of continuing to employ an in-house team.
- d Peer reviewing of in-house valuations (by other local authorities or external valuers) was offered as a potential recommendation. Rotation of peer reviewer may be sensible, with the in-house team retaining the responsibility for the valuations.

- e The point was made that external valuers undertaking public sector asset valuations are already usually subject to an extensive and regular (every five or fewer years) open competition tendering and procurement process that effectively enables valuer rotation 'by the backdoor', although it is appreciated that true rotation and procurement are two separate things.
- f It was considered that any recommendation arrived at should apply equally to internal and external valuers undertaking the valuation of public sector assets, it being inequitable to treat them differently.
- g During the discussions of the working group, a number of issues were raised that were outside the remit of the working group. These related to best practice in the management (strategic and day to day) of investment properties in the public sector. These are outside the recommendations of the report but, for completeness, have been included as [Appendix E](#) for consideration by further RICS public sector working groups.



6 Advantages and disadvantages of RICS rotation

- 6.1 The simple advantage of introducing mandatory rotation for the public sector is that it would mirror (either exactly or amended) the provisions for the private sector.
- 6.2 However, the disadvantage of so doing is that the valuation of public sector investment assets is split between external and internal valuation teams. This presents a logistical problem and may lead to the unintended consequence of forcing internal valuation teams to outsource their valuations if valuer rotation is not viable within the numbers of the internal team.
- 6.3 But logistical considerations may be secondary when placing RICS rotation alongside the other checks and balances already in place in the public sector. The question is whether any additional benefit will be added by so doing?
- 6.4 Further, the practice of mandatory rotation in the private sector may not be necessary for the public sector due to different operational contexts and existing checks and balances.

7 Alternative solutions

- 7.1 The group recognised that there was a distinction between public and private sector practices; the public sector's approach to managing investment properties is distinct and does not attach the same level of valuation risk as in the private sector. Valuation risk, in this sense, is the risk of the valuation being used inappropriately or the number provided being influenced by clients. While RICS rightly believes that the provisions of Red Book Global Standards protect the valuer from these pressures, the possibility still remains a risk but, as performance measurement is different or not used at all in the public sector, the comparative risk is much lower.
- 7.2 The drivers in the private sector are different, and mandatory rotation may not be necessary for the public sector. There is little or no reliance on the investment asset valuations when public sector entities are managing their investment assets and making investment decisions taken by third parties. Where local authorities are actively managing and monitoring investment performance, they would look at market values, but indicative evidence suggests that most do not undertake regular strategy management.
- 7.3 The group felt that the existing controls in the public sector, such as external audits and reporting requirements, provide sufficient oversight without the need for mandatory rotation.

8 Conclusions and recommendation

- 8.1 After rigorous discussion, it was felt that public sector valuation of investment properties (whether undertaken by an internal team or by an external valuation firm) is distinct from the valuation of investment property counterparts in the private sector in terms of both actual risk and public perception.
- 8.2 This is not in terms of process and quality assurance (all valuations are subject to the same report writing provisions of Red Book Global Standards). However, unlike in the private sector, public sector valuations are not figures on which third-party investors rely, and local authority debt is considered in total and not relative to individual property values.
- 8.3 In addition, the rigour and frequency of required procurement procedures in the public sector acts as a 'quasi-rotation' mechanism where the decision to use an internal team or an external provider is considered at regular intervals on predetermined criteria. While this does not always result in a new firm being appointed, the procurement process itself imposes an extra layer of checks and balances.
- 8.4 But, more so, it was agreed that the existing oversight mechanisms of governmental and other bodies, together with the annual external audits of all valuations, for which third-party valuers are usually included in the audit teams, are robust and ensure that all investment valuations are reviewed.
- 8.5 The group, therefore, reached a consensus that mandatory rotation is not necessary for the valuations of public sector investment properties when undertaken internally and/or by external contractors. This coincides with the possible outcome [4.1\(e\)](#) as noted above.
- 8.6 It was, however, noted that although mandatory rotation is not being recommended, the group recommends that the best practice provisions of Red Book Global Standards on recommendatory rotation at a frequency of no less than every seven years should be re-emphasised to all public sector entities, whether they are undertaking valuations internally or externally. It is not a requirement of this recommendation to only use external valuers. The non-mandatory rotation of in-house valuers (where logistically possible) is also encouraged.
- 8.7 In the case of internal teams, the Red Book Global Standards provision of using valuation panels where the size of the organisation is not sufficient to support rotation is to be encouraged.

- 8.8 Lastly, in addition to the main recommendation at 8.10 below, it is also recommended that RICS establish a working group to undertake the writing of new practice information on public sector investment valuations and management, which would highlight the issues noted in this report and provide a best practice guide for the undertaking of such valuations. The same document could aid auditors as to what they should be looking at in public sector valuations.
- 8.9 The same group should work with HM Treasury and relevant public sector financial reporting standard-setting bodies to support the updating of their respective guidance notes and codes to dovetail into, and to be cross-referenced within, the new RICS practice information.

8.10 The recommendation is:

Public sector investment property valuations for financial reporting **should not** be considered as regulated purpose valuations under the RPV definition of *RICS Valuation – Global Standards: UK national supplement 2023*.



Appendix A: Public Sector Valuer Rotation Working Group – membership

Members of the working group

1	Nick French MRICS (Chair)	Independent member
2	Chris Brain FRICS	ACES
3	Simon Cullimore MRICS	Jones Lang LaSalle
4	Bernard Donnelly MRICS	Leeds City Council
5	Rod Lockhart MRICS	LendInvest
6	Ben Matthews	CIPFA
7	Helen McLeod-Baikie MRICS IRRV	Bruton Knowles
8	Marco Meoni MRICS	Scottish government
9	Jaspreet Rahi MRICS	Lambert Smith Hampton
10	Myles Riordan MRICS	Valuation Office Agency
11	Paul Scaplehorn MRICS	Homes England
12	Graham Stalker MRICS	Independent member
13	Clare Tait	Gateshead Council
14	Jonathan Theobald MRICS	Derwent London
15	Melanie Whitehead MRICS	East Devon District Council

Appendix B: Relevant sections of Red Book Global Standards and Red Book: UK

From *RICS Valuation – Global Standards* (Red Book Global Standards)

Note: UK VPS 3 below is an additional mandatory requirement on the good practice suggested in Red Book Global Standards, PS 2, 5.4:

5.4 Rotation policy *[abridged]*

‘5.4.3 The method by which a firm arranges for any rotation of those responsible for valuations is for the firm to decide, after discussion with the client if appropriate. However, RICS recommends that the individual responsible for signing the report, no matter the standing of that member in the firm, has that responsibility for a limited number of years. The exact period will depend on:

- the frequency of valuation
- any control and review procedures in place such as ‘valuation panels’, which assist both the accuracy and objectivity of the valuation process, and
- good business practice.

5.4.4 RICS considers it good practice, albeit not mandatory, to rotate valuers at intervals not exceeding seven years. National valuation standards or local regulations may require additional criteria.

5.4.5 If a firm is unable to rotate the responsible valuer in accordance with the above, they should consider whether it is correct to proceed with the valuation.

5.4.6 For some markets and valuation purposes, ‘valuation panels’ exist, where a client or their appointed valuation/panel manager will select a firm or valuer from an approved pool. Firms and, where appropriate, members may look to join available valuation panels as a way of improving valuation governance and instigating firm and valuer rotation.’

From *RICS Valuation – Global Standards: UK national supplement 2023* (Red Book: UK)

‘UK VPS 3 Regulated purposes valuations: supplementary governance requirements

The requirements below are supplementary to Red Book Global Standards **PS 2 section 5** and apply to the valuation of real estate for regulated purposes, namely:

- valuations for financial reporting under UK VPGA 1 (excluding public sector – see below)
- 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 authorised collective investment schemes under UK VPGA 2.3 and
- valuations for unauthorised and unregulated collective investment schemes under UK VPGA 2.4.

Each one is a ‘regulated purpose’ and together ‘regulated purposes’.

Valuers should refer to the exceptions at **VPS 1–6** 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 sectors, 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 to **VPS 1–6** under **PS 1 section 5**.

The regulated purposes above do not include valuations exclusively for secured lending, for which there is guidance in VPGA 2, UK VPGA 10 (commercial secured lending) and UK VPGA 11 (residential).

The regulated purposes above exclude all valuations undertaken in respect of the UK public sector for financial reporting purposes in accordance with UK VPGA 1, UK VPGA 4 or UK VPGA 5.’

'UK VPS 3.3 Rotation policy

- 1 References to valuer in this rotation policy refer to the responsible valuer identified in the terms of engagement (**VPS 1, 3.2 (a)**) and valuation report (**VPS 6, 2.2(a)**) and referred to at **PS 2 paragraph 7**. It is understood that multiple valuers and other professionals may be involved in the valuation process, including in signing and peer reviewing the valuation report. This rotation policy refers to the responsible valuer only, although firms should, where possible, consider appropriate rotation of others involved.
- 2 Where a valuation is to be undertaken for a regulated purpose, the responsible valuer **must** confirm to the client in the agreed written terms of engagement that a rotation policy is in place at their firm.
- 3 In order to undertake the valuation, the responsible 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 valuation firm has valued the asset(s) for the same regulated purpose does not exceed ten years and will not have exceeded the period by the completion of the engagement. This is save for cases where there has been a break from valuing the asset(s) for at least three consecutive years in the preceding ten-year period.
- 4 A valuer must not be identified as the responsible valuer for the same asset, for the same regulated purpose, for a period of more than five years. This is save for cases where there has been a break from them being the responsible valuer of the asset(s) for at least three consecutive years in the preceding five-year period.
- 5 A valuation firm must not agree to a single engagement of more than five years to value the same asset, for the same regulated purpose. On expiration of that engagement, a valuation firm may agree a further engagement to value the same asset(s) so long as this does not conflict with **UK VPS 3.3 paragraph 3**.
- 6 It is recognised that in exceptional circumstances, such as for some assets that require highly specialised knowledge and experience, there may be an extremely limited pool of available competent valuers or valuation firms with the capability of providing a regulated purpose valuation service. In these circumstances the valuation firm may accept valuation instructions that would otherwise be in breach of the requirements in **VPS 3.3 paragraph 3**; and/or the responsible valuer may accept valuation instructions which would otherwise be in breach of the requirements in **VPS 3.3 paragraph 4**, provided they meet the following criteria.

- i The instructing client has provided a written statement confirming that they have been unable to instruct (e.g. through tendering) a different valuation firm and/or responsible valuer.
- ii The client's statement 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.
- iii The valuation firm's Responsible Principal has agreed in writing to accept the instructions.
- iv RICS Regulation has been notified in writing before the instructions are accepted.'

Appendix C: Public Sector Valuer Rotation Working Group – full remit and scope of work

- 1 Where do the real risks lie in UK public sector valuation of investment properties for financial reporting currently, where independence and objectivity is critical in the public interest?
- 2 Should public sector investment valuations for financial reporting now be considered as being regulated purpose valuations and be subsequently ruled into the *RICS Valuation – Global Standards: UK national supplement 2023* definition of regulated purpose valuation (RPV)?
- 3 Are internal valuations (in many cases undertaken by internal valuers by one department for another) undertaken for financial reporting purposes ‘excepted’ from certain provisions of *RICS Valuation – Global Standards* and so conflicting with the RPV definition (which excludes ‘excepted’ valuations)?
- 4 In comparison with other types of RPVs requiring use of independent valuers, public sector valuations are more commonly undertaken internally by in-house valuation teams. Internal valuations bring into question the independence of the valuer, and hence this creates risk to the perceived objectivity of valuations. A key issue to be addressed may be considered to be: are current RICS requirements in respect of valuer independence in the UK public sector (including those undertaken by in-house teams) sufficient, and are there any other material threats to objectivity in valuation in the public sector that RICS should consider?
- 5 Does RICS have the authority and the ability to dictate public sector policy around valuer appointment given the existence of various rules governing public sector valuation potentially beyond RICS’ own control, e.g. the *CIPFA Code of practice on local authority accounting in the United Kingdom* and the *HM Treasury Government financial reporting manual*?
- 6 Is any additional guidance required for internal valuers and finance teams commissioning valuations of investment properties in the UK public sector in respect of ensuring objectivity and independence, and more broadly to clarify RICS’ expectations around culture and behaviours of RICS members working in the public sector?

- 7 Consider the expertise, experience and market knowledge of RICS members working as in-house valuers undertaking valuations of investment properties for financial reporting.
- 8 Consider potential rotation provisions of both external providers of public sector valuations and internal valuers/teams.
- 9 Are there any unintended consequences of introducing mandatory valuer rotation in the public sector and, if so, how can these be mitigated? Ultimately, do the potential gains to be had from looking to introduce further independence and objectivity in the public sector valuation process outweigh any additional procurement related costs, which would be borne by the taxpayer?

Appendix D: Relationship between public sector valuers and RICS Regulation via the Profession Support and Assurance (PSA) team

- 1 Public sector valuation teams are not defined as 'regulated firms' (as they do not provide valuations to the general public), but their individual members are covered by the Valuer Registration Scheme (VRS).
- 2 Some public sector entities that employ Registered Valuers have RICS Sponsored Non-Regulated Organisation (SPONRO) status. SPONROs are organisations that pay fees and provide firm-related regulatory information on behalf of their Registered Valuer employees but are not RICS-regulated firms. If an RICS member is an employee of a SPONRO it means that their VRS fees are paid by the organisation. However, the member is still required to register for the VRS and complete an annual return. The valuer registration is held by the individual and not the firm.
- 3 SPONRO status is important for the Valuation Office Agency and similar public sector valuation bodies as it provides for additional formal RICS checking and monitoring/reviewing.
- 4 However, in addition to enabling the organisation to pay its Registered Valuers' fees centrally, it is noted that the SPONRO is subject to the same RICS regulatory inspection regime as a regulated firm and has to submit the same annual questionnaire return to the RICS as a regulated firm.
- 5 Regardless of this, public sector valuation teams (including local authorities) are subject to regulatory reviews based on the Regulation team's risk matrix.
- 6 The amount (and value) of investment properties owned by a local authority is not a factor influencing whether to inspect or not because this data is not available to them.

- 7 Regulatory visits focus on issues such as reviewing files based on:
 - conflicts of interest
 - terms of engagement
 - quality of site notes
 - sensitivity of information.
- 8 Regulatory visits are more concerned with the process rather than a detailed analysis of figures.
- 9 Local authority reviews have been undertaken within the past year (2023/24), all of which passed with either A grade or B grade.
- 10 The PSA team has not received a single complaint relating to a local authority valuer in recent memory.
- 11 Public sector valuers, including those employed by local authorities, and external valuers undertaking public sector asset valuations are regular attendees at PSA Red Book Compliance Workshops.
- 12 The PSA team takes a proactive and reactive stance on regulation but are ultimately resource restricted.
- 13 It is the opinion of the PSA team that local authorities now have very limited abilities to acquire investment properties.

Appendix E: Observations and recommendations outside report remit

- 1 During the discussions on the need, or otherwise, for RICS valuer rotation, it became clear that there were significant issues relating to the valuation and management of public sector investment properties that were outside the remit of the working group's task.
- 2 These were principally concerned with giving guidance on interpretation of definitions and best practice for the performance measurement and strategic management of investment property assets in the public sector.
- 3 It is, therefore, recommended that RICS establish a working group to undertake the writing of new practice information for RICS members on public sector investment valuation and management. The same document could aid auditors as to what they should be looking at in public sector valuations.
- 4 In addition, it makes sense that the same group should work with HM Treasury and other relevant public sector financial reporting standard-setting bodies to support the updating of their respective guidance notes and codes to dovetail into, and to be cross-referenced within, the new RICS practice information.
- 5 Among the issues that need to be considered are:
 - a the need for investment property in public sector portfolios
 - b the process and interpretation within the various codes on which properties should be classified as 'investment property'
 - c where the ownership of investment assets is considered appropriate, how public sector entities can look at, and consistently measure, the performance of their investment property assets
 - d in accordance with (a), (b) and (c), how public sector entities can actively manage such properties to feed into an overall investment property strategy
 - e providing clarification on best practice when liaising and working with auditors.

- 6 It might be prudent for any guidance on investment property to dovetail into and reference any other guidance (by RICS or others) relating to operational property.
- 7 A number of members of the Public Sector Valuer Rotation Working Group have expressed an interest in being involved in any subsequent working groups to consider new RICS practice information on public sector investment valuations.

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