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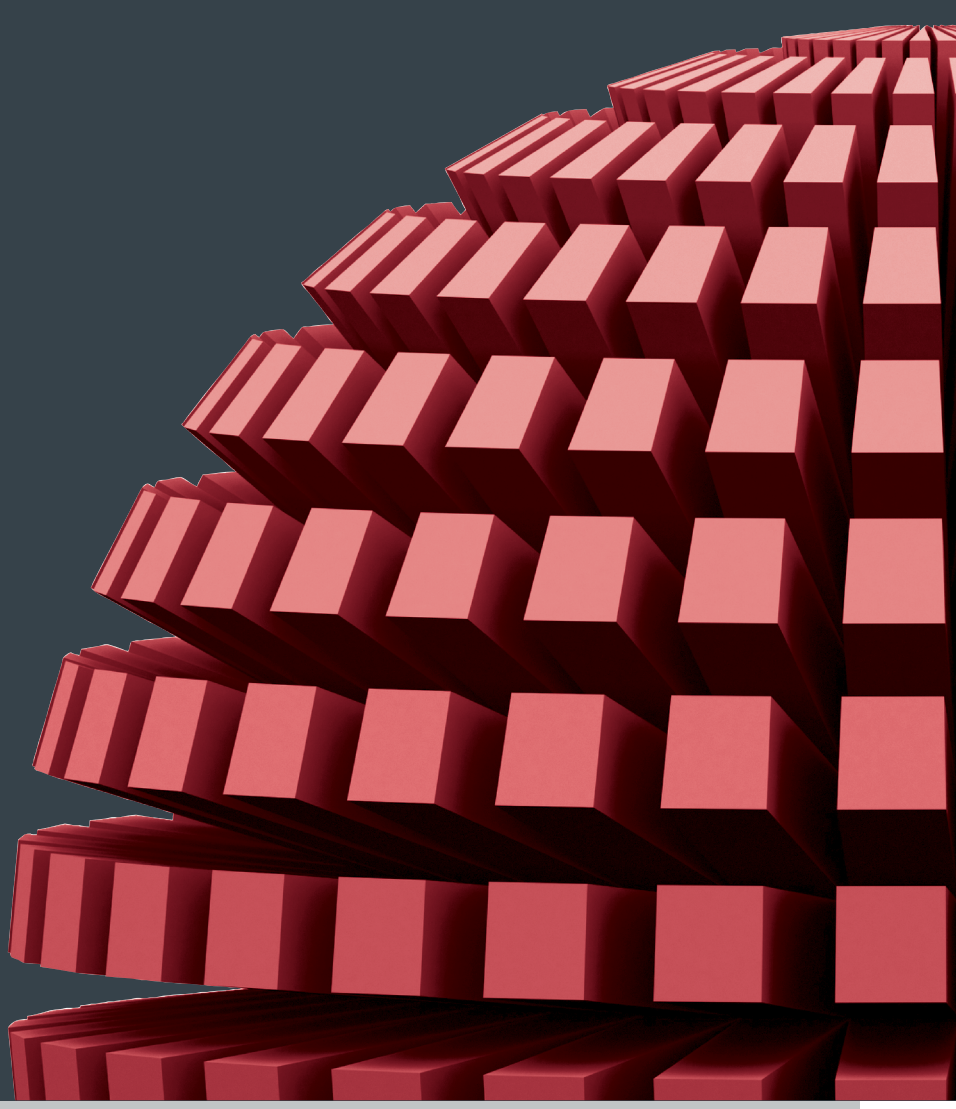

RICS Valuation – Global Standards: UK national supplement

UK

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Effective from 1 May 2024

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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.

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.

Application to members of RICS

1 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. However, it is recognised that in 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.

Effective date

2 The RICS material included in this UK national supplement edition takes effect from 1 May 2024 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.

Currency of the text

3 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 they have had proper regard to any subsequent amendments.

RICS standards framework

4 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.

5 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.

6 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.

7 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.

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. This includes 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 *valuation* that, by agreement, do not need to be verified by the valuer as part of the *valuation* process.
Basis of value	The fundamental premises on which the reported values are or will be based (examples are included in IVS 102 paragraph 20 and IVS 102 Bases of Value: Appendix).
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 *valuation date*.
Departure	Advice provided by a valuer that is contrary to a specific provision in **VPSs 1–6** that is not mandatory within the relevant context or jurisdiction nor within the specific exceptions in **PS 1 section 5** (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.

Term	Definition
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 102 paragraph A30).
Environmental, social and governance (ESG)	The criteria that together establish the framework for assessing the impact of the *sustainability* and ethical practices, financial performance or operations of a company, asset or liability. *ESG* comprises three pillars: *environmental, social and governance*, all of which may collectively impact performance, the wider markets and society (IVS glossary). The definition above highlights that although *ESG* can refer to companies and investors, *ESG*-related factors are also used to describe the characteristics and, where relevant, operation of individual and groups of assets. It is used throughout these standards in this context. Also see *sustainability*. Both terms are used in conjunction throughout these standards; however, *ESG* is the assessment tool and framework, whereas *sustainability* is the goal and/or outcome.
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.
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.' (IFRS 13.) Other definitions may apply/exist.
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 the use of a group of assets that is not separable. The aspects of *goodwill* can vary depending on the intended use of the *valuation* (see IVS 210, para 20.09).
Income approach	An approach that provides an indication of value by converting future cash flows to a single current capital value.

Term	Definition
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: • 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 102 paragraph A40).
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.

Term	Definition
Market rent	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 102 paragraph A20).
Market value	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 102 paragraph A10).
Marriage value/ synergistic 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.
Personal property	Assets (or liabilities) not permanently attached to land or buildings: • **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*. The boundaries between these categories are not always easy to define, and the criteria used may vary according to the particular market sector the assets serve, the *purpose of the valuation* and relevant national and international accounting conventions. In particular, the term *personal property* is used to describe *plant and equipment* (and other assets not forming part of real property) in certain jurisdictions, and additionally used to describe arts and antiques in other jurisdictions.

Term	Definition
Plant and equipment (including infrastructure)	This may be broadly divided into the following categories. • **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). • **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. • **Infrastructure:** a collection of assets, systems and facilities dedicated to a specific production process requirement; this may include a significant quantity of different equipment, civil works, land improvements and structures.
Purpose of valuation/ valuation purpose	The reason(s) a *valuation* is performed. For the purpose of these standards, it is broadly equivalent to the IVS-defined term 'intended use'.
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 paragraph 20.2.)
Records/ valuation records/ documentation	A piece of information that is stored, either as a digital record or hard copy. This is referred to in IVS in different contexts as data, inputs and documentation. Data and input documentation is covered in IVS 104 paragraph 50.

Term	Definition
Regulated by RICS (RICS-regulated firm)/registered for regulation	A *firm* or individual that is *registered for regulation* by RICS under the RICS bye-laws.
Responsible valuer	A named valuer who accepts responsibility for the *valuation* and is appropriately qualified (defined at **PS 2 paragraph 2.1**).
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*. In some jurisdictions these are also referred to as hypothetical conditions.
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	Carrying out activities without depleting resources or having harmful impacts. It includes matters such as (but not restricted to) environment and climate change, health and wellbeing, and personal and collective responsibility that can or do impact *valuation*. Also see *environmental, social and governance (ESG)*. Both terms are used in conjunction throughout these standards; however, *ESG* is the assessment tool and framework, whereas *sustainability* is the goal and/or outcome.
Terms of engagement (or scope of work)	Written confirmation of the conditions that either the member proposes or that the member and client have agreed will apply to the undertaking and reporting of the *valuation*. Referred to in IVS as 'scope of work' – see IVS 101 paragraph 10.01.
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 or adapted for a specific type of business, where the property value reflects the trading potential for that business.

Term	Definition
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 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*. IVS define *valuation* as a process: 'The act or process of forming a conclusion on a value as of a valuation date that is prepared in compliance with IVS.'
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.
Valuation model	A quantitative implementation of a method in whole or in part that converts inputs into outputs used in the development of a value.
Valuation process review	A part or the whole of a *valuation review* (see definition below) that addresses compliance with IVS and/or compliance with Red Book Global Standards.
Valuation review	This is defined in the IVS glossary as either a *valuation process review* or a *value review*, or both. IVS 101 confirms that a *valuation review* is not a *valuation*, and that the scope of work must state whether the *valuation review* is a *valuation process review* or a *value review*, or both. However, IVS 106 paragraph 40.02 notes that if a value is provided as part of the *value review*, then this is a *valuation*.
Value review	A part of or the whole of a *valuation review* (see definition above). A *value review* is defined in the IVS glossary as an analysis by the valuer applying IVS to assess and provide an opinion on the value of another valuer's work. This does not include an opinion on the *valuation* process. IVS 101 confirms that a *value review* addresses the reasonableness of a value.
Worth	See *investment value*.

UK glossary

Term	Definition
Rotation	The process of changing the *responsible valuer* and/or *firm* engaged to undertake *valuation* services in respect of a particular asset. RICS' UK rotation policy is included at UK VPS 3.3. This is in addition to Red Book Global Standards obligations.

1 UK Professional Standards (UK PS) – mandatory

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 comply at all times.

Implementation

1 It is important that members and *RICS-regulated 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.

2 UK Valuation Technical and Performance Standards (UK VPSs) – mandatory

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 6 section 2 paragraph 2.1(k) 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 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 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** 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 to **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 3.1 Exclusion of certain properties

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 *r*egulated 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

1 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.

2 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 *valuation* report (including any published draft):

a **in relation to the *valuation 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**

b **a simple concise statement that discloses the nature of other work done and the duration of the relationship with the client.**

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. 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 Where a reference to a report is to be published, the statement for inclusion in the publication (see **VPS 6 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 3.3–3.5 Scope

The requirements in **UK VPS 3.3–3.5** set out below only apply to:

- *valuations* for financial reporting under UK VPGA 1, excluding public sector and only in respect of assets owned or part owned by entities whose transferable securities are admitted to trading on a regulated market or large companies (those that do not qualify as a micro entity, small or medium company as respectively defined in sections 384a to 384b, 381 to 384, and 465 to 467 of the Companies Act 2006)
- other regulated purposes under UK VPGA 2:
  - *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.

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 **UK VPS 3.3 paragraph 3**; and/or the *responsible valuer* may accept *valuation* instructions which would otherwise be in breach of the requirements in **UK 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.

Transition to valuer and firm rotation

7 The transition period for implementation of the *rotation* policy is **1 May 2024 up to and including 30 April 2026**. During this period *responsible valuers* and valuation *firms* may undertake the *valuation* of an asset that would otherwise be in breach of the requirements in **UK VPS 3.3 paragraphs 3 and 4** where they are under an existing engagement to do so, or where this is necessary to allow the client to organise an orderly transfer to a new *responsible valuer* or valuation *firm*.

8 From 1 May 2026, a valuer or *firm* may only undertake a *valuation* that would otherwise be in breach of **UK VPS 3.3 paragraphs 3 and 4** where they are obliged to do so under an engagement that they cannot lawfully terminate (without penalty) or in compliance with paragraph 6 and must notify RICS Regulation in either circumstance.

UK VPS 3.4 Terms of engagement and instructions

1 In addition to the standards set out in **VPS 1**, the valuer must ask the client in writing whether 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.

The client response 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 ask the client to confirm 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 *valuation* report, including any published version.

3 The valuer should check that adequate data security is in place to safeguard inadvertent or inappropriate sharing of data, internally or externally. Valuers are reminded of the confidentiality requirements contained in **PS 2 section 3** and the data requirements of 3.12 of RICS' Rules of Conduct: 'Members and firms check that all data used is accurate and up to date, is kept securely, and that they have proper legal rights to use it and, where required, share it'.

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

1 Valuers should be familiar with **PS 2 paragraphs 3.10–3.15** 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 valuer's independence, the written record 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 written record can be digital or based on a transcript of recorded meetings but **must** be capable of being produced for appropriate *third parties* where needed. 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 *RICS Valuation – Global Standards* and 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.

3 UK Valuation Practice Guidance Applications (UK VPGAs)

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, the FRC has 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 focussed 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. 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 2023) – 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 an auditor is required to check *fair value* estimates provided by the reporting entity prepared for inclusion in the *financial statements*. UK VPGA 9 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 VPGAs 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 when the reporting entity is neither required to use IFRS nor has opted to use IFRS voluntarily. It comprises of Financial Reporting Standards issued by the FRC.

4 There are six UK Financial Reporting Standards in total:

- FRS 100 *Application of Financial Reporting Requirements:* this sets out and provides guidance on the overall reporting framework.
- FRS 101 *Reduced Disclosure Framework:* this 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:* this introduces a single standard that seeks consistency with, but is not necessarily the same as, IFRS.
- FRS 103 *Insurance Contracts:* this 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 relevant to valuers, but cannot cover all aspects of compliance with them by the reporting entity.

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 either of the cost model, the revaluation model, or the fair value model as defined in FRS 102.

1 An entity is required to 'measure' 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. (IFRS equivalent is IAS 40 paragraph 30-32.)

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:

a 'are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and

b 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

b mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

The definition of property, plant and equipment is similar to that in IAS 16 except for the explicit exclusion of 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). 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, 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' – FRS 102 section 2 paragraph 34(b). 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 2 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 2 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 the current edition of 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:

- the effective date of the revaluation
- whether an independent valuer was involved
- the methods and significant *assumptions* applied and
- 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):

- the methods and significant *assumptions* applied and
- 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 6** 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. 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) needs 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. They 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 (certain additional information is below)	Accounting policies available
Property, plant and equipment (other than investment property – see below)	Owner-occupied property	Cost or revaluation model
	Own use plant and equipment	
	Property fully-equipped as an operational entity and used by the owner	
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)

Financial statement classification	Examples of asset types (certain additional information is below)	Accounting policies available
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	According to classification
	Options and other contractual rights that may be saleable and of value	
	Mineral resources	

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' as detailed below.

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.

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 in accordance with FRS 102.

Heritage assets

11 Heritage assets are assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities. 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

b in the process of production for such sale or

c in the form of materials or supplies to be consumed in the production process or in the rendering of services.

However, this does not 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 (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 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.

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 *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 the current edition of RICS' Depreciated replacement cost method of valuation for 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 6 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 because 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 2 section 9**).

UK VPGA 1.6 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 (or a current value basis where that is applicable in the UK public sector). 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 transaction taxes 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 2**).

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 the support of the valuation will reflect the realities of the relevant market and the impact of applicable costs and taxes on agreed prices. 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 1.7 Valuation date

Valuations for inclusion in *financial statements* are normally stated at the reporting date of the financial statement, though if this is not practical an alternative close to the financial reporting date may be agreed.

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 1.8.

UK VPGA 1.8 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 1.9 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, 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 the current edition of 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 As with finance leases, operating leases need to be accounted for differently by lessors and lessees.

9 Under FRS 102, a lessor's interest in an operating lease would always need to be valued, as lessors have to account for their interest in operating leases according to the nature of the asset. This would normally be the present value of the rental receipts over the term of the lease plus any residual value at the end of the term.

10 In contrast a lessee would normally account for rental payments as an operating expense over the lease term. One exception is where the lessee's interest is being valued as part of a purchase price allocation upon a business combination.

11 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.

12 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

13 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.

14 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.

15 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. They should also 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 1.10 Depreciation accounting

The following material provides information and 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 (DRC) valuation* (see UK VPGA 1.5). 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 1.11).

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 not significant 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 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 the following.

- Physical obsolescence – the age, condition and probable costs of future maintenance (assuming prudent and regular maintenance) but not capital expenditure – see paragraph 5.
- 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.

- Economic obsolescence – a loss in value to a property caused by factors external to the property itself.
- 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.
- 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 within 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).

- 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 anticipate 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 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 should 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 most 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 apportionment 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 recommended that valuers use approach (a) land value and cross-check with (c) percentage. Alternatively, similar results can be achieved starting with (c) and cross-checking/adjusting with (a). Valuers are advised to avoid reliance on (b) DRC and an over-mathematical approach to land and buildings apportionment for non-specialised property; it is always beneficial to carry out a final 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. It is not appropriate to consider alternative uses unless they are reflected in the value at which the property has been included in the balance sheet.

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 supported 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 VPGA 5.

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.

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

33 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.

34 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 in addition to the actual premises occupied by them.

35 The presence (or otherwise) of other proprietors in 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*.

36 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.

37 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.

38 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

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

- land
- buildings and
- fixtures and fittings.

40 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.

41 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.' Besides advising on an apportionment of value between land and site improvements such as buildings (see 24–32 above) a valuer may be asked to provide advice on elements of the site improvements that have materially different useful lives.

42 A common example is where a building has services that will have a materially shorter useful life than the superstructure. At initial recognition the respective costs of the building structure and mechanical and electrical services will probably be known, but if the entity subsequently opts for the revaluation model the valuer may be required to make a hypothetical apportionment of the *fair value* attributable to the building between these two elements. With more specialised buildings the number of components having materially different useful lives may be greater, for example specialised finishes to accommodate a specific manufacturing process may have a different useful life to the rest of the building. Site improvements such as the provision of services, drainage or internal roads may have a different useful life from individual buildings.

43 The individual components of a building may have different useful lives but will be incapable of being transferred separately from the whole property, which creates obvious *valuation* challenges. The valuer can use techniques to apportion the *fair value* such as the percentage each component would have cost of the original construction cost or a modern replacement cost. On the other hand, if a component is already substantially through its anticipated useful life it would be appropriate to allocate a much lower percentage of the overall value. In some cases it may even be possible to compare the fair values of similar buildings with and without the component, although this would be rare The valuer should carefully consider the facts and circumstances and adopt a clear rationale for making any apportionments. As in the case of land building apportionments (see 27 above), any apportionments provided should be clearly stated as hypothetical and provided only to assist in determining the appropriate depreciation required for accounting purposes.

UK VPGA 1.11 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 the current edition of RICS' IFRS 16: Principles for UK real estate professionals.

UK VPGA 1.12 Publication statement

Valuers are reminded of the mandatory requirement in **VPS 6 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.

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, can arise for this purpose and they may be precluded from capping or limiting their liability.

1 In the UK, the Financial Conduct Authority (FCA) is the competent authority for listing. Valuers are reminded that the legislative and regulatory framework is extensive and continues to evolve.

2 Where the valuation is of a portfolio of properties, VPGA 9 is relevant.

3 Where a company is issuing a publication for listing and/or prospectuses, there may be specific requirements regarding the content of any *valuation* report, which valuers should have regard to.

4 Valuers requiring further information about the regulatory requirements can access the full text of the rules through the FCA website, and in particular have regards to the Listing Rules and the Prospectus Regulation Rules Sourcebook content of the FCA Handbook.

Valuation reports for inclusion in prospectuses and listing circulars

5 Property companies seeking FCA approval, under the FCA Prospectus Rules for the publication of a prospectus, must include a property *valuation* report by an independent 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. This *valuation* report **must**:

i be prepared by an independent expert

ii give the date or dates of inspection of the property

iii provide all the relevant details in respect of material properties necessary for the purposes of the *valuation*

iv be dated and state the effective *date of valuation* for each property, which must not be more than 1 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 *date of valuation*

v include a summary showing separately the number of freehold and leasehold properties together with the aggregate of their *valuations* (negative values must be shown separately and not aggregated with the other *valuations*; separate totals should be given for properties valued on different bases)

vi include an explanation of the differences of the valuation figure and the equivalent figure included in the issuer's latest published individual annual accounts or consolidated accounts, if applicable.

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.

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

- 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
- former employment of, or any form of compensation from, the issuer
- membership of any of the issuer's bodies and
- any connections to the financial interim.

Basis of value

10 The basis of *valuation* should normally be market value in accordance with:

a 'the Appraisal and Valuation Standards (5th edition) issued by the Royal Institution of Chartered Surveyors (for an issuer incorporated in the UK, the Channel Islands or the Isle of Man); or

b the International Valuation Standards (7th edition) issued by the International Valuation Standards Committee (for an issuer incorporated overseas).'

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 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 in 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 know 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.

3 Members are reminded that the Code is regularly updated. Before accepting instructions, it is essential that the valuer checks the extant version of the Code to ensure that all its requirements are met.

Applicable valuations

4 Rule 29 *Asset Valuations* of the Code applies to a *valuation* published by the offeree company or a securities exchange offeror:

i during the offer period

ii in the 12 months prior to the commencement of the offer period or

iii more than 12 months prior to the commencement of the offer period if attention is drawn to the *valuation* in the context of the offer by the offeree company or a securities exchange offeror (as applicable),

and applies to a *valuation* of:

i land, buildings, plant or equipment

ii mineral, oil or gas reserves and

iii unquoted investments representing in aggregate 10% or more of the gross asset value of the party to the offer that published the *valuation*

iv other assets or liabilities. The Panel should be consulted at the earliest opportunity if a *valuation* has been or is proposed to be published.

5 If the offeree company or a securities exchange offeror publishes, or has published, a net asset value or an adjusted net asset value in circumstances where Rule 29.1(a) would apply if a *valuation* had been published in respect of the underlying assets:

i a valuation of the underlying assets falling within the scope of Rules 29.1(b) or (c) must be published and

ii any document or announcement published by the offeree company or the securities exchange offeror which includes that net asset value or adjusted net asset value must clearly set out any adjustments made to the *valuation* of the underlying assets in order to calculate that net asset value or adjusted net asset value.

6 Rule 29 is not intended to apply to a *valuation* that is set out in a company's *financial statements*, only as a result of accounting practice and which is not otherwise referred to by the relevant party in the arguments as to the merits or demerits of the offer.

Status of the valuer

7 As per the Code's requirements, a valuer must be considered by the Panel to be:

a independent to the parties

b appropriately qualified to give a *valuation* report on the *valuation* and

c have sufficient current knowledge of each relevant market and the necessary skills and understanding to prepare the *valuation* report.

Basis of value

8 The basis of *valuation* should normally be market value, prepared in accordance with:

a valuation standards published by RICS or the International Valuation Standards Council or

b other appropriate professional standards approved by the Panel.

9 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.

Requirements of the valuation report

10 The Code contains specific requirements to the content of *valuation* reports and valuers should refer to these.

11 The *valuation* report must be included in the offer document or the offeree board circular (as appropriate) or, if earlier, in the first announcement or document published during the offer period by the offeree company or the securities exchange offeror (as the case may be) which refers to that *valuation*. Also, any *valuation* report must be published on a website in accordance with Rule 26.3.

12 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 a 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 Authorised collective investment schemes

Valuations for authorised collective investment schemes have to be in accordance with the requirements of the Financial Conduct Authority (FCA) Collective Investment Schemes Sourcebook (COLL). Valuations for this purpose are regulated purpose valuations (see **UK VPS 3**), and the various disclosure requirements will apply.

HMT is undertaking a review of the UK funds regime, the results of which may impact some of this section. Valuers should be aware of the latest regulations and requirements for the *valuations* they are undertaking.

1 To avoid confusion, valuers should be aware that the COLL sourcebook 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.

2 The COLL sourcebook includes reference to a number of different schemes and valuer roles (for example, standing independent valuer and appropriate valuer). The sourcebook is regularly updated and the scheme, valuation and valuer role details can change over time. Valuers should be aware of the COLL and scheme valuation and valuer role requirements relevant to the *valuation(s)* being undertaken, noting these can directly impact a valuer's responsibilities and liability.

3 For more detailed information about authorised collective investment schemes, the full text of the sourcebook is available on the FCA website. Valuers should consult the sourcebook before agreeing terms of engagement to undertake this specialist area of *valuation*.

Basis of value

4 Any *valuation* by an appropriate valuer or a standing independent valuer must be on the basis of *market value* subject to any special provisions within the instrument constituting the scheme.

The valuer

5 The COLL requirements for an appropriate valuer and for a standing independent valuer can be found on the FCA website. Due consideration should be taken as to the implications of these requirements, including in respect of liability.

Financial reporting

6 The Investment Association has issued a statement of recommended practice (SORP) on Financial Statements of UK Authorised Funds that provides guidance on the effective implementation of the accounting standards.

UK VPGA 2.4 Unauthorised and unregulated collective investment schemes

Some collective investment schemes are not regulated or authorised (sometimes referred to as recognised) by the FCA.

Unauthorised unit trusts (UUTs) are not regulated by the FCA but are subject to the requirements of the instrument that establishes the scheme. *Valuations* should usually be undertaken 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 Unauthorised unit trusts (UUTs) 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 therefore distinguished from authorised unit trusts (AUTs).

2 There is no regulatory requirement for an independent *valuation*, but in reality, trust deeds may 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 Unregulated collective investment schemes (UCISs) are not regulated by the FCA and therefore there are no specific regulatory *valuation* requirements – though it should be noted that while the scheme is not regulated the fund manager may be.

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 UK Prudential Regulation Authority (PRA) sourcebook for insurers (INSPRU).

1 Directives from the UK PRA require UK-based financial institutions to make assessments of the adequacy of their financial resources. 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) Regulations 1994 as amended by The Friendly Societies (Amendment) (EU Exit) Regulations 2018

b FRS issued or adopted by the ASB and

c statements of recommended practice (SORPs), issued by industry or sectoral bodies recognised for this purpose by the ASB or

d 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 INSPRU sourcebook.

4 Some insurers are subject to what is known as 'Solvency II' of the Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (No. 2009/138/EC) and related law and regulations. Solvency II is, at the time of publication, being reviewed by UK government in terms of reforming its application. Valuers undertaking *valuations* for the adequacy of

financial resources of insurance companies may need to consider this when agreeing *terms of engagement* and reporting.

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 UK Prudential Regulation Authority (PRA) sourcebook for banks, building societies and investment firms (BIPRU).

1 Directives from the UK PRA require UK-based financial institutions to make assessments of the adequacy of their financial resources. In the UK the PRA BIPRU handbook 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 exist 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

3 Note that BIPRU states that 'necessary qualifications' need not be professional qualifications, but the valuer should be able to demonstrate that they have the necessary ability and experience to undertake the review.

4 The definition of *market value* is the same as adopted in these standards (see **VPS 2**).

5 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.

Implementation of the Basel III regulatory framework for banks by the Prudential Regulation Authority

6 Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision (BCBS), which provides guidance on financial regulation internationally, in response to the financial crisis of 2007–2009. The measures aim to strengthen the regulation, supervision, and risk management of banks.

7 In 2017, the BCBS proposed a new definition or framework for secured lending property valuation called prudent value. Although the BCBS only produce guidance, many jurisdictions are committed to following it wherever possible, including the EU and the UK. The European Commission (EC) is the first jurisdiction to declare its intention to adopt this new valuation framework in its Capital Requirements Regulations (CRR), and in November 2022 the UK Prudential Regulation Authority (PRA) published proposed changes to its financial regulations. They also included the 2017 BCBS valuation framework as a *valuation* basis for both loan origination and monitoring purposes. The potential outcome is that by 2025, a *valuation* based on prudently conservative *valuation* criteria will be required at each individual loan origination (and any subsequent monitoring valuations) in the UK.

8 The prudent value framework has a number of characteristics that make it different to *market value*. The EU and the PRA set out the framework. The Basel III provisions for secure lending against real estate explain that the value of the property:

> '...must be appraised independently using prudently conservative valuation criteria. To ensure that the value of the property is appraised in a prudently conservative manner, the valuation must exclude expectations of price increases and must be adjusted to take into account the potential for the current market price to be significantly above the value that would be sustainable over the life of the loan. National supervisors should provide guidance, setting out prudent valuation criteria where such guidance does not already exist under national law. If a market value can be determined, the valuation should not be higher than the market value.'

9 Before the finalisation of the Basel 3.1 framework in late 2017, leading institutions and representative bodies in the UK real estate sector, and leading academics, broadly agreed with the need for the provision of counter-cyclical advice to investors and lenders to avert

any repeat of the excessive lending during 2005–07, with the concept of prudent valuation playing an important component part.

10 Research is still ongoing as to how this can be best achieved. The findings so far are that *market value* is the only rational objective *valuation* that can be applied at the individual property level. The *market value* should be supplemented by a prudent value/long-term value regime developed at a market level, which could potentially be expressed as market value adjustment factors.

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 (FReM) 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
Property, plant and equipment (PPE) CIPFA code section 4 **Operational assets**		*IAS 16 Property, Plant and Equipment* (as adapted by the Code) **Current value** (measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date)
Council dwellings	Dwellings within the Housing Revenue Account	**Current value** using existing use value – social housing (EUV-SH)
Other land and buildings (which may include assets rented to others)	Non-specialised assets Specialised assets	**Current value** in existing use (EUV) where not specialised **Current value** using *depreciated replacement cost (DRC)*
Infrastructure assets	Inalienable assets, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Example classes of asset include: ∫ roads ∫ street furniture ∫ bridges ∫ water supply and drainage systems and ∫ sea defences.	**Historical cost**

Category	Description	Measurement (valuation) basis
Community assets	Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets include: ∫ parks and gardens ∫ cemeteries and crematoria (land only) ∫ allotments (statutory sites) and ∫ open space.	**Historical cost** unless the authority elects to use current value in accordance with Section 4.10 of the Code (Heritage Assets)
Operational heritage assets	Non-specialised heritage assets Specialised heritage assets	**Current value** in existing use (EUV) **Current value** using *depreciated replacement cost (DRC)*
Non-operational assets		
Surplus assets	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.	**Current value** (IFRS 13 *Fair Value*)
Assets under construction	Assets that are either under construction or are the subject of major works which render a property unavailable for use.	**Historical cost**

Category	Description	Measurement (valuation) basis
Heritage assets (other than operational heritage assets) CIPFA Code section 4.10	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. 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.	Carried at valuation in accordance with IFRS 102 Valuations may be made by any method that is appropriate and relevant. If not practicable to establish a valuation, historical cost.
Investment property CIPFA Code section 4.4	Property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both (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)	IAS 40 *Investment Property* **Fair value** (The option to measure at cost model is not permitted other than in exceptional circumstances outlined in the Code (see paragraph 4.4).)

Category	Description	Measurement (valuation) basis
Investment property under construction CIPFA Code section 4.4		IAS 40 *Investment Property* **Fair value** once an authority is able to measure reliably the fair value of the investment property and at cost before that date
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 *Non-current Assets Held for Sale and Discontinued Operations* **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 2 section 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.

Existing use value – social housing (EUV-SH)

2 Further information on existing use value – social housing (EUV-SH) is set out at UK VPGA 7.

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 1.5. 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 6** 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 1.10. The guidance includes the approaches available to valuers in the provision of apportionment figures between land and buildings (paras 24-43).

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 adoption of IFRS 16 Leases from 1 April 2022).

1 UK VPGA 1.9 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 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, devolved administration and NHS assets for accounting purposes

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

For National Health Service (NHS) bodies in England, Scotland and Wales, the Department of Health and Social Care Group Accounting Manual (GAM) essentially mirrors the FReM provisions.

Local authorities have separate specific guidance contained in 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 This UK VPGA should be read in conjunction with UK VPGA 1.

2 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.

3 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*.

4 The Manual and its NHS equivalent apply 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).

5 With regard to operational property, plant and equipment, FReM currently adopts IAS 16 *Property, Plant and Equipment*, interpreted and adapted for the public sector.

6 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.

7 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.

8 The authoritative version of the Manual and its NHS equivalent 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 that 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 (FReM) – see UK VPGA 5 – require that the *basis of value* used is EUV 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 The definition of PP&E to which EUV is applied is extended beyond the interests of owners in occupation in situations where a public sector entity has classified a property

lease that it has granted for the purpose of facilitating the production or delivery of goods and services that support or complement the entity's wider policy objectives (e.g. social/community/economic) as PP&E. This is instead of the entity treating the property as an investment asset held solely by them for earning rentals or for capital appreciation. Where an entity has classified their lessor's interest as PP&E, 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 2**, 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, replacing 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 on 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 the following.

- 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.
- 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.
- 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.
- 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.
- 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.
- 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 that has been restricted to the existing planning use of the property, as the latter may potentially differ.

22 Please refer to the current edition of RICS' Existing use value (EUV) valuations in UK public sector financial statements.

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, 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:

- Charities Act 2022
- Charities Act 2011
- Companies Act 2006
- Trusts of Land and Appointment of Trustees Act 1996 and
- 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 designated advisor (as defined in their guidance publication CC33 Acquiring land) who is acting solely for the trustees.

2 The designated adviser can be a trustee, officer or employee of the charity if they are a member of one of the required bodies, but the trustees:

- must manage any conflicts of interest
- must make sure, if a trustee or officer is to be paid for acting as designated officer, that the charity's governing document does not prevent payment of trustees and does follow the legal requirements for paying trustees
- should check their charity's insurance cover. Not all insurance will cover negligent advice given by an adviser who is also a trustee, officer or employee of the charity.

3 A 'designated advisor' is defined as: 'either a fellow or professional associate of the Royal Institut[ion] of Chartered Surveyors, a fellow of the Central Association for Agricultural Valuers or a fellow of the National Association of Estate Agents Propertymark who is

reasonably believed by the trustees to have the ability in and experience of valuing land similar to, and within the same area as, the land the charity wishes to purchase.'

4 A trustee must exercise such care and skill as is reasonable when acquiring land for a charity, having regard in particular:

- to any special knowledge or experience that they have or reasonably believe they have
- if they act as trustee in the course of a business or profession, to any special knowledge or experience that it is reasonable to expect of a person acting in the course of that kind of business or profession.

5 This means that trustees need to take all reasonable steps to ensure that:

- 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
- the charity can afford the purchase – in particular that if a property is being bought with a mortgage, the mortgage can be financed out of the resources of the charity and that any potential rises in interest rates have been budgeted for
- if trustees are buying land with the aid of a mortgage, they secure the best borrowing terms reasonably obtainable by comparing interest rates and other terms between various lenders
- when acquiring a lease, they understand the obligations to which the charity will be subject under the lease, and that the terms of the lease are fair and reasonable
- appropriate professional advice is taken including legal advice; the cost of taking professional advice can be met by the charity.

Trustees may wish to acquire land not for use in carrying out the purposes of the charity but as an income-producing investment. This may be done provided they have the power to do so.

6 In using the statutory, or any other, power of investment, trustees must firstly have:

- taken proper advice from someone they reasonably believe to be qualified to give this advice (unless the trustees reasonably believe this to be unnecessary)
- considered the suitability to the needs of the charity of land as an investment, and the suitability as an investment of the actual land that it is intended to acquire
- considered the need to spread the charity's investments.

7 They must also review the investments periodically.

Basis of value

8 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.

9 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

10 Whether seeking advice from an internal or external designated adviser, the Commission recommends that the report includes advice on a reasonable price range for the land, or on the maximum bid the trustees should make at auction. The trustees should also be careful to ensure that the report covers all factors relevant to the proposed purchase. These may 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.

11 It is also recommended that the report includes a statement by the designated adviser that they have:

- the ability in, and experience of, the valuation of land of a similar kind in the area
- no interest which conflicts with or would appear to conflict with that of the charity.

UK VPGA 8.2 Disposals

1 The Charities Act 2022 received Royal Assent on 24 February 2022, and will be implemented up until autumn 2023.

2 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 these aspects on the previous *Charities Act* 2011.

Advisors

3 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. Further, fellows of both The Central Association of Agricultural Valuers and The National Association of Estate Agents Propertymark are now included within the expanded permitted category of advisors.

4 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

5 Part 7 of the *Charities Act* 2011 contained restrictions on charities disposing of and mortgaging land.

6 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).

7 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
- a trustee holds land on trust for multiple beneficiaries, one or more of which is a charity.

Exceptions

8 The new legislation amends and further 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. 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.

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

Residential tenancies

10 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'.

11 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

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

13 This requirement is now 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

14 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

15 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 following:

- the value of the relevant land
- any steps that could be taken to enhance that value
- whether, and if so how, the relevant land should be marketed
- anything else that could be done to ensure that the terms on which the disposition is made are the best that can reasonably be obtained for the charity and
- any other matters which the adviser believes should be drawn to the attention of the charity trustees.

16 The new Act also stipulates that an advisor must include a statement in the report that they have the appropriate experience and expertise to advise the charity on the valuation of land, and that they have no conflicts of interest with that of the charity.

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. All charities must follow the Charities SORP 2005 (as periodically updated) that applies the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

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 and IFRS 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 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 engaged by either:

a the reporting entity to supply a *valuation* figure for inclusion in the relevant *financial statement* (management's expert) or

b 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 therefore 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, and 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 When 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, include this in their *terms of engagement*.

11 It will be self-evident that, seen 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. In essence they relate 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 nature, scope and objectives of the work itself and
- the communication arrangements between the two.

17 In general, similar criteria apply as in paragraph 13 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 Legal advice obtained by RICS confirms there is no legal relationship between the auditor and an *external valuer* acting as management's expert. If the *terms of engagement* do not provide for discussion with an auditor, you should first obtain the permission of your client before divulging confidential information, and adjust the *terms of engagement* to reflect any additional scope as necessary. 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 Where cooperation with the client's auditor is within the scope of a valuer's instructions, the valuer should cooperate reasonably and responsibly with them, for example by providing details of the key inputs and *assumptions* adopted, and the rationale for the reported *valuation*.

23 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. It should be noted that an auditor cannot unilaterally force a valuer to disclose confidential information. Where necessary, the directors' permission to override any confidentiality obligations in the valuer's engagement contract with the company should be obtained. Valuers must also have regard to **PS 2 3.5–3.8** and section 4.5 of RICS' Comparable evidence in real estate valuation when confidential data has been used to support the *valuation*.

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 and 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 objective than other employees of the entity.)	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 relationships may be requested.	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.
What professional or other standards and regulatory or legal requirements apply to the expert's work.		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.

Acting as management's expert	Acting as auditor's expert	Valuer's response
What *assumptions* and methods are used by the expert and whether they are generally accepted within that field and appropriate for financial reporting purposes.		*Assumptions* are covered in **VPS 2**. Note that *special assumptions* should not normally be used where *valuations* are to be included in *financial statements* – see **VPS 2**. Methods are a matter of judgement for the valuer, and their general acceptance and appropriateness are matters that will depend on individual circumstances.
The nature of internal and external data or information the expert uses.		The nature and source of the information relied on is covered in **VPS 6**.
Obtain a copy of the expert's engagement contract or other written agreement between the expert and management.		The valuer should provide the auditor with a copy of the *terms of engagement* agreed with the client and any subsequently agreed variations of those terms.

Table 1: Fielding questions from auditors

UK VPGA 10 Valuation for commercial secured lending purposes

Overview

UK commercial *real estate* lending serves a diverse client base. Established 'mainstream' lenders are subject to enhanced regulatory and capital requirements. There are also a range of alternative lenders 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, through liaison with UK Finance, therefore reflects the general requirements of the lending market. It also provides supplementary guidance to valuers on mitigating risks and ensuring that *terms of engagement* and reporting are undertaken in accordance with **VPS 1** and **VPS 6**.

UK VPGA 10.1 Application of RICS Valuation – Global Standards

The global guidance for secured lending valuations is contained in VPGA 2. 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 accordance 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 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 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. **VPS 1** and VPGA 2 in respect of terms of engagement and instructions for secured lending are also relevant. 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 engagement/instruction 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 as important to the lender as it is 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. They 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 in 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 6 section 2 paragraph 2.2(e) subparagraph 3** and **VPS 2 section 12**.

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.

Sustainability and ESG

6 *Sustainability* and *ESG* factors can have a significant market influence, and therefore must be an important consideration in *valuations* for secured lending.

7 **VPS 1 paragraph 3.2(s)** mandates the consideration of any significant *environmental, social and governance (ESG)* factors within the *terms of engagement* and **VPS 6 paragraph 2.2(q)** requires significant *ESG* factors used and considered to be reported. This reporting is limited to the scope of the *terms of engagement* and those factors affecting value.

8 Relevant considerations in the context of the *valuation* of UK commercial property for secured lending purposes may include but are not limited to the *valuation* impact of Minimum Energy Efficiency Standards (MEES), Energy Performance Certificates (EPCs), *sustainability*-related property certification, 'green' leases and flood risk. VPGA 8 paragraph 3.7.4 includes a list of further factors that may be relevant. It should not be used as a checklist, as the relevance of each item is subject to the *valuation* being undertaken.

UK VPGA 11 Valuation of UK residential property

These overarching principles are designed to achieve a uniform approach to the provision of *valuation* advice for residential property. 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.

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 UK VPGA 11.13). While the guidance is being developed, 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 *sustainability*, 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, obtain and consider information (usually online), which in their professional judgement is relevant to the service being provided that is free to access.

Provision of valuation advice for UK residential property secured lending

1 The global guidance for secured lending valuations is contained in VPGA 2. This remains wholly applicable to UK valuations for residential property 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.

2 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.

3 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).

4 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.

5 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.

6 Valuers are reminded of their reporting obligations in accordance with **VPS 6** and any specific requirements set out in an over-riding SLA/contract.

7 In circumstances where a *valuation* is provided in relation to residential mortgages, valuers are reminded this type of *valuation* is provided as part of a wider regulatory framework. This regulatory framework includes 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.

8 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 meet their regulatory requirements, such as those that apply to 'regulated mortgage contracts'. See the FCA website for more information.

9 For other types of *valuation*, valuers should be aware of the relevant legislative framework.

UK VPGA 11.1 Application of the RICS Valuation – Global Standards

The valuer's role and remit

1 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 marketability and 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

The primary bases of value to be adopted for residential properties 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, in secured lending instructions, that value is to be excluded from the assessment of *market value* by way of a *special assumption* (**VPS 2 section 10**) unless instructed otherwise by the client.

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 SLA/*terms of engagement*. Valuers are reminded of the supporting material provided in **VPS 2 section 12**.

UK VPGA 11.3 Valuation inspections

The purpose of an *inspection* for residential *valuation* is to ensure the provision of a *valuation* upon which the client is made aware of those matters that may have a material effect on the value. In circumstances where the client is a mortgage lender, specific lender policy and reporting requirements may also apply.

Unless otherwise instructed, the valuer will inspect the property to be valued. Valuers should follow the trail while undertaking an *inspection*, investigate and report as appropriate (see UK VPGA 11.4 for further information).

Inspection

1 Unless instructed otherwise the physical *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.

2 Although professional 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. Valuers are reminded *inspections* should be supplemented by the information (usually online), which in their professional judgement is relevant to the service being provided and is free to access and may be relied upon.

3 A roof space inspection is not required unless the valuer considers that such an inspection is essential to identify matters likely to have a material impact on *market value*. For clarity, the extent of any roof space inspection should be on a head and shoulders basis only.

4 Further detail on the extent of *inspection* will be covered in the forthcoming guidance for residential valuers operating in the UK.

Valuation advice without a full inspection

5 The valuer may be asked for *valuation* advice without an internal or external 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.

6 Where a desktop opinion is sought without any form of *inspection* of the property itself, the valuer should avoid *assumptions* where there is readily available information (usually online), which in the valuer's professional judgement is relevant to the service being provided, including that which is free to access.

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 obtain and consider information (usually online) that in their professional judgement is relevant to the service being provided including that which is free to access.

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, where this has the potential to have a material impact on value, 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. The *inspection* limitation should however be suitably recorded. 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). The valuer should not however specify named individuals or firms in reporting.

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 property, and in the absence of any client-provided information, a valuer should 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 2**. The use of *special assumptions* should be sparing and always supported with an appropriate rationale.

Legal and planning matters

1 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

2 No enquiries regarding contamination or other environmental hazards are to be made but, if a problem is suspected or brought to the attention of the valuer during the course of *inspection*, the valuer should recommend further investigation.

Other matters

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

4 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.

b 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 and there are no other restrictions on current use.

c 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.

d 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. In respect of flats with potentially combustible cladding, valuers should refer to the current edition of RICS' Valuation approach for properties in multi-storey, multi- occupancy residential buildings with cladding for further information.

e The site is not contaminated and is free from other environmental hazards.

f The property is not subject to any unusual or especially onerous restrictions, encumbrances or outgoings, and good title can be shown.

g 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.

h 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.

i 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.

j Sewers, main services and the roads giving access to the property have been adopted and/or adequate provision has been made regarding managing and maintenance of the installations, 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.

k In the case of a newly constructed property, it has been built under a recognised builder's warranty or insurance scheme or has been supervised by a professional consultant, capable of fully completing the UK Finance Professional Consultant certificate, all as approved by the client, and generally acceptable in the mainstream mortgage market with no adverse affect on value. The valuer should review the UK Finance Disclosure Form and cross reference client guidance notes/instructions.

l There are no ongoing insurance claims or neighbour disputes and the property is insurable on unrestricted terms.

5 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.

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

Leasehold properties

7 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.

8 For further information prior to the publication of further specific guidance, valuers should refer to the current edition of RICS' Valuation of residential leasehold properties for secured lending purposes.

Other asset types

9 For specific asset types, the valuer should refer to specific guidance, as set out in UK VPGA 11.12.

UK VPGA 11.7 Reporting

1 In the case of secured lending, the lender will often provide a standard *valuation* report format. The valuer should provide a report in compliance with **VPS 6** and the principles set out in this publication. In circumstances where the client has provided a standard *valuation* report format, this should be completed in accordance with **VPS 6** and the SLA/*terms of engagement*.

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 reinstatement cost assessments

1 Where the client requests an estimate for a reinstatement cost assessment be provided it should be in accordance with the current edition of RICS' Reinstatement cost assessment of buildings, or to appropriate market indices, which should be clearly referenced in the report.

UK VPGA 11.10 Valuations subject to a defined marketing period

1 In the UK, particularly for secured lending purposes, valuers may receive requests to provide a *market value* subject to a defined marketing period. This request could occur in the event a property is about to be, or has been, repossessed.

2 Sometimes this request is also referred to as a request for a 'forced sale' *valuation*. Valuers should be aware that 'forced sale' is merely a description of the circumstances of a distressed sale and/or the sellers' likely motivation and is not a *basis of value*.

3 When instructed to provide a *market value* with a defined marketing period, the valuer is reminded of their responsibilities as stated in **VPS 2**.

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

1 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.

2 Valuers should refer to the separate residential guidance in the current edition of RICS' Home survey standard and The Single Survey Property Inspection: Technical Guidance for the completing of Single Surveys.

UK VPGA 11.12 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
- Valuation of buy-to-let and HMO properties, 2nd edition
- Reinstatement cost assessment of buildings, 3rd edition
- The mundic problem, 3rd 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 Valuation of registered social housing for loan security purposes

This application provides guidance on the additional matters that should be taken into account by valuers undertaking *valuations* for registered social housing providers' stock for secured lending purposes. Its provisions also apply to *valuations* of their interests in property in shared ownership.

References to the 'client' are to the lender who will normally issue any *valuation* instructions.

UK VPGA 14.1 Identifying the property

The valuer first needs to agree with the client whether the stock is to be valued as a single portfolio, or in lots.

1 If the stock is not to be valued as a single portfolio, the client needs to be made aware that the aggregate of the *valuations* provided may differ from the price that could be achieved if some or all of the properties were sold as a portfolio, or if a large number were placed on the market concurrently for sale individually (see **VPS 1**, **VPS 6** and VPGA 9).

2 Particular care is necessary to establish the nature of the housing provider's interest(s) to be valued. Restrictions and encumbrances (for example, Section 106 agreements, right to buy and nomination rights) are common. Planning consents may include restrictions on occupation or tenure. Obviously, the *valuation* must reflect the terms of any shared ownership leases.

UK VPGA 14.2 Extent of inspection

Where the stock to be valued comprises a large number of similar properties, or a number of estates or blocks (each of which comprises similar properties), the valuer must agree with the client whether every property, or a sample of properties, will be inspected at least externally; and/or, as is common, whether sample internal *inspections* should also be carried out.

1 In such cases, the valuer must ensure the properties they select for *inspection* are representative of those properties that have not been inspected and of the portfolio as a whole.

2 The extent of each *inspection* (for example, internal and external, external only or front elevation only) must also be agreed.

3 Where the *inspection* is to be of a sample only, the extent of the sampling and the method of its selection must be agreed with the client. If the valuer subsequently considers that the extent of the *inspection* is not adequate for the purpose of the service, the client must be advised accordingly and further instructions sought and agreed before reporting.

UK VPGA 14.3 Basis of value

1 The *basis of value* to be adopted will be subject to agreement between the lender and the valuer, in accordance with the restrictions as identified in UK VPGA 14.1.

2 Existing use value for social housing (EUV–SH) is defined in UK VPGA 4 and UK VPGA 7. Its use is appropriate in secured lending *valuations*, as it assumes that the properties will continue to be let as social housing and that any vacant dwellings will be re-let to tenants in the registered social housing provider's target group.

3 Where appropriate, *market value* subject to *special assumption*s may be used to reflect the tenanted nature of the asset(s).

UK VPGA 14.4 Development property

Where the security of a proposed development (or a development in the course of construction) is being considered for lending purposes, it will normally be appropriate to provide both a *valuation* of the property in its current condition, and a further *valuation* on the *special assumption* that the development will be completed in accordance with the plans and specification provided.

1 In establishing the current value, the valuer will need to determine what information is available on the anticipated development costs, and the extent to which these may be relied on by the valuer. Reference may be made to the current edition of RICS' Valuation of development property.

UK VPGA 14.5 Reporting

1 The report should contain, in addition to those matters listed in **VPS 6** and subject to the basis of the valuation instructed, where appropriate:

- a statement of the average rents being charged for each dwelling and tenancy type, and a comparison of these with the valuer's assessment of the level of rents that could be obtained if the properties were let unfurnished on the open market
- a statement as to the existence of nomination rights
- a comment or explanation if there is an exceptionally high number of vacant dwellings
- an appreciation of the strength of demand for the dwellings, either let at the level of rents charged, or to be charged, by the registered social housing provider and/or hypothetical purchaser.
- a statement where the *valuation(s)* reported has been affected by the existence of an unimplemented planning permission for change of use or other development, or by the prospect of such consent(s) being available, with advice as to the amount(s) of the increase reported in consequence
- an opinion as to whether, over the period contemplated for the loan, material changes in the necessary level of expenditure, in real terms, are likely to be required
- comment on the suitability of the property as security for mortgage purposes, bearing in mind the length and terms of the loan being contemplated. Where the terms are not known, the comment should be restricted to the general marketability of the property assuming that the borrower will maintain the property in a reasonable state of repair and
- a statement as to the valuation method(s) adopted, and an indication of the extent to which the valuer has been able to have regard to comparable market transactions. Where a discounted cash flow method is typically used, the principal inputs *assumptions* and the discount rate adopted must be clearly stated.

UK VPGA 14.6 Liaison with lenders

1 UK Finance and RICS regard it as important that the lender and the valuer develop a close working relationship in respect of *valuation* and appraisal, especially in more complex cases, to ensure that the service provided by the valuer reflects the lender's needs and that the lender fully understands the advice that is being given.

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

UK VPGA 15 provides guidance to valuers who furnish *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) – Land and Buildings Transaction Tax (LBTT) in Scotland and Land Transactions 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 Detailed 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.

4 The Finance Act 2022 (published 2 February 2022) introduced changes to several elements of taxation. In particular, the Act announced updates in respect of the Residential Property Developer Tax (RPDT), which only applies where a developer has or had an interest in land and applies from 1 April 2022 (please refer to paragraphs 17 and 18 below).

Capital Tax Gains (CGT)

5 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.

6 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.

7 See HMRC's Capital Gains Tax Manual and the Valuation Office Agency's technical manual used to assess Capital Gains and other taxes for more information.

Inheritance Tax (IHT)

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

9 See the HMRC's Inheritance Tax Manual and the Valuation Office Agency's technical manual relating to Inheritance Tax for more information.

Stamp Duty Land Tax (SDLT)

10 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.

11 For more information, see HMRC's Stamp Duty Land Tax Manual.

12 For further details in respect of Scotland's Land and Buildings Transaction Tax, please refer to Land and Buildings Transaction Tax.

13 For further details in respect of Wales' Land Transactions Tax, please refer to Land Transaction Tax.

Annual Tax on Enveloped Dwellings (ATED)

14 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.

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

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

16 See Annual Tax on Enveloped Dwellings for further HMRC guidance relating to ATED.

Residential Property Developer Tax (RPDT)

17 From 1 April 2022, the Residential Property Developer Tax (RPDT) has been levied on the profits of large companies. RPDT is charged:

- at a rate of 4%
- on profits that arise from residential property development and exceed the annual allowance
- the annual allowance is £25 million (pro-rata for short accounting periods)
- companies must be subject to UK Corporation Tax.

18 See the Residential Property Developer Tax Manual for further HMRC guidance.

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 2**. 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 6 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), Land and Buildings Transaction Tax in Scotland, Land Transactions Tax (LTT) in Wales and Annual Tax on Enveloped Dwellings (ATED), and Residential Property Developer Tax 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. Further details on the general principles of open market valuation as it relates to IHT, CGT and SDLT are available via Section 7: revenue basis of market value – general principles of the Valuation Office Agency technical manual for Inheritance Tax.

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 Lynall v IRC [1972] AC 680 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. The 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 and SDLT – 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*. 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

Valuers are reminded that they should always refer to the current edition of RICS' mandatory Surveyors advising in respect of compulsory purchase and statutory compensation when undertaking *valuation* assignments for clients exercising, or impacted by the use of, compulsory purchase powers.

1 The circumstances in which valuers could be engaged in cases where compulsory purchase powers may be used to acquire interests in *real estate* vary widely. They include:

a advising an acquiring authority contemplating or exercising the use of compulsory purchase powers, or a commercial partner of such an authority, including advising on land acquisition strategy, pre-powers negotiations, and estimates of potential compensation liability

b advising land owners and occupiers under threat of compulsory purchase on how to protect their position, including potential objection to any order, preparations in advance of acquisition to protect compensation entitlement, and pre-powers negotiations

c negotiation of compensation arising from compulsory purchase acting on behalf of the acquiring authority, an authority's commercial partner, or the owner or occupier of the land acquired

d providing *valuation* advice for Alternative Dispute Resolution (ADR) cases

e appearing as an expert witness at an inquiry and

f appearing as an expert witness before the Lands Chamber of the Upper Tribunal.

2 The first four categories are covered in RICS' Surveyors advising in respect of compulsory purchase and statutory compensation. For the latter two categories, refer to RICS' Surveyors acting as expert witnesses.

Application of Red Book Global Standards

3 The existence of the two mandatory RICS standards referred to in paragraph 2 raises the obvious question of how far Red Book Global Standards apply in detail to this

type of *valuation* assignment. For the avoidance of doubt, compulsory purchase work is subject to the general requirements of **PS 1** and **PS 2**, aspects of which assume considerable importance in this context. It is in the nature of this type of assignment that the service may be given over a prolonged period and that it may, and often does, involve the provision of advice on the probable outcome of current or impending negotiations. While the requirements of **VPS 1–6** inclusive are not mandatory in such circumstances, it is important to fully and carefully document *terms of engagement* in all cases, and when reporting to clients with recommendations on any full and final settlement of compensation, ensure all material matters are adequately covered. **VPS 1** (and **VPS 6**) can still provide a useful checklist, as can **VPS 4** together with VPGA 8 in the context of inspection and of establishing the facts. **VPS 2, 3** and **5** must be read in the context of, and are to be regarded as duly modified by, the statute and accompanying case law applying to the individual assignment.

Other matters

4 The exercise of compulsory purchase powers can have a significant impact on the homes and livelihoods of those affected. It is essential that surveyors advising acquiring authorities, commercial partners, land owners and occupiers do so competently and responsibly. The aim of all parties, and in particular the surveyors acting for them, should be to reach agreement on a fair package of compensation, mitigation or (where appropriate) removal of the land from the order or threat of a future order as straightforwardly as possible. The conduct of both sides needs to be reasonable and take account of the constraints, challenges and impacts faced by the other.

5 At the commencement of an instruction it is often necessary, and frequently desirable, to provide the client with preliminary advice as to what, in the valuer's opinion based on the information available, is likely to be the assessment of compensation in accordance with the relevant statutory compensation code. Such preliminary advice will normally fall within the 'negotiations' exception in **PS 1 section 5 paragraph 5.4(b)**. In other words, it is looking forward to the probable outcome of negotiations yet to commence or yet to be concluded, and is not a recommendation of a full and final settlement figure, which may differ from the initial estimate once all the facts are known and all aspects of the claim for compensation have been fully weighed. If the client is not prepared to proceed on the basis of what the valuer considers to be a reasonable initial estimate of compensation for *market value*, and outline of any potential claim for disturbance, the client will need to be advised or reminded that the surveyor cannot put forward *valuations* that in the surveyor's professional opinion cannot be reasonably supported and, where necessary, evidenced.

6 Valuers are reminded that, particularly but not exclusively where entry onto the land concerned has not yet taken place, they will need to maintain efforts to establish and record the material facts and collect appropriate evidence during the period of the instruction. Where further information becomes available they should, as necessary, update their advice to the client at appropriate intervals.

7 Compulsory purchase is a complex area and may involve elements of business *valuation* as well as property *valuation* and procedural matters. It is important that instructed valuers are able to provide the appropriate standard of advice in respect of all aspects, or that they clearly agree with the client the limits of the duties, perhaps working in co-operation with other advisers to provide a comprehensive package of advice. It is the responsibility of the valuer to keep up to date with changes in case law, guidance and legislation, including secondary legislation. Although many of the key principles of compulsory purchase compensation are well established, some more detailed aspects of their implementation are still evolving as they begin to be applied in ever more complex situations.

8 Finally, valuers need to be alert to the changes in responsibility that will occur should their duties later involve acting as an expert witness, and how that may affect the carrying out of work prior to that change.

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 2**.

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 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, or social 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 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 should 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 in 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 2**, 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 6** 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. The surveyor will also need to provide a plan (to which the Secretary of State will refer if giving consent) that is sufficiently accurate to identify the land.

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:

unrestricted value – (restricted value + value of conditions)

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

unrestricted value – (value of consideration + 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 2 section 2** 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.

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We are RICS. Everything we do is designed to effect positive change in the built and natural environments. Through our respected global standards, leading professional progression and our trusted data and insight, we promote and enforce the highest professional standards in the development and management of land, real estate, construction and infrastructure. Our work with others provides a foundation for confident markets, pioneers better places to live and work and is a force for positive social impact.

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