



**Valuation Office  
Agency**

**Property Professional Services | Chief Valuer Group |  
Valuation Office Agency**

**HM Treasury Thematic Review- FRAB  
Preparer and Valuer Application Guidance  
20<sup>th</sup> June 2024**

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# Background

- HM Treasury Thematic Review
- Initial Draft Preparer and Valuer Application Guidance
- FREM Updated further to FRAB meeting
- Consultation
- Reviewed with HMT and now Final Draft

# Summary of valuation significant changes

- HM Treasury update to Chapter 10 of the FReM to introduce the concept of assets held for their operational capacity, remove the specialised/ non-specialised asset split from the FReM.
- The requirement to consider alternative locations when valuing an asset using DRC to be removed from the FReM.
- HM Treasury are reducing the number of “processes” entities can use when revaluing their assets to three.

In more detail 1.

HM Treasury update to Chapter 10 of the FReM to introduce the concept of assets held for their operational capacity, to remove the specialised/ non-specialised asset split from the FReM.

- This is effectively an accountancy distinction only.
- From a valuation perspective property assets' valuation treatment will continue to depend on how "specialised in nature" they are. Some property assets are so specialised that a body of transactional market evidence simply does not exist- such as a prison, or hospital, hence need to value to DRC.
- Others such as Offices or Land are valued using market comparison to Current Value in Existing Use (EUV).
- And so it is has to be a decision for the valuer to make.

## In more detail 2

The requirement to consider alternative locations when valuing an asset using Depreciated Replacement Cost (DRC) to be removed from the FReM.

- Actual Site to be valued
- Actual site size – not a Modern Equivalent (MEA) smaller site.
- Welcome move – VOA
- Unwelcome move – RICS and other firms

Valuation Implications to be aware of

1. Entities' land valuations will in many cases increase due to more valuable location and size.
2. Entities' DRC Building Valuation in many cases will increase due to the higher Location Factor
3. Some entities, particularly in NHS will need to disaggregate their MEA combined site.

Also:

FREM will need to be updated to state actual site size to be adopted.

## In more detail 3

HM Treasury are reducing the number of “processes” entities can use when revaluing their assets to three:

- a. A quinquennial revaluation supplemented by annual indexation in intervening years.
- b. A rolling programme of revaluations over a 5-year cycle, with annual indexation applied to assets during the four intervening years.
- c. For non-property assets only, appropriate indices.

## In more detail 4

Annual indexation in intervening years.

- Welcomed by VOA – though clearly not as accurate as a professional valuation.
- RICS and other Valuation firms not in favour.
- Suitable for DRC valued assets (specialised in nature).

Issues:

1. Lack of suitable indices for “non-specialised in nature” property assets valued to Current Value in Existing Use (EUV).
2. HMT/FRAB not specifying a particular index or indices:
  - Loss of consistency through entities each choosing different indexation pathway
  - Diverging valuation movements between entities.
  - Risk/likelihood of increased audit scrutiny as a result of diverging valuation movements between entities, particularly at quinquennial full valuation.

## In more detail 5

- Solution may be for VOA as the Government “Valuation Department” to return to its role in provision of indices. VOA provided such national indexation historically for the NHS until 2005, and provides currently indexation advice for particular Government Departments.
- VOA has the largest property transactional database due its main functions maintaining the Non-Domestic Rating and Council Tax valuation lists, amongst its many other property valuation (for government) functions.
- All HM Land Registry SDLT (Stamp Duty Land Tax) transactions are automatically transmitted to VOA.
- VOA is the process of setting up a proposed Property Market Data & Research Unit – one output from this Unit would be National Asset Valuation Indices, if required



Any  
Questions?

