HM Treasury

Financial Reporting Advisory Board

Valuation of Non-investment Assets Update

Issue:	An update on the non-investment asset valuation FReM updates for 2025-26 and a proposal for a new workstream to be carried out in 2025 covering the valuation of land in central government.
Impact on guidance:	The 2025-26 FReM has been updated for changes to the non-investment asset valuation regime. Details on these changes are in this paper and paper FRAB 154 (06).
IAS/IFRS adaptation?	Adaptations have been made to IAS 16 and IAS 8. These have been agreed at previous FRAB meetings and can also be seen in paper FRAB 154 (06). HMT propose in this paper to alter the adaptation to IAS 16 paragraph 34 to include an additional valuation process where a reliable index cannot be obtained without undue cost and effort.
Impact on WGA?	All changes proposed in this paper to be implemented in the 2025-26 FReM will need to be applied in the WGA from financial year 2025-26.
IPSAS compliant?	N/A- the financial reporting framework in the central government is IFRS as adapted and interpreted by the FReM.
Interpretation for the public sector context?	No new interpretations.
Impact on budgetary and Estimates regimes?	These changes are to be applied prospectively, so no restatements required. No additional guidance is needed for the budgets and Estimates regimes for these changes.
Alignment with National Accounts	N/A
Recommendation:	1) Changes to the non-investment asset valuation regime set out in paragraph 1 of this paper are implemented in 2025-26 as previously agreed. 2) An additional valuation process is added to the FReM to allow entities to undertake a quinquennial revaluation with a desktop valuation at year 3 where indices cannot be obtained without undue cost or effort.

	3) A workstream to commence in due course to determine how land should be valued.
Timing:	Implementation of changes to valuation of assets as agreed by FRAB through the 2025-26 FReM. Any changes to the valuation of land – including the removal of the option to consider alternative sites – will be implemented in a subsequent reporting cycle.

DETAIL

Background

1. At the March 2024 and June 2024 meetings of the Board, the Board agreed the following key changes to the non-investment asset valuation (NIAV) regime in the FReM:

    a. Adapt IAS 16 paragraph 34 to no longer require entities to revalue an asset when its carrying value materially differs from its fair value. Instead assets are valued using one of the following processes:

        i. A quinquennial revaluation supplemented by annual indexation.

        ii. A rolling programme of valuations over a 5-year cycle, with annual indexation applied to assets during the 4 intervening years.

        iii. For non-property assets only, appropriate indices.

    b. Remove references to specialised and non-specialised assets in the FReM. Replace references to assets held for their service potential with the term assets held for their operational capacity. Note that the measurement basis for operational assets remains Existing Use Value (EUV).

    c. Measure intangible assets at historic cost prospectively from 1 April 2025.

2. In addition, the Board agreed to a proposal from HMT for entities to no longer consider alternative locations when valuing an asset using depreciated replacement cost (DRC). This proposal was discussed in more detail during an extraordinary meeting of the Board on 14 October 2024, focussing on whether modern equivalent asset (MEA) principles can be applied to land. There was no consensus amongst FRAB members on whether MEA principles can be applied to land.

3. This paper sets out HMT's proposal for:

    a. What changes to implement in the 2025-26 FReM.

    b. What additional changes are required to HMT's proposals.

    c. What additional work will be carried out on the valuation of land in the FReM.

Changes to the 2025-26 FReM

4. Changes to the 2025-26 FReM in respect of NIAV updates can be seen in Annex 1 to this paper. Some of the key changes to the FReM are listed in paragraph 1 of this paper. An adaptation to IAS 8 has also been added to provide guidance on applying changes to the NIAV regime.

5. HMT propose for all changes listed in paragraph 1 of this paper to be applied in the 2025-26 FReM.

Question for FRAB: do FRAB members agree that the changes to the NIAV regime listed in paragraph 1 of this paper and as drafted in FRAB paper 154 (08- Annex 1) should be applied in financial year 2025-26?

Additional changes to the 2025-26 FReM

6. As stated in paragraph 1 of this paper, HMT propose to have three valuation processes for entities to apply to their PPE asset bases. All involve indexation. Concerns have been raised through the consultation process, including at the technical working group, regarding what entities should do if a reliable index cannot be obtained without undue cost and effort or if there is no appropriate index available.

7. For example, some entities may hold assets overseas or in areas where reliable indices are not readily available and/ or data is not collected to develop a reliable index.

8. HMT are aware that FRAB has previously considered whether to offer an alternative to indexation and took the view that this was not necessary. However, following engagement with stakeholders, HMT are persuaded that without an alternative to indexation, entities may default to more frequent valuations or look to develop indices at considerable cost and effort.

9. This outcome risks creating a valuation regime that is *more* onerous for some entities without any financial reporting benefit, which was not the purpose of this workstream.

10. HMT therefore propose to include an additional valuation process for entities to use where a reliable index cannot be obtained **without undue cost and effort.** The additional valuation process proposed by HMT is a quinquennial revaluation with a desktop revaluation[1] in year 3.

11. The proposed FReM text for this change is in italics below:

10.1.1	Entities must value their PPE using the most appropriate of the following valuation processes: a) A quinquennial valuation supplemented by annual indexation.

[1] A desktop valuation is a valuation where the valuer does not physically inspect the property.

> b) A rolling programme of valuations over a 5-year cycle, with annual indexation applied to assets during the 4 intervening years.
>
> c) For non-property assets only, appropriate indices.
>
> 10.1.2 *Where entities cannot obtain a reliable index without undue cost or effort, an entity may instead value an asset using a quinquennial revaluation supplemented by a desktop valuation at year 3.*

12. HMT also highlight the proposed wording ensures undertaking a desktop valuation at year 3 is a last resort where an index cannot be obtained without undue cost and effort.

Question for FRAB: do FRAB members agree that the 2025-26 FReM should include the option to value an asset using a quinquennial valuation with a desktop valuation at year 3 if a reliable index cannot be obtained without undue cost or effort?

13. The Valuation Office Agency (VOA) have also updated their application guidance for preparers and valuers covering these changes. This can be seen in **Annex 2** to this paper.

Question for FRAB: do FRAB members have any comments on the VOA application guidance, which can be seen in **Annex 2** to this paper?

Valuation of land workstream

14. As stated in paragraph 2 of this paper there have been detailed conversations with the Board about whether MEA principles should be applied to land when undertaking a DRC valuation. There was no consensus amongst FRAB members on whether MEA principles should apply to land.

15. HMT propose to commence a separate workstream in 2025 to analyse options for valuing land. This will likely involve convening another technical working group to discuss this issue. HMT will then provide an update and further recommendation to FRAB.

16. If the proposed changes are significant and/ or require DRC models to be reworked, HMT's indicative timeline would be for changes to be implemented in the 2027-28 FReM at the earliest to allow entities at least 2 financial years to implement significant financial reporting changes.

Question for FRAB: do FRAB members have any comments on HMT's proposal to start a workstream in 2025 covering the valuation of land in central government?

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