HM Treasury

Financial Reporting Advisory Board

Non-investment asset valuations – workstream update

Issue:	There are two issues for Board consideration in this paper: 1) This paper provides the Board with HM Treasury's work plan for reviewing the valuation of land when the associated building asset is valued at depreciated replacement cost (DRC). 2) The Board is also asked whether they agree with HM Treasury's conclusion to allow entities to early adopt changes to the intangible assets valuation regime in 2024-25.
Impact on guidance:	1) On completion of the workstream, the FReM and non-investment asset valuation application guidance will need to be updated. 2) Where entities request to early adopt changes to the intangible asset valuation regime in 2024-25, HM Treasury would provide an accounts direction to those entities allowing them to do this. Early adoption would also be included in the 2024-25 FReM.
IAS/IFRS adaptation or interpretation for the public sector context?	1) None proposed at this stage. 2) An option for early adoption of changes to the intangible assets valuation regime would be included in the 2024-25 FReM.
Impact on WGA?	1) Yes, the change in measurement requirements for land valued at DRC will impact asset values in the WGA. 2) Yes, if entities are allowed to early adopt the changes to the intangible assets valuation regime, this would impact the 2024-25 WGA.
IPSAS compliant?	1) To be determined, based on any adaptations/interpretations. 2) N/A
Alignment with National Accounts	N/A for this workstream.
Impact on budgetary regime and Estimates?	1) To be determined. The impact will depend on the changes made and transition requirements. 2) No additional impacts aside from those resulting from changes in the intangible assets valuation regime.

Recommendation:	1) The Board agree the approach and work plan for reviewing the valuation of land where an asset is valued at DRC. 2) The Board agree that entities can request to early adopt changes to the intangible assets valuation regime in 2024-25, but do so at their own risk given the shorter transitional period.
Timing:	1) We plan to start engaging with technical working groups in June 2025 and report back to FRAB in November 2025. 2) The 2024-25 FReM would be updated to allow entities to early adopt changes to the intangible assets valuation regime in 2024-25.

DETAIL

Non-investment assets work plan

Background

1. The following changes have been made to the 2025-26 FReM in respect of non-investment assets as presented to the Board in November 2024 and set out in FRAB paper FRAB 154(06):
    a. Adapting IAS 16 paragraph 34 to no longer require entities to revalue an asset when its carrying value materially differs from its fair value.
    b. References to specialised and non-specialised assets and assets held for their service potential have been removed and replaced with the term assets held for their ‘operational capacity’.
    c. Intangible assets are valued at historical cost prospectively from 1 April 2025.
2. The Board previously agreed to a change in the guidance when applying the DRC valuation methodology. The change being to no longer consider alternative sites when valuing an asset at DRC. This change was not implemented in the 2025-26 FReM as there was no agreement on whether MEA principles should still be applied to the land when valuing an asset at DRC.
3. At FRAB 154 in November 2024 HM Treasury informed the Board of our plan to commence a new workstream focussed on the valuation of the land component in a DRC asset valuation.

Work Plan

4. Our proposed high level work plan can be found in Annex A. We intend to commence the workstream in June 2025 and hold at least 3 technical working group meetings. More technical working group meetings may be required depending on the range of views, issues identified, and further investigatory work required.
5. We plan to report back on the workstream at the November 2025 FRAB meeting, with a draft consultation document to be publicly consulted on from December 2025. Following consultation, a paper will be presented at the March 2026 FRAB meeting outlining the changes to the financial reporting framework, transition approach, and the financial year in which the changes are recommended to be made.

HM Treasury request the Board’s agreement to the proposed work plan.

Issues for Consideration

6. The table below provides an outline for the questions to be covered at each technical working group meeting. There is overlap between the questions, so the ordering and questions covered may be subject to change. It will be made clear that the decision to value an asset based on its actual location has already been made- the MEA questions below refer to whether to value the actual size of the land occupied.

Question to be covered	TWG[1] meeting 1	TWG meeting 2	TWG meeting 3
What is more useful and understandable to users of the accounts – valuing land based on its exact dimensions or a modern equivalent size of land?	✔		
Land and buildings are separable assets and accounted for separately per IAS 16[2]. Given this, is it necessary for MEA to apply to both the land and buildings from a financial reporting perspective to achieve the measurement principle of measuring the least cost of replacing the operational capacity of an asset?	✔		
Given the valuation regime is being changed to no longer consider alternative locations when valuing an asset at DRC, is there significant incremental cost to also valuing the exact size of the land under a DRC asset?	✔		
Is retaining MEA, and being able to base the value of the actual land occupied on a smaller piece of land, a necessary requirement to measure the least cost of replacing the operational capacity of land?		✔	
If MEA is not retained, and the actual dimensions of the land occupied valued, then does the measurement principle in the FReM need to be changed?		✔	
How much lead time do valuers need to update their guidance, processes, valuation methodologies etc?			✔
How much lead time do preparers need to update their DRC models and reflect the changes in their accounts?			✔
Agree that changes should be made prospectively rather than retrospectively. Agree when the changes should be implemented in the FReM and the transition approach.			✔

[1] TWG= technical working group
[2] IAS 16 paragraph 58.

HM Treasury would welcome views from the Board on the questions above and whether there are any additional areas the Board feels should be included in technical working group discussions.

Recommendation: That the Board agrees to the work plan. We also welcome views on the proposed questions to be included as part of technical working group discussions.

Early adoption of changes to the valuation of intangible assets

7. The 2025-26 FReM has been updated for intangible assets to be measured at historical cost prospectively from 1 April 2025. Per the adaptations of IAS 38 in the 2025-26 FReM 'The option to measure intangible assets using the revaluation model is withdrawn. Entities that have been using the revaluation model should disclose this change in methodology at the transition date (1 April 2025). The carrying values at the transition date will be considered historical cost.'

8. To summarise the changes to intangible asset accounting, the carrying value as at 1 April 2025 is considered the historical cost at that date. Historical cost accounting is then applied prospectively from 1 April 2025 per adaptations to IAS 8 in the FReM. The reasons for making these changes were:

    a. These assets typically have a lack of observable market inputs to value them at existing use value as required by the FReM.

    b. For those intangible assets that have relatively short useful economic lives, which is the case for most public sector assets, holding them at current value is often less relevant to users of the accounts.

9. We have been approached by one government department, requesting to early adopt changes to the intangible asset valuation regime, applying them in 2024-25 (the current financial year). The rationale for early adopting the changes is the costs of applying the current valuation regime to intangible assets outweighs the benefits.

10. The government department has £2.9bn of intangible assets as at 31 December 2024, of which £1bn relates to assets under construction (AuC). The majority of the non-AuC intangible asset balance relates to software and website development. These assets are valued at depreciated replacement cost (DRC). The maximum useful economic lives of these assets is 10 years.

11. Evidencing that the current intangible asset balance is materially correct is a costly exercise, with their auditors advising them to commission independent valuations to comply with auditing requirements. Had the changes to intangible asset valuations been applied in 2024-25 rather than 2025-26, this piece of work would not be needed this year.

12. HM Treasury see merit in exploring whether entities can early-adopt changes to the intangible assets valuation regime, therefore accounting for intangible assets at historical cost prospectively from 1 April 2024; the carrying value of intangible assets as at 1 April 2024 would be the historical cost at that date in this scenario.

13. The rationale for changing the valuation regime for intangible assets applies equally to 2024-25 as it does to 2025-26. There is no specific reason why the changes should be applied in 2025-26 rather than 2024-25 other than to ensure entities had sufficient time to work through the transitional requirements.

14. Early adoption of the changes to the intangible assets valuation regime is not in the 2024-25 or 2025-26 FReMs. During the consultation phase of this project there were no requests to add an early adoption option for changes to the intangible assets valuation regime. If early adoption is applied by entities in 2024-25, HM Treasury will need to provide a specific accounts direction to those entities (where HM Treasury has the authority to direct those entities).

15. Early adoption does carry risk for entities choosing this option. Application of the changes in 2025-26 provides entities a full financial year to work through any transitional issues which arise. Application in 2024-25 provides significantly less time to work through any transitional issues, and many entities are planning to lay their accounts in parliament pre-recess (i.e. before the end of July 2025).

16. As such, if entities request to early adopt changes to the intangible assets valuation regime, HM Treasury would be clear this would be at their own risk as there is significantly less time to resolve transitional issues. HM Treasury cannot guarantee transitional issues will be resolved with sufficient lead time before parliament rises for summer recess.

17. HM Treasury have therefore concluded to allow entities to request to early adopt changes to the intangible assets valuation regime. Where entities early adopt changes to the intangible assets valuation regime, the transition date is 1 April 2024; the carrying value of intangible assets as at the transition date is the historical cost. Historical cost accounting is then applied prospectively from 1 April 2024. HM Treasury would be clear that entities do this at their own risk as set out above. HM Treasury would provide a specific accounts direction, allowing entities to early adopt the changes to the intangible assets valuation regime in 2024-25. Early adoption of changes to the intangible assets valuation regime would also be included in the 2024-25 FReM.

Question for the Board: do you agree with HM Treasury's conclusion that entities should be allowed to early adopt changes to the intangible assets valuation regime in 2024-25, but that entities do so at their own risk given the significantly shorter transitional period. This option for early adoption would be included in the 2024-25 FReM.

HM Treasury
20 March 2025

Annex A: High Level Work Plan

Date	Activities
March 2025	FRAB paper: Non-investment asset valuations – workstream update. FRAB to agree high level work plan and discuss key questions to consider as part of technical working groups.
April 2025 – June 2025	HM Treasury prepare for technical working group meetings.
June 2025 – October 2025	Technical working groups - See 'Issues for consideration' section of paper for more details of questions to be discussed as part of technical working group meetings.
November 2025 – December 2025	FRAB paper: Non-investment asset valuations - Summary of technical working group findings. Paper to include a draft consultation document to be published for public consultation between December 2025 and February 2026, setting out the proposed changes and transition timetable.
February 2026	Consultation closes, responses analysed.
March 2026	At the March 2026 FRAB meeting HM Treasury present a paper outlining the key themes from the consultation, the proposed changes to the financial reporting framework and when they will be implemented. HM Treasury seeks the Board's support for the changes and implementation year.