



HM Treasury

Valuation of non-investment assets application guidance

June 2026

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Changes log

The list below sets out the changes made to this guidance.

Paragraph	Change made	Date change made
1.1	Drafting updated and last sentence ' <i>These changes flow from HM Treasury's Thematic Review of non-investment asset valuations for financial reporting and a previous Consultation Paper published on this area.</i> ' has been deleted.	June 2026
1.2	New paragraph	June 2026
1.3	New paragraph	June 2026
Chapters 1 and 2	Chapter 2 (purpose of guidance) has now been merged into Chapter 1 (background)	June 2026
2.4-2.7	New paragraphs added on the decision to no longer consider alternative sites when valuing an asset using DRC.	June 2026
3.3	Paragraph updated to align with the requirements in the 2026-27 FreM	June 2026
3.4	At end of sentence added ' <i>as defined in the RICS Red Book</i> '.	June 2026
3.5	Reference to RICS Professional Standard ' <i>Existing Use value (EUV) Valuations for UK public sector financial statements</i> ' added.	June 2026
4.7c)	New guidance added.	June 2026
4.7d)	Guidance expanded to note a valuation beacon approach could also be used.	June 2026
4.8-4.10	New guidance added for applying indexation to right of use (RoU) assets.	June 2026
5.1-5.4 of previous guidance	Paragraphs 5.1-5.4 of the previous document under the section ' <i>Proposed effective date of financial year 2025-26 for the changes</i> ' has been deleted.	June 2026

Sections 9 and 10 of previous guidance	<p>Section 9 of the previous document was 'Effective date of financial year 2025-26 for the changes.</p> <p>Section 10 of the previous document was 'IFRS 16 RoU (Right of Use) and Peppercorn leases'.</p> <p>These sections have been deleted due to the passage of time and IFRS 16 indexation guidance now being included in Section 4.</p>	June 2026
Appendix 1, paragraph j)	Paragraph redrafted.	June 2026

Section 1 - Background and purpose

1.1 HM Treasury conducted a Thematic Review of non-investment asset valuations for financial reporting, incorporating changes that affect Government Financial Reporting Manual (FReM) adaptations and interpretations of International Accounting Standard 16 Property Plant and Equipment (IAS 16) and adaptations of International Accounting Standard 38 Intangible Assets (IAS 38), in respect of the measurement of assets.

1.2 HM Treasury's Financial Reporting Advisory Board (FRAB) together with a representative Working Group has advised this process which has resulted in a change to the requirements as set out in the Government Financial Reporting Manual (FReM).

1.3 Additionally, for the 2026-27 FReM further changes have been made covering location requirement of an asset valued using depreciated replacement cost and early adoption of certain changes.

1.4 The purpose of this guidance is to outline a recommended process for valuers and preparers (where impacted) where the FReM updates result in changes to current valuation methodology or approach. Any proposed changes regarding intangible assets are not within the scope of this guidance.

Section 2 - Valuation significant changes

2.1 HM Treasury's update to Chapter 10 of the FReM to introduce the concept of assets held for their operational capacity, remove reference to the specialised/non-specialised asset split from the FReM, and adds additional guidance from IPSAS 45 on how to identify an asset held for its operational capacity.

2.2 HM Treasury have reduced the number of processes entities can use when revaluing their assets to three, being:

- 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 the non-inspected proportion of assets during the four intervening years.
- c) For non-property assets only, to utilise appropriate indices.

2.3 Whilst it is the clear intention of HM Treasury that entities should not undertake full professional revaluations in between the quinquennial intervals other than in very exceptional circumstances, where an entity identifies that reliable indices are not available, entities may commission an interim desktop revaluation at year three of the quinquennial cycle.

2.4 For the 2026-27 financial year, regarding MEA (Modern Equivalent Asset) alternative site methodology for arriving at the current value in existing use (EUV) of operational land associated with a

specialised asset valued to depreciated replacement cost (DRC), whilst planned to be disallowed from financial year 2028-29 onwards, there is an option for early adopting the removal of alternative site methodology within a DRC valuation in the 2026-27 FReM. However, prior approval by HM Treasury will be required for each occurrence of this option as set out in the 2026-27 FReM.

2.5 For guidance regarding this change to the valuation process your valuer will have regard to the RICS Practice Guidance “Depreciated Replacement Cost Method of valuation for financial reporting published April 2026, in particular Section 7:

https://www.rics.org/content/dam/ricsglobal/documents/standards/drc_method_of_valuation_for_financial_reporting_1st_edition_rics.pdf

2.6 There is no change to the MEA site size methodology where the specialised operational buildings are valued to DRC by reference to their MEA. In these circumstances the MEA “Model” typically requires a smaller hypothetical site than the actual site, and this will continue to be permitted.

2.7 There is an optional disclosure in the 2026-27 FReM for entities to disclose the difference between the size of MEA land and the land the entity occupies.

Section 3 - Recommended guidance for preparers and valuers

3.1 HM Treasury's 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, and add additional guidance.

3.2 This is a change only regarding how an entity should classify its assets from a FReM Chapter 10 asset classification requirement perspective.

3.3 The 2026-27 FReM paragraph 10.1.6 states that ‘Assets which 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. Current value in existing use should be interpreted as Existing Use Value (EUV) which is defined in the RICS Red Book.

3.4 The valuation basis therefore remains Current Value in Existing Use (EUV) as defined in the RICS Red Book.

3.5 From a valuation perspective there is no change to the valuation method to be adopted in arriving at the EUV basis of valuation, this will still follow the existing RICS Red Book definition at UKVPGA 6 and the guidance set out in the RICS Professional Standard ‘Existing Use value (EUV) Valuations for UK public sector financial statements’ July 2023.

3.6 Where in the valuer’s opinion a property asset is so “specialised” (for example a prison wing or a hospital ward block) that a market does not exist for the valuer to draw a satisfactory body of transactional

evidence in order to establish a valuation to Current Value in Existing Use (EUV), then the valuer will adopt Depreciated Replacement Cost (DRC) methodology as set out in RICS Depreciated Replacement Cost Method of Valuation for Financial Reporting Guidance Note 2018 (updated April 2026), to arrive at the EUV valuation.

3.7 Equally, where sufficient market transactional evidence is available (ie the property is not so specialised for example an office building) a comparable based EUV valuation will be carried out having regard to RICS Professional Standard “Existing Use Value (EUV) Valuations for UK Public Sector Financial Statements” published in July 2023 and UKVPGA6.

3.8 FReM para 10.1.11 states that assets which are not held for their operational capacity service potential should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale.

3.9 Where such assets are surplus and do not fall within the scope of IFRS 5 or IAS 40, they should be valued at fair value applying IFRS 13.

3.10 For the valuer this will require the provision of a Fair Value. Fair Value is defined in IFRS 13 as: *‘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’*.

3.11 For **Northern Ireland** entities can continue to use (Social Housing) Stock Valuations for Resource Accounting guidance as this is an exceptional case:

- a) Notwithstanding that it is the clear intention of this HM Treasury process that entities will, other than in very exceptional circumstances, only commission professional revaluations each five years, given the exceptional circumstances and need for consistency with Local Government in GB, Northern Ireland Health Executive (NIHE) can continue with the (Social Housing) Stock valuation for Resource Accounting.

Section 4 - Indexation

4.1 Presently HM Treasury are not aware of any existing single General Property Valuation index in the United Kingdom.

4.2 However, the following are published national indices:

- a) “BCIS all-in TPI (Tender Price Index)” is an index of inflation or deflation of building construction costs only. It is provided as a national index by the Building Cost Information Service (formerly part of RICS), but with regional location factors to enable locational adjustment.
- b) Land Registry currently produces it’s UK House Price Index by region.
- c) ONS publish it’s “Private Rents and House Prices” by region.

- d) In terms of general inflation in the economy ONS provide CPI, as a general measure of inflation in the economy, it is not property value related.
- e) Some larger national firms of surveyors do publish monthly reports of general movements in the market such as CBRE and Jones Lang LaSalle among others.

4.3 The BCIS all-in TPI is an index of building cost inflation only this should only be used for cost-based DRC valuations and is not suitable for valuations of land or non-specialised assets valued to EUV using a comparable method of valuation.

4.4 Other potential sources of indices are:

- a) MSCI - the American finance company who took over what used to be the Investment Property Databank Index may be able to assist entities with commercially available indices for property market movements.
- b) Costar - a commercially available database may also be in a position to assist entities.
- c) PROMIS - another commercially available database using source data from sources including MSCI.

4.5 HM Treasury is not proposing to mandate the use of any particular index, but a couple of points should be borne in mind by entities when considering the options:

- a) Any index which is not based on actual market evidence is more likely to lead to a risk of divergence in indexed values compared to the professional valuations produced by market evidence at the quinquennial revaluation at year five.
- b) Commercially provided indices are typically based on a relatively limited transactional database.

4.6 Regarding the BCIS all-in TPI entities should note the following:

- a) BCIS is only a measure of building construction cost inflation or deflation. It is inherently unsuitable as a proxy for the valuation of in use non-DRC valued "non-specialised" in nature assets valued to EUV.
- b) For example, during the aftermath of the financial crisis in 2008/9 the BCIS building construction cost index fell by between 10 and 12%, but as this is not related to market value, a considerable gap opened up between the indexed values and market values.
- c) Similarly in the post pandemic period and with the impact of the Ukrainian conflict building costs rose as reflected in the BCIS index, and hence, again these then diverged from market values. Such a divergence from market values could be problematic, and

indeed potentially exacerbated further by entities each opting for a different indexing option and understandably leading to additional audit scrutiny.

4.7 The recommended pathway forward regarding indexation is:

- a) For property assets valued to DRC the use of BCIS “All in TPI” indices would be an acceptable index. Indeed, this index is already a key element in any DRC revaluation process. Entities will need to make arrangements for access with BCIS directly.
- b) The land element of a property valued using DRC should be valued by reference to a suitable land index.
- c) For property assets which are valued to EUV by market comparison (non-specialised) an index properly evidenced by property transactional evidence and by economic or government region would be preferred. This would apply to main categories of EUV valued property such as Offices, Industrial and Residential.
- d) For land an index of movement by region in valuation properly evidenced by market transactional evidence in respect of categories of land including Residential, Industrial and Agricultural would be preferred. However, in the absence of transactional evidence valuers may be able to assist utilising Development Appraisals or a valuation beacon approach.

4.8 For right of use (RoU) assets recognised under IFRS 16, HM Treasury highlight that, in the majority of instances, indexation will not need to be applied because historical cost is an appropriate proxy for current value in existing use (FReM para 10.2.1).

4.9 For RoU assets where cost is not an appropriate proxy for current value in existing use, it is unlikely a publicly available index will exist. This because the assessment would require allowing for one year less of the remaining term and a valuation of the market rent together with an appropriate market capitalisation (yield) requiring market evidence and professional opinion.

4.10 For RoU assets valued at current value in existing use, the recommended approach is to desktop revalue at year 3 of the 5 year revaluation cycle but not to index in between revaluations.

Section 5 - Impairment

5.1 The cost of enhancements to existing assets (such as building of a new wing within an existing prison) should be capitalised during the construction phase as an asset under construction. At the first valuation after the asset is brought into use, any write down of cost should be charged to the Statement of Comprehensive Net Expenditure.

5.2 In assessing whether there is any indication that an asset may be impaired, the entity shall consider the indicators set out in IAS 36 (see Appendix 1).

5.3 Undertaking a full revaluation should not be a default process to demonstrate there has not been a material impairment of an asset and comply with IAS 36. Rather, it should be the consideration of impairment indications which determine whether the recoverable amount of an asset needs to be calculated and therefore whether a full revaluation is needed or not before the next revaluation. IAS 36 paragraphs 12-14 sets out the indicators entities must consider when determining whether an asset is impaired.

5.4 IAS 36 paragraphs 12-14 do not necessarily require entities to undertake full revaluations each year to comply with the Standard. As such, HM Treasury do not expect entities to undertake a full, professional revaluation of an asset to demonstrate it is not impaired.

Section 6 - Choice of revaluation process

6.1 Should the entity choose a quinquennial revaluation with indexation in intervening years, then all property assets would simply be indexed forward by the entity each year by the change shown in the selected index. Revaluation would not take place until year 5.

6.2 Alternatively, should the entity select a rolling programme, a percentage - for example 20% or 30%, would be identified on a rolling programme basis for full inspection and revaluation, with the remaining 70% to 80% being indexed.

6.3 There is additionally a limited option of last resort to hold in interim desktop revaluation at year 3, should reliable indices not be available.

Section 7 - Capital expenditure with new valuation requirements

7.1 There is no change to the DRC methodology, and so at each quinquennial valuation capex (capital expenditure) which has occurred during the previous 4 years as well as that occurring in year 5 will be reflected in the usual way.

7.2 For example, if all the windows in an operational building have been replaced, so at the quinquennial valuation the remaining life for that building component will be amended by the valuer to reflect its modernity (say 60 years).

7.3 If the valuer is adopting the “Top Down” Holistic approach they will adjust the GRC by an appropriate percentage adjustment.

7.4 In the case of an “elemental build up” valuation both the year will be adjusted and remaining life, so for example, if the windows had all been original in 1970 and only say 5 years remaining life before the replacement, the valuer will change this to 2024 and 60 years remaining life. This has the effect of increasing the Net Replacement Cost but reducing the annual depreciation for that element (windows) of the DRC valuation.

7.5 If, however, a newly built asset is erected during the 4-year interval it will fall to be valued at the date it becomes operational, for example a new Emergency Department in a NHS Hospital, the asset will be valued as at the date of opening. It will thereafter be indexed forward alongside the remainder of the estate.

7.6 The DRC valuation will be based on a cost per m² provided by specialist-chartered building surveyors or other source such as BCIS.

7.7 In subsequent years it will be indexed forward annually in line with the remainder of that estate.

Section 8 - EUV for mixed use buildings

8.1 We would recommend all valuers should first read the latest RICS Professional Standard EUV Existing Use Valuations for UK Public Sector valuations, published July 2023.

8.2 Where the building is “non-specialised”, as an example, a building in the ownership of a single entity such as a Central Government Department, mainly used as offices of say 2,000m² NIA (Net Internal Area) but part used as an occupational health facility of 1000m² NIA. The valuer will adopt a rent per m² appropriate for the identified uses within the building, and also adopt market yields appropriate to that use.

8.3 Where capable of separate occupation, in discussion with the entity, the different functions/uses may fall to be separately valued.

8.4 In this example, as separate uses, the EUV would be calculated as follows:

Reference		Offices	Occupational health facility
A	Net internal area (NIA)	2,000m ²	1,000m ²
B	Market rent per m ²	£120	£150
C	Total market rent per year (A x B)	£240,000	£150,000
D	Yield	8%	8%
E	Years purchase (100/yield)	12.5	12.5
F	Capital value (C x E)	£3,000,000	£1,875,000

Appendix 1 – IAS 36 indicators of impairment

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications [note - text in **bold** is analysis from HM Treasury not included in IAS 36]:

External sources of information

- a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
 - **Observable Indications including dilapidated state, significant disrepair, structural defects.**
 - **Physical changes to the vicinity could impact on property values, for example building of a new by pass.**
 - **Economic changes within the vicinity for example the closure of a major employer.**
- b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
 - **This will be mainly for the entity to identify, but a general market decline such as that seen in the aftermath of the financial crisis in 2008/9 could be relevant.**
 - **Significant changes to funding or service delivery requirement from Government.**
 - **Technological advances.**
- c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
 - **Have there been significant changes to Interest Rates or Market Yields?**
 - **Could affect non-specialised in nature asset values but not specialised in nature assets valued to DRC.**
- d) the carrying amount of the net assets of the entity is more than its market capitalisation.
 - **A matter for the entity to assess. However, it is worth noting that asset valuations for financial reporting purposes are made assuming the assets are held for their operational capacity and so valued to EUV (Existing Use Value) and so the asset valuation may well differ from market capitalisation or market value.**

Internal sources of information

- e) Evidence is available of obsolescence or physical damage of an asset.
- ***The entity may identify if an asset has become obsolete in terms of suitability for the entity's service delivery needs. The entity's estates team will identify physical damage.***
- f) Significant changes with an adverse effect on the entity have taken place during the period or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- g) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.
- ***For the entity to assess internally.***
- h) An entity may identify other indications that an asset may be impaired, and these would also require the entity to determine the asset's recoverable amount or, in the case of goodwill, perform an impairment test in accordance with paragraphs 80-99.
- i) *Evidence from internal reporting that indicates that an asset may be impaired.*
- ***For the entity to assess internally.***
- j) *Additionally, where an entity is carrying out capital projects e.g. on existing assets, to extend the life of an asset etc, and these projects fall between quinquennial revaluations, entities may need to consider whether there are indications of impairment under IAS 36 and the recoverable amount of the asset needs to be calculated.*

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