The Chartered Institute of
Public Finance & Accountancy

HM Treasury consultation paper

Thematic Review of Non-investment Asset Valuation for Financial Reporting Purposes

Response from the Chartered Institute of Public Finance and Accountancy

24 May 2023

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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Consultation paper: *Thematic Review of Non-investment Asset Valuation for Financial Reporting Purposes*

CIPFA is pleased to present its comments on this consultation paper, which has been reviewed by a sub-group of members of CIPFA's Accounting and Financial Reporting Forum and the CIPFA LASAAC Local Authority Accounting Code Board. This sub-group also included within its membership Ian Carruthers and David Watkins who have been heavily involved in the development of IPSASB's standard on measurement (IPSAS 46); they also participated in previous extensive discussions of valuation and measurement in central government when Ian Carruthers was Director, Government Reporting at HM Treasury Accounts, and David Watkins was secretary to the Financial Reporting Advisory Board.

As explained in this covering letter and in the detailed responses, CIPFA disagrees that the proposals to adopt historical cost for specialised assets and to adopt IFRS 13 fair value for non-specialised assets which are not networked assets would result in high-quality financial reporting. While we agree that timeliness is a feature of high-quality reporting, we are concerned that under Option 3 the relevance of the information will be substantially reduced, and there will be little read across to the economic substance of public sector assets and the associated asset-based flows.

Specifically:

- CIPFA agrees with the analysis of Option 1, which explains the extremely limited relevance of historical cost, and we consider that it is extremely questionable to apply a measure of such limited relevance to any significant part of the asset base
- CIPFA disagrees with the analysis of Option 2, which sets out reasoning as to why market based fair value may be 'more relevant., This view is contrary to consideration of the issue by public sector standard setters in the last couple of decades, where the consensus is that fair value does not provide sufficiently relevant information for large classes of asset held for their service potential.
- For that reason CIPFA does not support the proposal to pursue Option 3 which combines these respectively non-relevant and less relevant measures.
- We also have some reservations in connection with the proposals for network assets.

As explained in the detailed responses, we consider that some of the other options which could ease financial reporting burdens could have been explored further. We also have significant misgivings that while Option 3 is seen as an easy fix, a different set of problems in valuation and measurement is likely to emerge.

We recognise of course that the crisis in local audit and accounting is creating pressure to make progress quickly. While unpalatable, some compromise is likely to be necessary. However, making a decision to permanently move away from high-quality financial reporting would never be our preferred option. We would be happy to pursue temporary and short-term solutions which would help alleviate the current crisis while not abandoning high-quality financial reporting in the long term.

Context of this consultation

This consultation sets out proposals for application through the Government Financial Reporting Manual (FReM) and DHSC Group Accounting Manual (GAM) to central government and the health sector, and we have considered it in that light. However, we are also cognisant of alignment issues and the knock-on effects for the Whole of Government Accounts consolidation, and for local government entities reporting under the Code of Accounting Practice for Local Authority Accounting in the United Kingdom (the Code) which aims to be consistent with the FReM.

Reflections on the current regime

The development of the current regime began in the late 1990s in line with UK thinking over the previous couple of decades, and has a coherent aim. It seeks to capture a meaningful notion of the value of the asset which works for public sector entities, particularly in the context of assets held for their service potential. This approach reflects similar conceptual thinking set out in UK GAAP for the private sector as developed by the UK Accounting Standards Board. Although there were some changes on transition to the IFRS based FReM the underlying principles are relatively unchanged.

While different measurement methods are applied to different types of assets the underlying principle remains the same. Furthermore, because the various methods/bases are current value approaches, it is possible to coherently measure assets which have sub-assets to which different measurement methods apply.

By comparison with situations where accounting policies allow both current value and historical cost for different classes of asset there is also generally less of a measurement ‘cliff edge’ effect if assets move from one class to another.

General comments on the proposals

The thematic review paper is framed as addressing a problem which it suggests needs to be fixed, and this appears to be based on a perception that disproportionate effort and resources are directed to the valuation process by preparers, valuers and auditors.

The approach taken in the paper is less focused on depicting economic substance and therefore producing meaningful information: instead it focuses mainly on whether treatments are allowed under IFRS rather than whether they provide relevant information which provides a faithful representation, and therefore information useful for accountability and decision making purposes for the users of the accounts.

Seeking to reduce the cost of accounts preparation and audit is a worthwhile objective, especially given continuing pressure on resources. However, as explained in our responses to individual questions, we believe that the main proposals in the paper fall short in terms of the quality of financial reporting and will have an adverse impact on this.

Costs and resource implications of the valuation process

CIPFA notes the comments in the paper regarding the significant and possibly disproportionate amount of effort on valuations. This is something that we hear from preparers of financial statements; they characterise this in terms of preparer effort required to satisfy auditor requests, but this is of course an area where preparers, auditors and valuers all need to interact, and while this has a cost, if it is undertaken in a coordinated and efficient way has major benefits too.

CIPFA is concerned that the cost of auditor verification of valuations appears to have been a significant driver to the consultation paper's commentaries. CIPFA is concerned that current difficulties in the audit regime which affect both local authorities and the health sector are driving the proposed changes to financial reporting requirements; addressing capacity issues should not be the aim of long-term changes to an accounting framework and would be likely to have adverse impacts over the longer term. There may need to be temporary solutions to assist with the current crisis in local audit, but it should not be a long-term aim in the search for high-quality financial reporting and the needs of the users of the financial statements.

CIPFA notes the suggestion in the paper that the costs associated with EUV and DRC measurements are significant and CIPFA is concerned to ensure that the cost/benefit analysis for the users of the financial statements are considered. However, eliminating these costs by adopting much less relevant measures seems at best extreme and will result in a reduction in the quality (including the understandability) of the financial information.

CIPFA has wider concerns that the audit regime and perhaps the regulatory regime have evolved in response to private sector threats and concerns which do not fit well with public sector financial reporting or fully take account of the specificities of public sector reporting frameworks.

Obviously public sector audits need to be conducted with due rigour having regard to the attendant risks and the costs and benefits. But if auditing standards or regulatory frameworks have been developed in a way that makes the verification of public sector specific measurement approaches disproportionately expensive, then it makes sense to review whether appropriate adaptations can be made to respect the public sector context. This is of course an area which is outside the remit of financial reporting standard setters but is a topic which CIPFA is keen to explore with audit stakeholders and regulators.

Answers to specific questions

Our comments on the consultation questions are provided in an attached annex.

I hope this is a helpful contribution to the development of the FReM, GAM and related guidance.

ANNEX

Question 1: **Do you agree with the assessment HM Treasury has presented for Option 1?**
Option 1 proposes that all non-investment assets should be valued at historical cost. CIPFA strongly agrees that Option 1 should not be adopted and would raise further concerns about the use of historical cost generally. CIPFA agrees somewhat with paragraph 3.35 which sets out the challenges arising from the use of the historical cost model, but we consider that the effect of these challenges is understated, having regard to the long life of many public sector assets. For such assets the disparity between historical cost and any reasonable notion of value is likely to be enormous. There is no transparency over resource being consumed. There is no comparability between assets of different ages managed by the entity, and comparability between entities is impossible. The ability of users of financial statements to assess, corroborate or challenge management's stewardship of resources is severely compromised. Some FRAB briefing papers, both under old UK GAAP and when adopting IFRS 13 *Fair Value Measurement* suggest that the accumulated effect of inflation makes the use of historical cost information nonsensical. Additionally, we question whether it is meaningful to consider the historical cost model to be generally well understood except in a very limited sense. Lay readers of the accounts might for example reasonably expect growth in asset balances which exceeds price inflation for those assets to equate to growth in the operational or other capacity of the assets. Because assets of different ages are not comparable this common-sense reading is not guaranteed and may be quite unlikely in many scenarios. For the same reason, depreciation and other asset-based flows will feed through into 'performance' or the cost of services in a much less meaningful way. Historical cost in the IFRS Conceptual Framework for Financial Reporting is essentially a practical expedient adopted on cost grounds and does not reflect economic substance except in those situations where the historical cost closely equates to current value measures. Historical cost reporting may be useful (having regard to costs and benefits) in entities which have low levels of assets, or where assets are not held for long periods. Private companies are of course able to use historical cost, where allowed under IFRS, without a requirement to consider the relevance of the resulting information.
Question 2: **Do you agree with the assessment HM Treasury has presented for Option 2?**
Option 2 proposes a revaluation model in which all non-investment assets are assessed on the basis of fair value as defined in IFRS 13, without adaptations and interpretations applied to IAS for UK public sector purposes. While we agree with the conclusion that fair value should not be applied to all assets, we would argue the case much more strongly. Public sector assets are held predominantly to deliver goods and services. A fair value measurement basis, intended to reflect the value

that would be received if an asset was sold in an active market, is only relevant to assets held solely for their ability to generate income or other financial return.

Paragraph 3.37 asserts that fair value *may* provide more relevant information for reasons which echo private sector arguments, but which are much less applicable to public sector assets which are not investment assets.

CIPFA suggests that, in the context of the assets discussed in this paper, unrestricted fair value is much less relevant (we note that in some jurisdictions such as New South Wales (Australia) a more restricted fair value approach is used which is more akin to EUV).

The degree of relevance of different measurement bases to users of public sector (and also non-profit) financial statements is an issue which has been considered extensively by HM Treasury, FRAB, CIPFA, CIPFA LASAAC, other UK public sector stakeholders and various committees of the former Accounting Standards Board (PSNC [1]and CAPE[2]). Each of these supported current value based on EUV and where appropriate DRC.

Significant consideration has also been given to this topic by IPSASB. The use of market information on exit values is the principal factor which undermines the relevance of fair value, rather than the lack of market information, and it was this that led IPSASB not to update references to fair value in its standards which reflected the older IAS and IFRS requirements prior to IFRS 13*.* IPSASB seeks to echo the requirements in IFRS where this is possible and appropriate, but the use of exit based fair value did not provide sufficiently relevant information for large classes of asset held for their service potential.

The IPSASB recognised the benefits of having a uniform and coherent approach to current value measurement and has sought to develop an overarching measurement standard like IFRS 13. The measurement project is now essentially complete and IPSAS 46 *Measurement* has been approved and will be issued very shortly. The new IPSAS sets out the conceptual underpinning for public sector measurement which it will then operationalise through the detailed standards, including where the use of Fair Value is and is not appropriate.

The model for current value as applied to operational assets is Current Operational Value which has many similarities to the FReM (and the local authority accounting Code) current regime. IPSAS 46 provides guidance on practical implementation linked to relevant valuation guidance.

Question 3:

Do you agree with the assessment HM Treasury has presented for Option 3?

CIPFA does not agree that Option 3 should be the preferred option and is concerned that it was offered as such. CIPFA is not clear on the rationale or objective of the move to such a mixed measurement base for different classes of asset other than cost.

In particular CIPFA does not agree that operational assets held for their service potential should be separated into two distinct classes, specialised and non-specialised, with specialised assets measured at historical cost, and non-specialised assets measured at fair value.

[1] Public Sector and Not for Profit Committee

[2] Committee on Accounting for Public benefit Entities

In line with our response to Questions 1 and 2

- CIPFA does not consider that historical cost faithfully represents the value of assets having regard to their economic substance.

- CIPFA also does not consider that fair value provides relevant information for non-specialised assets held for their service potential.

- CIPFA is concerned that having assets held for service potential valued at current value and historical cost is inconsistent

In addition to providing less relevant (or substantially less relevant) information on asset class aggregates, overall aggregate balances will be more difficult to understand and the meaning of aggregated depreciation and other asset derived flows will be extremely difficult to gauge.

The paper's analysis of Option 1 makes it clear that historical cost model is problematic if used for any part of the asset base where long life assets are material. CIPFA's concerns about the use of the historical cost remain where it is used in part for any solution and wonders about the logic of it being used given the consultation paper's own analysis.

Additionally, while the paper notes that there may be issues around classification, these could be quite problematic for many assets. Classification of assets as specialised or non-specialised is often a decision which needs to be taken by valuers, and can be quite a nuanced and subjective judgement, especially where assets are segmented with some parts being generic while others have specialised construction and use.

CIPFA is also concerned about the potential unintended consequences of offering an asset class where the cost of measuring the asset is significantly reduced and that this may lead to significantly increased numbers of assets suddenly moving measurement bases/classifications and becoming 'specialised'.

The paper is silent on the treatment of hybrid assets which are currently measured by aggregating specialised and non-specialised aspects, but the issues of relevance and understandability will be compounded for these.

In relation to the use of fair value, we would note that, per our response to Option 2, the suggestion that fair value provides more relevant information on public sector assets flies in the face of consideration by public sector standard setters over several decades.

Question 4:

Do you think land and buildings should be considered as their own asset category under any of the options HM Treasury has presented?

CIPFA is content that land and buildings can be presented as a separate asset class.

Questions 5-7: **Do you agree with the assessment HM Treasury has presented for Option 4a?** **Do you agree that Option 4a can be applied in conjunction with Option 3?** **Do you think there is a risk that Option 4a would not be considered true and fair, and so a pronouncement from the regulator would be necessary to address any ambiguity?** **Questions 8-10:** **Do you agree with the assessment HM Treasury has presented for Option 4b?** **Do you agree that Option 4b can be applied in conjunction with Option 3?** **Do you think there is a risk that Option 4b would not be considered true and fair, and so a pronouncement from the regulator would be necessary to address any ambiguity?**
CIPFA considers that both Option 4a and Option 4b are worth exploring and is concerned that they have not been explored as fully as they might be in the consultation paper. Both produce information which is clearly more relevant than information produced on a purely historical cost basis. Both potentially reduce the costs to preparers and auditors, subject to the underlying approach not being problematic. Against this background, we were disappointed with the suggestion that these could not be supported if they were not consistent with the IFRS Conceptual Framework. It is of course important that the financial statements achieve a true and fair view, but the IFRS Conceptual Framework is not the final determinant of whether a true and fair view has been achieved. The FReM, GAM and the local authority Code are all grounded in International Financial Reporting Standards (IFRS) but this is as adapted or interpreted for the public sector context, and this is generally on conceptual grounds. The UK public sector departs from the IFRS Conceptual Framework to a lesser extent with interpretations and to a greater extent with adaptations. UK public sector reporting seeks to operate within the spirit of the framework and the Financial Reporting Advisory Board (FRAB) has a key role in advising on whether such interpretations and adaptations are appropriate for the public sector context. For that reason, it would in CIPFA's view be helpful to consider the extent to which these approaches might achieve faithful representation and provide useful information, having regard to the qualitative characteristics in the IFRS Conceptual Framework, and also to similar material in the IPSASB Conceptual Framework. The proposals at Option 3, which to our mind offer substantially less in the way of faithful representation, relevance, coherence or understandability, would be a useful comparator to inform the FRAB's consideration. A revised version of the Measurement chapter in IPSASB's Conceptual Framework, which will be published shortly will provide an integrated approach to measurement in the public sector. As IPSASB's Conceptual Framework is in many respects consistent with the IASB's Framework, departing where necessary for the public sector, CIPFA recommends that this is thoroughly considered, since this more public sector focused document which

has been subject to international due process would support the application of Options 4a and 4b.

While generally CIPFA has not previously supported approaches based on indexation, we would disagree with the suggestion that regulation would be required to achieve a true and fair view. As noted above, UK public sector reporting frameworks include interpretations and adaptations of IFRS, and there is an established procedure for assessing whether these are reasonable. Subject to such determinations, the achievement of a true and fair view mainly equates to compliance with the reporting framework.

CIPFA would note that the FRAB thoroughly considered issues around valuation using EUV and DRC in 2007, and part of the discussion was around frequency of valuation.

FRAB briefing was provided with input from a joint working group of experts in valuation and financial reporting. These discussions were carried out in the context of FRS 15 under UK GAAP, but FRAB, RICS and other working group members were aware of the incoming IFRS. The differences between IAS 16 and FRS 15 as applied to the private sector and around frequency of valuation were not that great, but the FRAB determined that a different approach could be taken to the measurement of public sector assets having regard to what that measurement was seeking to achieve in the public sector context.

FRAB was content for professional valuation to be done in line with FRS 15 on a quinquennial basis, subject to 3-year interim review based on desktop valuation, excepting circumstances where the value might be expected to have materially changed. FRAB was content that the assessment around material change would be based on preparer understanding of their asset base. FRAB was also content that preparers might use indexation in the interim, using appropriate indices for the asset type. Where such indexation was carried out, 3-year interim review would not be required. Guidance was provided to preparers on the valuation requirements, this is still available on the gov.uk website[3], and this should be reviewed, as in CIPFA's view it remains pertinent.

The briefing papers clearly set out the fact that indexation would not always result in valuations that closely reflected the result of a full professional valuation, noting that market- based indexation of properties measured on an EUV basis tended, (under market conditions at that time) to result in overvaluation which needed to be reversed at the next full valuation while indexation approaches applied to DRC valuations were less problematic in this sense.

In making the above determinations, FRAB was taking a different approach to UK GAAP on the basis of differences in the economic substance of transactions in the public sector, and accepted that, substantial changes would be picked up through impairment review.

The above description relates to events and decisions which are now more than a decade past, and although the FRAB continued to incorporate public sector specific measurement in the FReM there are no clear recent pronouncements in relation to, for example, valuation frequency and the considerations which would support a different view that it was necessary to carry out more frequent valuation.

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3 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/328549/guidance_on_asset_valuation.pdf

If FRAB chose to issue updated guidance, based on a its consideration of factors relevant to public sector financial reporting, the question of whether the reporting provides a true and fair view should therefore not arise. This would be subject to proper consideration of the issues by FRAB, clear explanation of the accounting framework in the FReM and other manuals, and appropriate descriptions of accounting policies in financial statements.
Question 11: **Do you agree with the assessment HM Treasury has presented for other options?**
No explanation is provided in the paper as to what other measurement options were considered, why these alternative options were discounted and therefore it is not possible to assess whether alternative approaches would have been more viable on the basis of the information provided. The paper also does not explore why alignment with IPSAS 46 and the updated chapter in IPSASB's Conceptual framework is not being considered. CIPFA would note that the IPSASB has spent some significant time looking at the measurement approaches and is of the view that this should have informed the proposals in far more detail when reviewing the conceptual basis for UK public sector property, plant and equipment measurement. CIPFA appreciates that the UK manuals follow IFRS (as adapted etc) but considers that this is a conceptual issue where the needs of public sector users of the accounts should be properly addressed. We recognise that the options presented react to concerns over cost benefit that need to be addressed. However, in line with our responses to previous questions it is not clear to CIPFA that any of them deliver the best outcome for both public sector financial reporting objectives and wider government policy delivery. In line with our response to Questions 5 to 10, we consider that it would be worth considering Option 4b further. While periodic revaluation will be necessary to maintain relevance, there are questions as to whether the users will benefit from such updating being carried out more regularly than every five years, together with circumstances under which, exceptionally, more frequent updating might be required. CIPFA understands from discussions with valuers that there may also be opportunities to streamline or standardise the approach to EUV and DRC measurements so that valuations more clearly reflect the specific circumstances of the asset and the reporting entity. Such improvements could help improve consistency of valuation practice, while also making it easier for auditors to understand the valuations and carry out verification procedures. This should then have significant benefits in terms of both valuation costs and the quality of financial reporting.
Question 12: **Do you agree, in general, with HM Treasury's proposed changes, to be reflected in FReM adaptations and interpretations to International Accounting Standard 16 Property Plant and Equipment (IAS 16) and adaptations to International Accounting Standard 38 Intangibles (IAS 38), in respect of the measurement of assets?**
CIPFA does not agree with HM Treasury's proposed changes, in line with our response to Question 3. CIPFA considers that these undermine both the relevance and the faithful representation of the economic substance behind the financial information.

Question 13: **Do you agree with the proposed measurement basis for networked assets?**
CIPFA agrees with the proposed FReM treatment for network assets, but primarily because this applies the best available approach to measurement of operational public sector assets. CIPFA has noted with concern during the development of the consultation paper that there is not a clear argument in the consultation paper for why Depreciated Replacement Cost is used for infrastructure assets and not for specialised assets per option 3. We note that this is a live issue for local authorities where there is a proposed move to DRC for infrastructure assets which would have significant cost implications in view of the extent and complexity of the local roads network, particularly in England. CIPFA would note that while the local authority Code has prescribed a treatment for infrastructure assets (ie network assets) using historical cost, this was as a practical expedient in the early 1990's, having regard to the very significant practical difficulties and resource costs in developing information on local authority highways networks. This is not something which CIPFA or CIPFA/LASAAC would otherwise have supported. Without seeking to diminish the considerable work undertaken by the various national level highways bodies, the asset stock in local authorities has developed in a much more fragmented and diverse way and will probably continue to do so. It has also been subject to more complex institutional change through local authority reorganisation, often resulting in information losses which are very difficult to address. It is against this background that CIPFA LASAAC moved back from requiring DRC measurement for infrastructure assets and moved to adopt depreciated historical cost (DHC). As is well known, this has proved problematic. It is now clear that the information systems at local authorities did not generally provide all the information required to maintain accurate figures on a DHC basis. CIPFA and CIPFA LASAAC are seeking to develop a long-term workable approach to reporting on infrastructure assets, and that the discussion is being framed in terms of DRC. However, we would emphasise that this remains a difficult task, and we have yet to see how practical it is to realise such a change in a reasonable timescale. CIPFA and CIPFA LASAAC are seeking to develop practical guidance and simplifications to help local authorities apply the guidance. These are of course, framed having regard to the current overarching reporting framework, but CIPFA and CIPFA LASAAC would also be minded to consider whether any simplification or other change proposed by the HM Treasury Thematic Review might help to allow the specifications in the Code to achieve high-quality reporting at proportionate cost. We have strong concerns that the adoption of a DHC approach for specialised assets may undermine CIPFA and CIPFA LASAAC's efforts to make progress in this area. As noted in responses to other questions, we are unsure that the approaches framed around Options 4a or 4b have been exhausted.
Question 15: **Do you agree with the proposed measurement basis for specialised assets (PPE)?**
CIPFA does not agree with HM Treasury's proposed changes, in line with our response to Question 3.

As noted in our response to Question 3 there are likely to be classification issues under any arrangement which seeks to separate and adopt very different treatments for specialised and non-specialised assets.

However, our main disagreement is in relation to 4.24 which suggests that:

> *Changing the measurement basis to historical (deemed) cost is preferable because;*
>
> *a. the new measurement base removes complexity and cost, moving away from a valuation basis where the relevance of the financial information is more qualified and where there is a lack of market inputs;*
>
> *b. this improves the reliability of the financial information reported.*

The reasoning here seems highly questionable. Per our response to Question 1, while allowed under IFRS we see historical cost information as almost meaningless when applied to long life assets. Against this background it seems extremely questionable to talk about a lack of relevance of the old (DRC) measurement base. This approach was developed by UK standard setters in the private sector under UK GAAP because the information was relevant. It was adopted and retained by UK public sector standard setters because it is more relevant than measures framed in terms of unrestricted exit price. A similar approach is incorporated within IPSASB's concept of current operational value (in IPSAS 46) because of its relevance.

Obviously, verifiability is important, and entity neutral current value measures such as Level 1 and Level 2 fair value can be more objective. But the reason that public sector standard setters have continued to adopt entity specific current value measures is that it is necessary to reflect the public benefit achieved through providing services.

While a more straightforwardly verifiable type of reliability is desirable, it is of little use to reliably measure the wrong thing.

Question 16:

Do you agree it could be suitable for the starting point for valuation of specialised assets to be initial historical cost, but if this information is not available, then measure at historical deemed cost?

As noted above, CIPFA does not agree with the use of this basis.

As a matter of practicality, a deemed historical cost approach probably needs to be used. Partly because of availability of information, and also to achieve nominal consistency in presenting information which, if considered to be a form of historical cost, is measured inconsistently.

Taking this approach would of course eliminate a key aspect of the asserted understandability of this measure, given that it is framed as 'historical'.

The one minor advantage of this approach is that, by virtue of being based on current value information, it would for some time continue to reflect something relevant, even though it would be framed in terms of a much less relevant measure.

We would note that the deemed cost approach in IFRS 1 is used in situations where information is not available, and this is not the case for UK public sector assets. We would question whether standards allow this to happen without adaptation, and we would suggest that the case for such an adaptation is much less compelling than, for example, interpretation or adaptation which would allow Options 4a or 4b to be pursued.

Question 17: **Do you agree with the HM Treasury definition of non-specialised assets (PPE)?**
CIPFA agrees that non-specialised assets (PPE) are operational assets held for their service potential, used to deliver either front line services or back-office functions, which are non-specialised in nature. CIPFA does not agree that office buildings are always non-specialised. We would agree instead that many office buildings are non-specialised, while others have the features of specialised assets described at paragraph 4.17. It is not uncommon in the public sector for properties to sometimes be situated for economic, social or political reasons in geographic areas that would not be the choice of the market, meaning both that there may be an absence of suitable market comparable transactions and that their value in the marketplace would be significantly lower than the value of their remaining service potential for the continued delivery of their existing public sector function.
Question 18: **Do you agree with the proposed measurement basis for non-specialised assets (PPE)?**
CIPFA does not agree with the proposed measurement basis for non-specialised assets, in line with our response to Question 2. Additionally, we would note that as well as disagreeing with the use of a measurement on the basis of highest and best use, the determination of such a use would itself have additional costs. There might also be issues applying a highest and best use approach to individual properties in a location where there was limited scope for such usage in nearby locations – the aggregate of individual fair values might not be a meaningful value for the property portfolio even in fair value terms.
Question 19: **Do you agree with the proposed measurement basis for operational and non-operational heritage assets?**
CIPFA is content with the proposed measurement approach to heritage assets.
Question 20: **Do you agree with the proposed measurement basis for social housing assets?**
We understand that neither the FReM nor the DHSC GAM specify measurement requirements for these assets. CIPFA is content with the proposed measurement approach to social housing assets, but we would suggest that CIPFA LASAAC as the relevant authority responsible for the Code reviews this once the outcomes of the thematic review are known.

Question 21: **Do you agree with the proposed measurement basis for surplus assets?**
CIPFA agrees with the proposal that the measurement basis for surplus assets should remain at fair value.
Question 22: **Do you agree with the proposed measurement basis for intangible assets?**
CIPFA is content with the proposed measurement approach for intangible assets, noting that many intangible assets have a short useful life.
Question 23: **Do you think the proposed changes of the preferred new option will improve the financial reporting for users of the account?**
No, CIPFA fundamentally disagrees for the reasons set out in responses to previous questions. It provides substantially less useful information for the users of the accounts. In line with our response to Question 11, it would be helpful to explore whether the current regime might be modified in line with something more like Option 4b.
Question 24: **Overall, do you agree with the sub-classes of assets HM Treasury has identified as in scope of IAS 16 for the purposes of the differential regime proposed?**
No. The proposal to differentiate operational properties as 'specialised' and 'non-specialised' is not appropriate for the reasons detailed in our response to Question 3.
Question 25: **Are there any areas of ambiguity in the proposal that you think will require further guidance? If so, what areas would require further guidance?**
CIPFA has no comments at this stage.
Question 26: **Do you agree with the proposed effective date of financial year 2025-26 for the changes? If so, why? If not, do you think the proposed effective date should be accelerated to financial year 2024-25? If so, why?**
CIPFA has no comments in relation to the FReM and the DHSC GAM. We would note that any changes to the measurement base for local government would need to be considered against other issues such as the crisis in local audit and the significant changes anticipated to the measurement and other requirements for the reporting of infrastructure assets. This might well argue for an even longer effective date,

Question 27: **Do you agree with the proposed timeline for implementation?**
See response to question 26.
Question 28: **Do you agree with the transition approach for the proposed amendments to the FReM?**
We have no comments on the transition approach for the FReM.
Question 29: **Are there any areas of further guidance required for transition? If so, what areas would require further guidance?**
CIPFA has no comments at this stage.
Question 30: **Are there any other areas not covered by the questions which you would like to comment on? Please explain any comments, including providing alternatives HM Treasury should consider?**
CIPFA has no further comments to make.