

**REPORT TO:** Audit & Governance Committee

**MEETING DATE:** 19<sup>th</sup> March 2013

**BY:** Executive Director (Support Services)

**SUBJECT:** Valuation Policies & Procedures

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## **1 PURPOSE**

- 1.1 To record the results of a review of valuation policies and procedures carried out over the past few months.

## **2 RECOMMENDATIONS**

- 2.1 The Committee is asked to note the contents of this report and the implications for future financial statements.

## **3 BACKGROUND**

- 3.1 East Lothian Council, as a key deliverer of services to the public, owns and manages significant assets. Within the Council's financial statements these are recorded on the Balance Sheet. An extract from the Balance Sheet is included at Appendix A and shows that, at the end of the 2011/12 financial year, the Council owned assets which either cost or were valued at £828.425 million.
- 3.2 On the Balance Sheet these assets are split between the various categories;
- Council Dwellings – dwellings within the Housing Revenue Account
  - Other land & buildings - this is the largest category and includes all the Council's offices, schools estate and community centres.
  - Vehicles, Plant, Furniture & Equipment – examples include refuse lorries, IT systems and office furniture.

- Infrastructure Assets – examples include roads, bridges and flood prevention/coastal defences.
- Community Assets – parks & cemeteries.
- Surplus Assets – this includes those assets which are surplus to requirements but do not meet the strict criteria for those assets which are being held for sale (see below).
- Assets Under Construction – this is a holding category which is used until the asset is completed at which point it moves over to its permanent category. These are most likely to be either Council Dwellings or Other land & buildings.

3.3 In addition to these there are two further categories of assets which are reported on the face of the Balance Sheet. These are;

- Heritage Assets – these include assets with specific historical or artistic qualities that are held for their contribution to knowledge or culture. Within East Lothian this includes the Council's paintings.
- Assets Held for Sale - for an asset to fall within this category it is necessary that the asset must be available for sale, there must be a commitment to sell and it must be being actively marketed.

3.4 A key principle of accounting is that all non-current assets (Property, Plant, Equipment, Assets Held for Sale etc) are included in the Balance Sheet at their 'fair value'. This is defined as *'the amount for which an asset or liability could be exchanged between knowledgeable, willing parties in an arm's length transaction'*.

3.5 There are differences in how this is interpreted across the various categories of assets. In the case of Council Dwellings and Other land & buildings the assessment of fair value requires periodical valuations.

3.6 The Code of Practice on Local Authority Accounting (the Code) specifies that assets required to be carried at fair value shall have a valuation at least every five years. This has been the practice within East Lothian.

3.7 In order to achieve this, the portfolio has been split into three tranches. The first relates to Council Dwellings and these are valued in one tranche. The Other land & building total is split and valued in two tranches - one relates primarily to the 'Industrial Lets' and the second larger tranche relates to the school estate, community centres and other buildings used for service delivery. The final group relates to new buildings. These are added to the respective category once they come up to the five year valuation period.

3.8 Valuations are currently carried out by either the Council's own team of surveyors or by external advisers.

3.9 The Committee will be aware that at its September meeting it considered the 'ELC ISA 260 Report to those charged with governance' by the

Council's auditors. In this report the auditors made a number of recommendations. In particular they recommended that management should review the valuation policy and procedures to ensure compliance with the Code and accounting standards. This should include reviewing ;

- The rolling basis of valuations;
- The date of valuation of assets i.e. 31 March versus 1 April; and
- How the appropriateness of the carrying values of all assets at the balance sheet date is documented.

3.10 The finance team have been working on a review of valuation processes and procedures over the past few months. A number of general points and then specific points were noted about valuation processes and procedures. In relation to the former;

- There is no evidence of non-compliance with the Code in relation to asset valuations.
- There is potential to split the valuation of the 'Other land & buildings' category into three tranches. This would involve splitting the large tranche which includes the schools estate, community centres and office buildings into two separate tranches. These would be valued in separate years.
- The method by which Council Dwellings are valued, alongside the prospective cost mitigates against the idea of splitting this valuation. No changes are suggested here.
- In future, to tie in with the Balance Sheet date, valuers will be asked to provide valuations as at 31 March rather than 01 April.
- Future external valuation services are likely to be let as one package with the valuers being asked to provide annual reports covering relevant market conditions/fair values and the likely impact on carrying values.

3.11 A summary of the new tranches which could operate for property valuations, their prospective date of valuation and how their subsequent carrying value might be assessed is contained at Appendix B. The net effect of this is that the Council is likely to have a rolling review of valuations with a selection of the Council's property portfolio being valued in four of the five years. In addition, the requirement to value new constructed properties after five years and the requirement to value Assets Held for Sale means that there is unlikely to be a year where there are no revaluations taking place.

3.12 In relation to some specific points noted as a result of the review;

- There were three assets currently shown under the 'Community Assets' category which should, more properly, be shown under 'Other land & buildings'. These will be reclassified as part of the

2012/13 accounts preparation and valuations have been sought where the amounts might be significant.

- Two assets were identified which did not have fully current valuations. In these instances they were newly constructed assets which were then missed from the subsequent valuation – meaning that their fair value were beyond the five year period. The new capital accounting software, introduced two years ago, now makes it easier to identify those assets which do not have a current valuation.

#### **4 POLICY IMPLICATIONS**

4.1 None.

#### **5 EQUALITIES IMPACT ASSESSMENT**

5.1 This report is not applicable to the wellbeing of equalities groups and an Equalities Impact Assessment is not required.

#### **6 RESOURCE IMPLICATIONS**

6.1 Financial – As outlined above.

6.2 Personnel - None.

6.3 Other – None.

#### **7 BACKGROUND PAPERS**

7.1 Audit & Governance Committee 18 September 2012 – Item 1 “ELC ISA 260 Report to those charged with governance”.

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## Property, Plant and Equipment

	Council Dwellings	Other land and buildings Restated	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Comm-unity Assets	Surplus Assets	Assets Under Con-struction	Total Property, Plant and Equipment	PFI Assets Included in PPE
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Cost or Valuation</b>									
At 1 April 2011 (as restated)	293,130	345,783	27,023	57,441	19,297	82	19,010	<b>761,766</b>	90,296
Additions	29,704	7,357	4,662	7,060	2,198	-	20,517	<b>71,498</b>	363
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	13,653	-	-	95	-	15	<b>13,763</b>	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(15,949)	-	-	(91)	(5)	(172)	<b>(16,217)</b>	-
Derecognition - Disposals	(742)	(512)	(710)	-	-	-	-	<b>(1,964)</b>	-
Asset Reclassified	-	(325)	-	-	-	-	-	<b>(325)</b>	-
Other Movements in cost or valuation	10,580	12,061	-	-	10	(14)	(22,733)	<b>(96)</b>	-
<b>At 31 March 2012</b>	<b>332,672</b>	<b>362,068</b>	<b>30,975</b>	<b>64,501</b>	<b>21,509</b>	<b>63</b>	<b>16,637</b>	<b>828,425</b>	<b>90,659</b>
<b>Accumulated Depreciation and Impairment</b>									
At 1 April 2011 (as restated)	(34,463)	(9,258)	(17,339)	(10,798)	(1,663)	(1)	(38)	<b>(73,560)</b>	(1,510)
Depreciation Charge	(8,638)	(10,675)	(3,849)	(3,041)	(509)	-	-	<b>(26,712)</b>	(2,821)
Depreciation written out to the Revaluation Reserve	-	42	-	-	-	-	-	<b>42</b>	-
Depreciation written out to the Surplus/Deficit on the provision of services	-	3,587	-	-	3	-	12	<b>3,602</b>	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	(1,450)	-	-	-	-	-	<b>(1,450)</b>	-
Derecognition - Disposals	90	50	658	-	-	-	-	<b>798</b>	-
Other movements in depreciation or impairment	(311)	307	(563)	562	-	-	12	<b>7</b>	-
<b>At 31 March 2012</b>	<b>(43,322)</b>	<b>(17,397)</b>	<b>(21,093)</b>	<b>(13,277)</b>	<b>(2,169)</b>	<b>(1)</b>	<b>(14)</b>	<b>(97,273)</b>	<b>(4,331)</b>
<b>Net Book Value</b>									
At 31 March 2012	289,350	344,671	9,882	51,224	19,340	62	16,623	<b>731,152</b>	86,328
At 1 April 2011 (as restated)	258,667	336,523	9,684	46,643	17,634	81	18,972	<b>688,204</b>	88,786

## EAST LoTHIAN COUNCIL

## APPROACH TO ASSET VALUATIONS

Description	Types of Asset	Date of next valuation	Internal/External	Validation in future years
Tranche One	Council Dwellings	31/03/2014	External	Desktop review
Tranche Two	Industrial Lets	31/03/2015	Internal	Combination of Desktop Review from Valuers and Market Indicators e.g. BCIS indices.
Tranche Three	Portfolio of schools, community centres, office buildings etc	31/03/2016	External	Combination of Desktop Review from Valuers and Market Indicators e.g. BCIS indices.
Tranche Four	Portfolio of schools, community centres, office buildings etc	31/03/2016	External	Combination of Desktop Review from Valuers and Market Indicators e.g. BCIS indices.
Tranche Five	Newly Constructed Assets	Various	External	Combination of Desktop Review from Valuers and Market Indicators e.g. BCIS indices.