Manchester City Council
Report for Resolution

Report to: Audit Committee – 17 July 2014

Subject: Requirements for Asset Valuations

Report of: The City Treasurer

Summary

To provide members with details of the requirements for asset valuations for both the Council and Group Accounts as requested at a previous Audit Committee.

Recommendations

Members are asked to note the report.

Wards Affected:

All

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Background documents (available for public inspection):

None

1.0 Introduction

1.1 Members received an Audit Update from the Council's External Auditors, Grant Thornton, at the January Audit Committee. Within the emerging issues was a section on property, plant and equipment valuation requirements. A report on the process of asset valuations was requested for a future meeting of the Committee.

1.2 This report details the requirements relating to asset valuations per the Code of Practice on Local Authority Accounting (The Code) both for the Council's single entity accounts and its Group accounts.

2.0 Method of Valuation Requirements

2.1 The Council has various types of assets that are required to be measured using different measurement basis in accordance with the Code of Practice and the guidance notes issued by the Royal Institution of Chartered Surveyors (RICS).

Property, Plant and Equipment

2.2 Land and buildings used for Council services are valued at fair value based on their existing use. Fair value is defined as the value that an asset would be purchased for by a willing buyer. Where sufficient market evidence of the value is not available, for example schools and leisure centres, depreciated replacement cost, using the modern equivalent asset method is used for valuation purposes. This is an estimate of how much it would cost to build the asset using the latest building methods which therefore takes into account the current cost of building materials. This value is then adjusted to take into account the age of the building.

2.3 Short life assets, such as vehicles, are held at depreciated historical cost on the grounds of materiality.

2.4 Council Dwellings are valued, in accordance with Department of Communities and Local Government guidance, at open market value less a specified notified percentage, known as the social housing discount. The social housing discount for the North West is currently 65% therefore council dwellings are valued at 35% of their open market value. This method assumes that the properties will continue to be let by a social landlord.

2.5 Surplus assets are valued at fair value based on existing use value. These are assets that are not in use by the Council but do not meet the definition of assets held for sale, i.e. the asset must be available for immediate sale in its present condition, the sale must be highly probable, the asset must be actively marketed and the sale should be expected to be completed within one year. Surplus assets mainly relate to land that is being held for regeneration purposes and future sale.

2.6 Infrastructure (for example roads and bridges) and community assets (for example parks) are shown at depreciated historical cost.

2.7 Assets in the course of being constructed are shown at cost. They are not depreciation until they are completed.

Other Assets

2.8 Heritage assets are those assets that are intended to be preserved for future generations because of their cultural, environmental or historical associations. Heritage assets include civic regalia, museum and gallery collections and works of art. Heritage assets are shown in the Balance Sheet at market value where this is available. For those assets where no market value is available the insurance valuation is used. Depreciation is not provided for as these assets are considered to have infinite lives. There is no requirement for valuations of heritage assets to be verified by external valuers nor is there any specified minimum period between valuations.

2.9 Investment properties are those that are used solely to earn rentals and / or for capital appreciation purposes. These are measured at fair value based on market conditions at the balance sheet date. These market conditions include likely rental receipts.

2.10 Intangible assets such as computer software licences are held at cost less depreciation.

2.11 Assets held for sale are shown at the lower of the amount they were previously valued at before they were classed as held for sale or the fair value less selling costs.

3.0 Frequency of Valuations

3.1 Council dwellings and Investment Properties are revalued annually. Prior to 2013/14 other classes of property were revalued as part of a five year rolling programme unless there had been a material change in the value. Valuations are undertaken during the year with a valuation date of 1 April. To ensure that the valuations are up to date at the balance sheet date of 31 March a report on market conditions on property values was commissioned at each year end.

3.2 The 2013/14 Code of Practice on Local Authority Accounting changed the requirements for the frequency at which authorities are required to carry out valuations of plant, property and equipment. The 2013/14 Code restricts the option of five year rolling valuations by requiring:

- Revaluations to be sufficiently regular to ensure that the amount on the balance sheet is not materially different from that determined from a valuation at the balance sheet date;
- Items within a class of property, plant and equipment to be revalued within the same financial year (a class of property, plant and equipment refers to the level reported in the annual accounts, e.g. land and buildings, council dwellings).

3.3 In order to address these requirements the Council has undertaken the following:

- The Council commissioned a piece of work from external valuers that looked at the movement in asset valuations for different types of assets since the last valuation date. This was done by the valuers researching various market research papers, reports and documents on the construction market, residential and office market reviews. This provided percentages for the increase in values from the date of the last valuation to 31 March 2014. The Council used these percentages to increase the value of the assets on the balance sheet by £31,888,000. The use of indices is not strictly compliant with the Code, but following discussions with the external auditors it was considered that using these indices would provide a more accurate position in the accounts. This piece of work will be used to inform the valuations that will be undertaken in 2014/15.
- The current rolling programme of valuations ensures that types of assets are revalued in the same financial year i.e. libraries, markets, car parks but it is not practical to revalue all of the Council's land and buildings within one financial year due to the number of assets. Therefore within the annual accounts, reported elsewhere on this agenda, the land and buildings class of assets is analysed into different types of assets showing the movement in values between 1 April 2012 and 31 March 2014 together with the date of the last valuation. This therefore ensures that the Council is compliant with the Code.

4.0 Asset Valuations within the Group Accounts

4.1 The Council's Group Accounts include Manchester Airports Holdings Ltd (MAHL) and Destination Manchester Ltd (DML) as well as the Council. MAHL is a joint venture whilst DML is classed as a subsidiary. As a subsidiary DML's assets are shown within property, plant and equipment in the group balance sheet. As a joint venture the Council's share of all MAHL's assets and liabilities are shown as a long term investment.

4.2 As per the Code the accounting policies of any organisation within the group have to be aligned with those of the Council. The land and building assets of DML are included in DML's accounts at cost less accumulated depreciation and impairment. Manchester Airport Holdings Limited (MAHL) accounts are prepared using deemed cost for land and buildings. Deemed cost is the cost or valuation of assets as at 1 April 2005. Consequently property, plant and equipment is included in MAHL's accounts at cost or deemed cost less accumulated depreciation.

4.3 In order to align these accounting policies a valuation was commissioned to value the land and building assets of DML. This has resulted in a reduction of £15.851m in the values of land and buildings shown in the group accounts. This is classed as impairment and reduces the level of the group income and expenditure reserve.

4.4 Two separate valuations were commissioned for the land and building assets for MAHL. One valuation was for Manchester, Bournemouth and East Midlands

Airports. In order to make this most cost efficient this was done in conjunction with MAHL who required a valuation for insurance purposes. This provided valuations as at 1 March 2013 (the date of the commencement of the joint venture) and 31 March 2014. A further valuation was commissioned for Stansted Airport as at 31 March 2014, in order to make this most cost effective this was commission from the firm that carried out the valuation at the time of the Stansted purchase.

4.5 The value of the investment in MAHL consists of three elements at 31 March 2014:

- the price of acquisition by the joint venture partner adjusted by the Council's share of the net expenditure for the period from the date of purchase to 31 March 2013 of £791.170m plus
- 35.5% (the Council's share) of the movement in reserves during 2013/14 per the MAHL accounts of £38.872m plus
- 35.5% of the increase in land and building asset valuations since the date the joint venture commenced. This increase in valuation was obtained from the valuations commissioned and equated to £31.872m.

4.6 The Group Accounts show the value of the investment in MAHL as £861.914m. This is matched by group income and expenditure reserves. The Council's single entity accounts show the MAHL investment at cost of £112.354m as allowable within the Code.

5.0 Cost of Valuations

5.1 The total cost of valuations undertaken is shown in the table below –

	£
Council Valuations including Indexation Report [1]	95,995
MAHL Valuations [2]	84,850
DML Valuations [2]	14,500
	195,345

1. Included within annual budget.
2. Additional to budget

5.2 There will be a requirement to keep these valuations up to date so an annual valuation exercise will need to be undertaken. It is anticipated that this will be a desk top exercise and will therefore be at a reduced cost.

5.3 The 2016/17 Code is to incorporate the measurement requirements of the CIPFA Code of Practice on Transport Infrastructure Assets. Transport infrastructure assets, e.g. roads, are to be valued on a depreciated replacement cost basis, rather than depreciated historical cost as at present. This will represent a change in accounting policy and require the values at 1 April 2015 and 31 March 2016 to be restated in the 2016/17 accounts. This would also be applicable to the companies included within the group accounts.

6.0 Recommendations

6.1 Members are asked to note this report.