The Chartered Institute of Public Finance & Accountancy

International Valuation Standards Council
Exposure Draft
Valuation of Specialised Public Sector Assets

response to exposure draft

28 February 2013

the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/ 130228 SC0191

International Valuation Standards Council,
41 Moorgate,
London EC2R 6PP,
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By email to commentletters@ivsc.org

28 February 2013

Dear IVSC Secretariat

Exposure Draft

Proposed Technical Information Paper

Specialised Public Service Assets

CIPFA is a professional accountancy body in the United Kingdom which specialises in the public services. CIPFA considers the development of guidance and standards on financial reporting, auditing and other matters; in some cases we consider the implications of consultation materials for all sectors of the economy, while in other cases we focus primarily on the effect on the public sector or the wider public benefit sector. While we represent our membership of accountants, we liaise on key issues with other stakeholders including standard setters, government bodies, regulators, and representatives of other professions and specialisms such as economists, actuaries and valuers.

CIPFA is pleased to present its response to this exposure draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comment

The ED proposals are helpful, and for financial reporting purposes usefully include guidance grounded in both IFRS and IPSAS.

Response to specific questions

Comments on the Questions to Respondents set out in the Exposure Draft are set out in the attached Annex.

I hope this is a helpful contribution to the development of the Board's guidance in this area. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t:+44(0)20 7543 5794).

Yours faithfully

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ANNEX A
Questions to Respondents

Specific Matters for Comment
1. Some of the challenges that arise in valuing specialised public service assets result from similar assets being cash-generating when owned by a for-profit entity and non-cash-generating when owned by a not-for-profit or public benefit entity. The Board's initial view is that it is the characteristics of an asset and the service it provides that are relevant to its valuation. Others argue that the status of the owner can be a significant factor that impacts on the value of an asset as in many cases there is circularity between the for-profit or not-for-profit status of the owning entity and the cash-generating status of the assets. **Which of these views do you support?**
In principle, we support the Board's initial view that is the characteristics of the asset and the services it provides which are relevant to the valuation, as these affect the substance of related flows of economic and other benefit. However, we would note that financial reporting standard setters may in some cases take a view that pragmatic, anti-abuse and other factors override these considerations, and may for these reasons set standards which reflect the status and purpose of the reporting entity.
2. The draft contrasts the concepts of market value and investment value (as defined in the IVS Framework and this draft). Market value should give the same result as fair value as defined in IFRS 13 as the differences between the two do not affect specialised public service assets. It is therefore frequently used as a basis when specialised public service assets are valued for financial reporting. Investment value is specific to the owner and can reflect criteria that would either not be relevant or available to market participants, such as measures relating to the public benefit created by or accruing to the asset. **Do you consider that these distinctions are clearly explained?**
The distinctions are clearly explained. However, it is difficult to comment on the read across between market value and IFRS 13 fair value. IFRS 13 is not framed for use by public sector entities, and there is a lack of clarity as to how IAS 16 now applies as amended by IFRS 13. This issue was identified during consultation by several public sector respondents, and clarification was sought. However, the IASB did not provide any response on public sector issues, merely reiterating the adequacy of its explanations for the treatment of private sector specialised assets, using argumentation framed purely in terms of income generation.

3. The proposed guidance makes a distinction between measuring the value of the asset and measuring the social value, ie the impact of that asset on either other assets or the wider community. It excludes the latter from the scope of the proposed TIP on the grounds that social value of an asset is not directly correlated with the value of the owner’s interest in that asset. **a) Have you had experience of the impact that a specialised public service asset has on the value of other assets or the wider community being used as a measure of the value of that asset?** **b) If so, please explain the purpose for which the valuation was required.**
a) No. b) Not applicable. We would note in passing that ‘owner’s interest’ is a less clear concept when talking about public sector assets, and that some would argue that the wider community is the owner, and that social benefit associated with the asset may therefore be relevant or somewhat correlated with notions of the value of the asset to the owner.
4. Many specialised public service assets such as roads, town squares, footpaths, public parks and gardens, informal recreational areas, etc are assets for which public users make no direct payment for access or use. Some regard such “assets” as being incapable of reliable measurement because: i) neither the historic nor the current cost normally has any relevance or correlation to a measureable benefit to the owner and ii) there are no actual or implied revenues, such as a reliable proxy or cost saving, that can be attributed the asset. **a) Do you consider that all specialised public service assets are capable of reliable valuation, or that some such assets should be declared as incapable or unsuitable for valuation?** **b) If you have experience of valuing assets such as those identified in this question, please describe the type of asset valued and briefly describe the method or methods used**
a) In our view, current replacement cost is generally a useful indicator for decision making purposes and as a comparator for evaluating service performance, and is relevant even though it may not always be a fully satisfying measure of value. We are therefore wary of suggesting that particular classes of asset are not capable of reliable valuation. However, there are certainly difficulties in applying this approach to assets where the individuality of the asset is important to its service function, so that replaceability may be difficult or impossible to achieve, or may have an embedded judgement on some inherent value of the asset. This is particularly relevant to some historic, environmental and cultural heritage assets.

5. It is proposed that the current Annexe to IVS 230 Historic Property be included in this TIP and deleted from the IVS. The rationale is that many historic and heritage properties are used for providing a public service. The historic features are a form of specialism as they can often limit or constrain the use of these properties. As a consequence it is felt that many of the valuation considerations that apply to specialised public service assets also apply to historic and heritage properties and that it is more appropriate to present the guidance here than as an adjunct to IVS 230. **Do you agree with this proposal?**
CIPFA does not support the proposal. Although we appreciate that the material in the Annexe to IVS 230 is guidance, we consider that it is very helpful that it is attached to the relevant standard, rather than separately presented as part of a more general TIP.
6. Paragraph 36 of the draft proposes that four principal categories of specialised public service assets can be identified, and provides examples of types of asset that fall within each of these categories. **a) Do you agree with the categorisation proposed?** **b) Do you find the categorisation and examples to be helpful?** **b) Do you consider that there are either any significant omissions or asset types that should be excluded?**
CIPFA is content with the proposed categorisation.