

## . Overview of the Requirement

To facilitate the reporting of the 'on SARA balance sheet' land and buildings in use by academy schools, as defined above, FRD must procure professional valuations of the land and buildings of each academy at the end of the first financial year of the academy's operation, and thereafter at the earlier of a significant change being identified by ARFD, or five years having elapsed.

The number of academy schools for which FRD must request a valuation is expected to average between 2,000 and 3,000 per annum. The final figure applicable for 2020/21 will depend on, inter alia, the number of Local Education Authority delivered schools which convert to academies in the remainder of the financial reporting year. Valuations as of 31 August must be completed during a window of between four and eight months, commencing between 1 July and 1 September, to meet the timescales required for sign-off of the financial statements. The valuations will be requested by FRD in a small number of tranches between July and February, with the majority requested between—July and October. The timetable for performance will be mutually agreed depending on the timing of requests by FRD, subject to the service level requirements below.

These valuations must be on a Depreciated Replacement Cost basis (DRC) rather than using market value as the appropriate measure of fair value, to comply with applicable requirements under International Financial Reporting Standards (IFRS). This reflects the specialised nature of academy land and building assets, for which there is not an active market.

The large volume of valuations required, together with difficulties in arranging access to the properties and value for money considerations, suggests that a 'desktop' approach that does not involve an on-site inspection of the assets is likely to be appropriate for the majority of properties, however we require this to be supplemented by an appropriate amount of on-site inspections. The exact percentage of inspections and the properties to which these are applied should be determined by the valuer in consultation with FRD and should be designed to provide sufficient assurance over the accuracy and suitability of the valuations for our financial reporting purposes. However, we expect physical inspections to be no more than 20% of the total annual valuations, and expect the supplier to outline their proposed methodology around the required level of inspections in their technical response. The overall approach should be compliant with RICS 'Red Book', demonstrate the most economic advantages (see Annex 3) and remain within the stated budget range for this requirement.

The valuations should nevertheless be conducted in a way that secures sufficient and demonstrable accuracy such that a high level of assurance is provided over the

valuations. In particular, when consolidated, the external auditor of SARA should be able to draw sufficient assurance from the valuations that they conclude these, as reported in the published financial statements, not to be subject to material misstatement.

In support of the requirement, FRD will provide schedules of academies for which a valuation is required, together with data allowing the identification of these academies by name and location of the main site. Some of the other data relevant to the valuation will be provided, including that covering the chosen measure of service potential (pupil numbers) enabling the definition of a Modern Equivalent Asset (MEA) to be identified as required to apply the DRC method of valuation. Other information will be provided including, for each building at an academy's site the approximate age, Gross Internal Area, and, where available to FRD, photographs and other details supporting an understanding of the physical condition, together with details of land area, where these are available to FRD. Where possible the valuer should seek to independently verify this information. Where details of land areas are provided, no distinction will be made between playing field land and ground within which the buildings stand.

To produce a valuation of sufficient accuracy as referred to above, it is expected that the valuer will supplement the information provided by FRD with that identified via its own research. The valuer should not approach the academies directly or request that FRD does so, though general queries about the approach may be referred to FRD. Examples of relevant sources of publicly available information may include; the 'Get Information About Schools' website, the Academy Trust's own websites, Ofsted reports, press articles and aerial mapping tools.

## 2. Scope of Requirements

A list of detailed requirements is as follows:

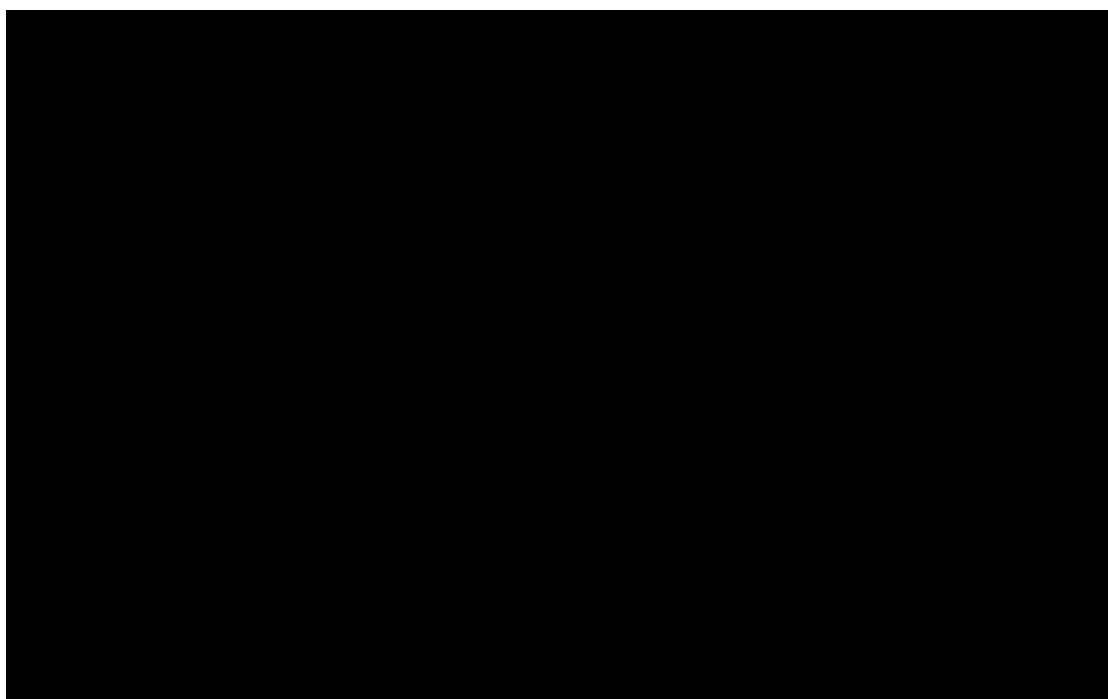
1. Development of a statement of technical methodology by 31 August 2021, to be updated annually by 31 August in each subsequent contract year(s), in consultation with and to the satisfaction of FRD and its specialist advisors, and by implication the satisfaction of its external auditor (National Audit Office). The annual updates should reflect, amongst other things, any changes to the basis for valuation required under relevant financial reporting standards, or the Government Financial Reporting Manual, e.g. in relation to the adoption of IFRS 16 which will have implications for the recognition of land and buildings 'on balance sheet'.
2. The methodology should reflect key requirements of FRD.
3. We expect the successful bidder to be able to explain significant movements between valuations, whether relating to 'real' events or to changes in the methodology, and whether or not they prepared the earlier valuation. In cases where another organisation prepared the previous valuation, FRD will share details of the underlying data about the buildings, which supported that valuation to facilitate this explanation by the valuer.
4. The methodology should provide a DRC based valuation of academy land and buildings assets at school sites.

5. The service potential used to derive the Modern Equivalent Asset should be based on pupil numbers for that site, based on capacity and roll data provided by DfE.
6. The methodology should enable the application of relevant data provided by FRD and, where this is insufficient, that gathered via the valuer's research.
7. The methodology should be flexible enough to cater for the range of different scenarios that may be encountered in and impact the outcome of the valuation, including, inter alia;
8. the need in relevant cases to de-recognise parts of an academy site (or individual sites) from the valuation in cases where FRD has indicated that, based on the occupation tenure, these should be 'off balance sheet': such cases will be clearly identified by FRD as 'partial recognition' cases and additional supporting data provided;
9. the possibility of the presence of structures which may not contribute toward the service potential of the academy, as appropriately defined, which would not be reinstated in a Modern Equivalent Asset (MEA);
10. the possibility that the physical or functional obsolescence of the academy's buildings, or the economic obsolescence of the school, differs from the average position.
11. The methodology should include an approach to testing the validity of any standard assumptions about the expected average condition and design (or functional obsolescence) of the buildings within the population of academies. A suitable approach should be agreed in consultation with FRD, drawing upon data available from FRD and through the valuer's wider research and experience.
12. The valuation of land should distinguish between the types of land occupied by the school, e.g. playing fields and developed areas. Due consideration should be given in deriving the value that a school could be re-located within a reasonable distance of its current location and therefore should not solely be based upon domestic property values.
13. An appropriate, agreed proportion of the valuations should include an on-site inspection, as explained at Section 1.
14. The methodology should consider how evidence of actual construction cost experienced by DfE informs the potential MEA.
15. The methodology developed by the supplier should reflect the outcome of consultation with FRD and its third party professional advisors.
16. On receipt from FRD of each schedule of academy schools for which individual valuations are required (an Excel document), the valuer should provide within the relevant agreed timetable a summary schedule of valuations, indicating separately for each academy the Gross Replacement Cost, Depreciated Replacement Cost, and Land value. This should also include comments giving relevant observations in each case, including specific issues in applying or departures from the standard methodology, the source of data where this has been identified by the valuer's own research, and a brief justification for unusual results (outliers). The format of the summary schedule should be agreed with the Department by 31 August 2021.
17. Within the relevant agreed timetable the valuer should provide, for each academy, a working paper or calculation sheet in a standardised format designed by the valuer, providing an auditable trail from input data to the resulting valuation figures per the summary schedule. The format of these calculation sheets should be agreed with the Department by 31 August 2021.
18. Evidence of internal validation/ moderation of the valuation results should be provided. These should identify and justify outliers (departures from an expected range of output or intermediate calculated data), and include specific tests that are agreed with or prescribed by FRD.
19. The valuer should be prepared to provide responses to queries from FRD about individual valuations, including those concerning the explanation of outliers identified during

moderation of tranches by FRD, or to queries about the process followed, throughout the life of the contract, within 48 hours of the receipt of queries, or, where batches exceeding ten moderation related queries are received, within two weeks.

20. Where a response by the valuer to a query from FRD acknowledges that an error has occurred in the valuation, this will be corrected by the valuer within a further 48 hours at no further cost to FRD.
21. Following resolution of queries from FRD, including implementation of any agreed amendments, a final version of the summary schedule should be submitted by the valuer, with any revised calculation sheets. At this point individual signed valuation reports should be also provided in an agreed format, to be shared with the Academy Trusts. The valuer has however no duty of care to the individual Academy Trusts.
22. An overarching summary report on the performance and outcome of the valuation exercise, and specific issues encountered, should be submitted. The last of these should include the handling of significant national or regional changes in socio-economic conditions or other 'macro' level changes affecting the usage of, or cost of replacing, academy land and buildings.
23. During the completion of valuation tranches, the valuer should provide Management Information reports summarising completion on a weekly basis or more frequently, and in an agreed format. The valuer should also be available to attend brief weekly update meetings during this period.
24. The valuer should incorporate suitable and verifiable quality controls covering all stages of the valuation process including, but not limited to; version control of any calculation templates used in the valuations, review of the ongoing validity of any default assumptions or standing data (e.g. building cost rates, space requirements per pupil, agricultural land prices) employed in the valuations, and management review of the completed valuations.
25. The valuer is required to establish and agree a high-level exit plan within three months of the start of the contract. This will be monitored and updated throughout the life of the contract to ensure appropriate exit measures are undertaken at the end of the term.

### 3. Service Levels and Performance



#### 4. Security Requirements

## 4. Security Requirements

The framework short form security requirements will apply, enhanced as required to reflect relevant aspects of the DfE baseline security requirements to reflect the specifics of the preferred supplier's solution.

# 1.0 QUESTION 1

Outline the proposed delivery model to meet the specification set out.

Specific attention should be paid to:

- resourcing level;
- timing;
- engagement with external auditors;
- use of third party experts;
- quality control arrangements; and
- how subsequent improvements to process will be identified;
- ability to meet variable annual quantities of valuations requested; and
- recent experience of delivering similar engagements.

(2000 word limit, no more than 5 pages including images, charts and tables.)

# 2.0

## QUESTION 2

Provide a summary of the proposed methodology considering the key points noted in Annex A to this document.

Specific attention should be paid to:

- approach where only part of a site should be recognised;
- approach where a site is occupied on a mixed basis, such as freehold and long-leasehold at peppercorn rent;
- how the condition of the current building will be reflected in value;
- how DfE historic data on the cost to construct schools will be incorporated into the methodology; and
- approach to valuing land.

(3,000 word limit, no more than 7 pages including images, charts and tables)

# 3.0

## QUESTION 3

Outline you proposed approach to physical inspection with specific regard to:

- how physical inspections will be identified;
- how the results of physical inspections will be considered with respect to assumptions applied in desktop inspections;
- any proposed sampling approach to be adopted; and
- how economic benefit will be maximised by physical inspections.

(1000 word limit, no more than 3 pages including images, charts and tables)

# 4.0

## QUESTION 4

Outline your proposed approach to addressing valuations under IFRS 16 in the following circumstances:

- An educational site which is split between freehold and a 25 year lease at a commercial rent,
- An educational site occupied on a commercial basis for less than 10 years; and
- Assets held under a lease, with a large element sub-leased for the period (such as a nursery).

(1000 words limit, no more than 3 pages including images, charts and tables)



