



Valuation Report

IN RESPECT OF VALUATION OF LAND AND PROPERTY ASSETS FOR NEWARK AND SHERWOOD DISTRICT COUNCIL

2020/21 FINANCIAL PERIOD

Issued On: 17/05/2021

Valuation Date: 31/03/2021

Wilks Head & Eve LLP, Third Floor, 55 New Oxford Street, London,
WC1A 1BS

Gharbord@wilks-head.co.uk

WH&E WILKS
HEAD
& EVE
CHARTERED SURVEYORS
AND TOWN PLANNERS

TABLE OF CONTENTS

SECTION ONE - INTRODUCTION	1
EXECUTIVE SUMMARY	1
PROCESS	1
VALUATION STATEMENT	2
SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY	3
IDENTIFICATION AND STATUS OF THE VALUER	3
IDENTIFICATION OF THE CLIENT AND OTHER INTENDED USERS	3
PURPOSE OF THE VALUATION	4
IDENTIFICATION OF ASSETS TO BE VALUED	4
DATE OF VALUATION	4
EXTENT OF INVESTIGATION	5
SOURCES OF INFORMATION	5
IFRS 13 FAIR VALUE – INVESTMENT AND SURPLUS ASSETS	5
VALUATION BASIS	8
VALUATION APPROACH AND REASONING	9
DEPARTURES	13
IMPAIRMENT	13
COMPONENTISATION	15
ADDITIONAL COMMENTS	16
AUDIT SUPPORT	16
SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS	17
SPECIAL ASSUMPTIONS	17
ASSUMPTIONS	17
☐ <i>Planning Proposals</i>	17
☐ <i>Construction and State of Repair</i>	17
☐ <i>Hazardous or Deleterious Materials</i>	17
☐ <i>Contaminated Land</i>	17
☐ <i>Plant and Machinery</i>	18
☐ <i>Lotting</i>	18
☐ <i>Taxation</i>	18
☐ <i>Acquisition and Disposal Costs</i>	18
☐ <i>Energy Performance Certificates</i>	19
☐ <i>Deminimis Levels of Value</i>	20
AUDIT COMMENTARY	20
NON-PUBLICATION CLAUSE	20
VALUATION DEFINITIONS	20
<i>Definition of Fair Value (VPS 4 Section 7)</i>	22
<i>Definition of Market Value (VPS 4 Section 4)</i>	23
<i>Definition of Depreciated Replacement Cost – DRC method of valuation for financial reporting, 1st Edition.</i>	24
COMPANY INFORMATION	26

SECTION ONE - INTRODUCTION

EXECUTIVE SUMMARY

This report refers to the valuation of the properties identified by the Authority under the revaluation programme for the 2020/21 financial period.

The purpose of this Valuation Report is to provide valuations for financial reporting purposes.

We confirm that this work has been undertaken in an impartial and independent manner and the results have not been influenced by the Authority.

The Valuer has arrived at their opinion of Current Value and Fair Value from referring to recent comparable market transactions.

For Specialised properties, the Current Value has been derived using Depreciated Replacement Cost methodology.

We have advocated a clear and transparent valuation process to provide valuations as part of the adoption of IFRS compliant accounting process.

We have set out the detailed methodology adopted within this report to allow the client Authority, its lead officers, and the external auditors to follow the way in which we undertook the process.

This signed valuation report is the ultimate result of this instruction.

Valuation data has also been provided in a digital and summarised format. This data forms an integral part of this valuation process and separately identifies each asset valued.

All extract or summary data provided for management information should be read in conjunction with the assumptions contained in the CIPFA Code, the RICS Valuation Standards and our Valuation Report.

PROCESS

The Valuer and the Authority agreed a process timetable:

- Determination of valuation assumptions
- Data collection
- Inspection protocol
- Valuation and initial reporting date
- Consideration of process and final reporting process
- Contingency timetable for process slippage
- Audit Support methodology and timescales

SECTION ONE - INTRODUCTION

In this case, it was possible to work with lead officers within the Authority to achieve these process outputs.

Our draft valuation results were forwarded to the Authority in advance of the final report and this allowed a review process between the Authority and the Valuer to take place.

VALUATION STATEMENT

We are of the opinion that as at 31st March 2021, the Gross Valuations of the Councils interest in the properties identified for re-valuation (as per instructions), are as follows:

- £28,273,800
- (Twenty-eight million, two hundred and seventy-three thousand and eight hundred pounds)

It is important to note that the above values reflect the total gross values of the properties selected for revaluation by the Authority and may not represent the full values of the overall portfolio(s).

All prices or values are stated in pounds sterling.

As mentioned above the individual Gross, Residual and Depreciable values are included and provided electronically in excel format and should be read in conjunction with this report.

These individual sheets and summary also include our opinion of Weighted Average Remaining Useful Life.

We certify that this valuation report fulfils the requirements of the RICS and in terms of the application of IFRS Code for your revenue accounting purposes.



G S C Harbord MA MRICS IRRV (Hons), (Partner), an RICS Registered Valuer



reviewed by A M Williams Dip BSc (Hons) MRICS FIRRV REV RICS Registered Valuer

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

IDENTIFICATION AND STATUS OF THE VALUER

The valuations have been carried out by:

- G S C Harbord MA MRICS IRRV (Hons), RICS Registered Valuer, Partner

The report was subject to the internal audit by our in house RICS qualified Partner:

- A M Williams Dip BSc (Hons) MRICS FIRR REV.

We confirm that all surveyors involved in the instruction are RICS Registered Valuers have complied with the requirements of PS1 and PS2.

We also confirm that all surveyors are suitably qualified and experienced for the purposes of the instruction and have sufficient current local and national knowledge of the markets applicable to the assets valued within this report in addition to the necessary skills and understanding to undertake the valuations competently.

Wilks Head & Eve LLP have been carrying out Asset Valuations for financial reporting purposes since 2018 for Newark and Sherwood District Council and we can confirm that we are independent from the Authority and 'external Valuers' in this instance.

Wilks Head & Eve LLP work within the RICS Rules of Conduct as a regulated firm and members and have procedures in place for identifying conflicts of interest and can confirm there is no such conflict in this instance with either the properties valued, the client, or because of any wider relationship.

Wilks Head & Eve LLP operates a Valuer Rotation Policy in accordance with the RICS Valuation Global Standards. To confirm, we understand that the use of a consistent Valuer over a long period of time may lead to over familiarity which may lead to potential objectivity issues. We both rotate Valuers within in line with the Standards and have implemented internal valuation policies and practices to minimise and mitigate this point.

We can also confirm that in relation to Wilks Head & Eve LLP previous financial year the proportion of total fees paid by Newark and Sherwood District Council to the total fee income of Wilks Head & Eve LLP would be considered minimal (i.e. less than 5%).

IDENTIFICATION OF THE CLIENT AND OTHER INTENDED USERS

WH&E have been instructed by

Client: Newark and Sherwood District Council

Client Address: Council Offices, Castle House, Great North Road, Newark-on-Trent, Newark, NG24 1BY

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

Contact: Andrew Snape

No other parties other than the client may rely upon the valuation information provided.

PURPOSE OF THE VALUATION

Wilks Head & Eve LLP have completed valuations of assets selected for valuation by the Authority as per their relevant program.

These assets are located within the Authorities general fund portfolio and are listed in full within the separately appended 'reporting summary' document.

The valuations supplied have been prepared specifically to meet financial reporting requirements and should not be used in any other context.

Unless otherwise stated, the assumption has been made that the properties valued will continue to be in the occupation of the Authority for the foreseeable future having regard to the prospect and viability of the continuance of that occupation.

Where Existing Use Value may differ from Market Value a comment has been provided within the individual valuation.

IDENTIFICATION OF ASSETS TO BE VALUED

The Authority determined that certain assets required revaluation.

These included both freehold and leasehold assets under the following groupings:

- Assets which were due for revaluation under a determined revaluation cycle

If any value significant changes occur to assets held within the portfolio after this report is prepared, and a valuation is required, it may be that a separate valuation and report will need to be completed – usually in the form of a Material Change Report.

DATE OF VALUATION

Further to instructions from the client we have agreed to report the valuations at the following valuation date:

- 31st March 2021

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

EXTENT OF INVESTIGATION

Further to the instructions from the Authority we have inspected selected assets as part of this exercise.

The inspections were completed between the 25th and 26th February 2021.

Assets which require a valuation are inspected at intervals of no more than five years as outlined within section '4.1.2 Accounting requirements' of the CIPFA Code.

SOURCES OF INFORMATION

For the purposes of this report the Valuer has had to rely upon information regarding the properties provided to us by the Authority and the valuations are dependent on the accuracy of the information supplied and / or the assumptions made.

Information supplied by the Authority includes:

- List of assets requiring a valuation
- Site and Floor Plans
- Floor and Site areas
- Tenure Details
- Rental Schedule

In addition, the Valuer has completed additional research in relation to the portfolio from our own records in addition to other third-party resources including, Egi, Focus, Rightmove, regional market reports, local agents, and BCIS cost data.

If this information proves to be incorrect or inadequate, then they could affect the accuracy of the valuations. It is assumed that these floor areas meet the requirements of the RICS professional statement – RICS property measurement which incorporates IPMS.

The Valuer has not inspected all Title Deeds or any Planning Consents, Statutory Notices, licenses, or other documents relating to the properties (except where indicated). We cannot therefore comment upon the possible effect of any outstanding Statutory Notices, or any contravention of any statutory requirements, or the effects of the Defective Premises Act (1972).

IFRS 13 FAIR VALUE – INVESTMENT AND SURPLUS ASSETS

Authorities shall account for investment property in accordance with IAS 40 Investment Property and should be valued to 'Fair Value'.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

The objective of this measurement approach is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under the current market conditions.

In addition to arriving at the 'Fair Values' for the assets, IFRS 13 seeks to increase consistency and comparability within the valuation process which has been achieved through a 'Fair Value hierarchy'.

The hierarchy categorises the inputs used in to three levels and the Fair Value category is applied based on whether the Valuer has used more observable or unobservable inputs within the valuation.

To outline this hierarchy:

Level 1:

- The level 1 category is reserved for unadjusted quoted prices in active markets for identical assets.
- We are of the view that there are no assets within the portfolio which should be classed at Level 1 in the Fair Value hierarchy.

Level 2:

- Level 2 inputs are quoted prices other than quoted prices in Level 1 that are observable for the asset. Adjustments may be required based on perhaps location and condition.
- Significant Observable Inputs – Level 2:
 - Land and Retail assets have been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the locality.
 - Market conditions for these asset types are such that the levels of observable inputs are significant leading to the properties being categorised at Level 2 in the Fair Value hierarchy.

Level 3:

- Level 3 inputs comprise unobservable inputs for an asset used to measure Fair Value in circumstances where market data is not available as there is little, if any, market activity for the asset at the measurement date.
- Significant Unobservable Inputs – Level 3:
 - We are of the view that there are no assets within the portfolio which should be classed at Level 3 in the Fair Value hierarchy.

Typical valuation inputs which have been analysed in arriving at our Fair Valuations include:

- Market Rental and Sale Values

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

- Yields
- Void and Letting Periods
- Size
- Configuration, proportions and layout,
- Location, visibility and access
- Condition
- Lease covenants
- Obsolescence
- Construction

The aim is to arrive at the notional 'Highest and Best use value' for the asset either as a stand-alone asset or in combination with other assets within the principal market whilst ensuring that any alternative use is physically, legally, and financially possible.

This has been achieved, for these purposes, by comparing the 'current use' of the asset to the notional 'alternative use' based on potential redevelopment on a land value basis for the site.

The Fair Value of the asset, for the current use, has been determined by applying an income or comparative approach based on the rental value of the property.

In most cases the assets have been leased on the open market and there are comparables to draw upon in relation to rental values, yields and rental growth.

Although there is an element of Valuer subjectivity, we are of the view that the valuations comprise a higher proportion of observable inputs rather than unobservable inputs.

The Fair Value of asset, for the alternative use, has, in most cases, been derived using the sale comparison approach on a land / site basis. In some cases, we have explored other avenues in arriving at the Fair Value including conversion of the existing building.

Sale prices of comparable land in applicable uses and similar locations to the subject property are adjusted for differences in key attributes such as land size. End allowances have been included to reflect additional costs which may be appropriate such as demolition and planning.

No formal planning enquires have been made regarding alternative use and assumptions have been made further to discussions with the Authority.

This valuation model is based on a price per hectare and end allowances are based on percentages which have been arrived at via observable and unobservable comparable exercises completed within the locality.

It is important to note that to meet the objective of Fair Value measurement, IFRS 13 does not require that exhaustive efforts be undertaken to obtain information about market participant assumptions and expects that all information that is reasonably available to be considered. We have worked on this basis for this process.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

VALUATION BASIS

The Valuer has completed the valuation report in accordance with the following guidance relating to asset valuation for capital accounting purposes:

- Chartered Institute of Public Finance and Accounting Code of Practice on Local Authority Accounting in the United Kingdom ('The CIPFA Code') – 2020/21.
- International Financial Reporting Standards (IFRS).
- Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards (issued November 2019 and effective 31 January 2020) and the RICS Valuation – Global Standards 2017: UK National Supplement (issued November 2018 and effective from 14 January 2019)

In addition, the Valuer has prepared the valuations in accordance with the RICS Global Standards 2017: UK National Supplement – UK VPGA 4 Valuation of local authority assets for accounting purposes.

This UK Valuation Practice Guidance Application sets out the basis of value for all property assets in line with the CIPFA Code.

Apart from infrastructure, community assets and assets under construction, the Code sets out that the basis of value for all property, plant and equipment assets is to be current value.

There are four measurement approaches to calculating current value in the Code:

- **For operational property, plant and equipment:**
 - Existing Use Value (EUV) in accordance with the definitions in UK VPGA 6 and guidance in the Code
 - Existing Use Value – Social Housing (EUV-SH); in accordance with the definition in UK VPGA 7 and guidance in the Code
- **For specialised assets**
 - Depreciated Replacement Cost (DRC) in accordance with UK VPGA 1.5 (see also RICS UK guidance note Depreciated Replacement Cost method of valuation for financial reporting, 1st edition)
- **For surplus assets**
 - Fair Value as defined under IFRS 13 and as adopted by the Code.

Investment Property is to be valued at Fair Value.

Assets Held for Sale are to be valued at the lower of their carrying value and Fair Value as appropriate to the measurement requirements of the Code.

We have provided (where appropriate) Fair Value valuations for these assets and we understand that these will be cross referenced with carrying values held by the client.

Heritage assets are to be measured at valuation (or cost). These valuations may be made by any method that is appropriate and relevant.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

Infrastructure, community, and assets under construction are to be measured at historical cost.

For depreciation purposes assets are to be recognised on a component basis, where components have a significant cost in relation to the total cost of the asset.

In practice this can be achieved by separately accounting only for significant components that have materially different asset lives, or where different depreciation methods are used.

The Valuer's role is to provide assistance on the identification and classification of assets and, essentially, to provide the Current Value or Fair Value of those assets.

No allowance is made for any costs of sale or any liability for taxation, including VAT, which may arise on disposal.

VALUATION APPROACH AND REASONING

A) Property, Plant & Equipment (PPE) Assets

- Current Value – EUV
 - In respect of Operational, Non-Specialised Properties, classified as PPE assets, the Current Value has been interpreted as the amount that would be paid for the asset in its existing use. The Valuer has met this requirement by providing a valuation based on EUV in accordance with UK VPGA 6.
 - EUV is defined in the Red Book under UK VPGA 6 as:
 - 'The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.'
 - For these purposes EUV ignores any element of hope value for an alternative use or any value attributable to good will.
 - EUV assets have been valued, with reference to market-based evidence, via the comparative method of valuation via the Market (comparative method) or Income (profits method) approaches.
 - Further to our instructions for assets valued under a EUV approach; the gross value has been apportioned between land and building elements (residual and depreciable). Remaining useful life elements have also been provided for each asset. It is important to note that the apportionments are provided solely for accounting purposes and do not represent formal valuations of the separate elements. They should not be relied upon for any other purpose.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

- Where EUV may be materially different to MV a comment has been provided within the individual valuation sheet.
- Current Value – DRC
 - In respect of specialised properties, the Valuer has adopted the DRC method of valuation to assess Current Value in existing use.
 - The Valuer has provided these valuations in accordance with the Red Book under; UK VPGA 1. 5 in addition to Depreciated replacement cost method of valuation for financial reporting, 1st Edition (November 2018).
 - DRC is defined as:
 - ‘The current cost of replacing an asset with its modern equivalent less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.’
 - For each asset valued under the DRC approach the Gross Replacement Cost (GRC) of providing a new modern equivalent asset has been assessed.
 - This GRC has then been adjusted to reflect obsolescence to arrive at the Net Replacement Cost.
 - Unless specifically noted within the valuation it has been agreed with the client that the current floor areas of the assets valued are representative of the modern equivalent asset for these purposes.
 - Replacement costs have been arrived at with reference to the RICS BCIS Cost guides which are published by the RICS and have been adopted relevant to the valuation date.
 - An additional allowance has been reflected within the valuation for the Externals element which has been applied on a per property basis based on an analysis of construction projects within the RICS BCIS database.
 - Depreciation & Obsolescence
 - The Valuer has determined an appropriate scaling for depreciation which relates to the physical deterioration, function, and other economic factors for each asset valued.
 - The Valuer, with reference to the ‘Red Book’, IFRS and the CIPFA Code, has adopted a reducing balance approach in applying obsolescence to assets valued on a DRC basis assuming an initial asset life of 60 years.
 - Under this methodology, a form of straight-line depreciation occurs over the first 25 years of the asset life from construction date (with no deferral period).
 - This shift in application of obsolescence once the 25-year period is reached represents our professional judgement as to where physical depreciation rates of certain components are at their limit and therefore replaced, heating systems for example. This expected replacement or capital expenditure prolongs the physical depreciation of the assets within the portfolio.
 - However, these assets continue to become physically, functionally, and economically obsolete, so the calculation applied based on ‘age’ and ‘life’ ensures obsolescence still increases but at a slower rate past the soft threshold.
 - Therefore, after 25 years depreciation continues to be applied at a reducing rate.
 - The 25-year timeframe has been determined via a professional judgement informed by our componentisation research as is considered appropriate and reflective in this instance.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

- This approach represents our professional judgement as an appropriate measure of application for assets operated within a Public Sector portfolio wherein initial expected asset lives are often extended via capital expenditure.
 - This approach is also in line with the reducing balance guidance outlined within the Depreciated replacement cost method of valuation for financial reporting, 1st Edition (November 2018).
 - Discussions are held with the clients on quality and condition of assets which are cross referenced with our inspection findings (where appropriate).
 - In conjunction with the above it is important to note that each asset valued is assessed separately and a 'stand back and look' approach adopted.
 - In some cases, because of this review it has been agreed that a higher or lower percentage should be applied based on individual circumstances.
 - Examples of these variations would include assets where there are known structural defects or assets which have been subject to comprehensive refurbishment or assets which are technologically obsolete or have timeframes for demolition.
- Land Values
- The Valuer arrived at the land values with reference to Depreciated replacement cost method of valuation for financial reporting, 1st Edition (November 2018).
 - Specific reference has been made to: 'Section 7 – The site value of a specialised property' and this has been taken into consideration.
 - The land calculation has therefore been arrived at via two separate calculations, one for the developed land area and one for the un-developed land area (where appropriate).
 - In line with this guidance the Valuer has arrived at its estimate of the developed land area based on what it may cost to acquire each site in the market at the relevant valuation date.
 - This may be based on EUV, estimating the cost of purchasing a notional replacement site in the same locality on the basis that the site is suitable.
 - Where the site is determined to be too specialised in market terms the Valuer has referred to the potential range of uses which are appropriate for the locality of that site.
 - For these purposes it was agreed with the client that the modern equivalent assets would remain on the current site in relation to the developed areas.
 - This estimate varies dependent on the location of each asset and as outlined within the guidance there are practical difficulties in determining from what planning use it is appropriate to draw the sales comparison and it may mean that a potential service purchaser would need to compete with other potential alternative uses for the land.
 - The resulting conclusion is that the Valuer has established, in their professional view, what is the most appropriate amount that a prudent purchaser would pay to acquire a site for an equivalent development in a relevant location at the valuation date.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

- For un-developed land areas, predominately comprising Playing Fields or areas of amenity land, the Valuer has provided the value (where appropriate) based on their professional opinion of prevailing amenity land values for the location at the valuation date as outlined within the Depreciated replacement cost method of valuation for financial reporting, 1st Edition (November 2018).
- DRC Valuations are subject to the prospect and viability of the continued occupation and use.
- Due to the specialised nature of these properties the value estimated using the DRC method is not based on the evidence of sales of similar assets in the market.
- See paragraph below in the Departures section in relation to “Instant Build”.

B) Investment, surplus and assets held for sale.

• Fair Value

- In respect of Investment, surplus and assets held for sale the valuations have been reported using the IFRS 13 definition which is set out in the Red Book under VPS 4 Paragraph 7, Fair Value as:
 - ‘The Price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.’
- But while fair value for financial reporting, whether under IFRS or under UK GAAP, is defined using slightly different language from that in the IVS market value definition (see VPS 4 section 4), the underlying concept is essentially the same.
- In most cases the figure to be reported as the fair value of an asset is also that which would be reported as its market value.
- VPS 4 section 4 which defines Market Value as:
- ‘The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.’
- Where appropriate for assets valued to Fair Value (surplus assets) the gross value has been apportioned between land and building elements (residual and depreciable). Remaining useful life elements have also been provided for each asset. It is important to note that the apportionments are provided solely for accounting purposes and do not represent formal valuations of the separate elements. They should not be relied upon for any other purpose.

C) Social Housing

- Where housing held for social housing purposes are held within the general fund portfolio these have been valued to Current Value via the Existing Use Value for Social Housing (EUV-SH) basis as defined within UK VPGA 7.

Full valuation definitions are included within Section 3 of this report.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

DEPARTURES

In addition to the above commentary in relation to the DRC method of valuation it should be noted that that paragraph 4.1.2.7 of the Code sets out that Valuers should adopt the ‘instant build’ approach when producing DRC valuations and states that:

- ‘Where DRC is used as the valuation methodology, authorities should use the “instant build” approach at the valuation date.’

The ‘instant build’ approach means that finance costs are excluded from the valuation.

The Red Book does provide guidance on this issue within section 1.5 of DRC method of valuation for financial reporting, 1st Edition:

- ‘where DRC is used for valuations in the public sector, there may be specific requirements within the rules governing those valuations that amend specific parts of this guidance. Such specific requirements take precedence over this guidance note’.

This departure note would allow the Valuer to amend the defined DRC valuation method.

Further to the above and general auditor’s comments we have received we have provided these valuations on the instant build approach.

IMPAIRMENT

As a consequence of the valuation process, we are aware that our valuation opinion is providing a revaluation of existing properties already contained and included within your asset portfolio for capital accountancy purposes.

The valuation procedures place a requirement upon the independent external Valuer to comment upon any value significant effects which may have influenced values in the area since the last valuation process over and above the general movements in the marketplace.

In particular, an emphasis is placed to note any “Trigger” events which may have affected value in a drastic or unexpected way. These events may lead to a general “impairment” or indeed “betterment” in values for your portfolio, or specific elements therein.

The review process for the Valuer in these terms places a duty to review whether the proportion of the portfolio, not valued directly, has been affected by impairment and not addressed otherwise since our, or others, last valuation, or market review.

We carry out Market Reviews on 31st March in each year (closing book date), if required by the Authority, which covers this aspect and therefore these elements are not specifically covered within the report unless noted within the individual valuation.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

However, for this report it is worth noting that following the EU referendum held on 23 June 2016 concerning the UK's membership of the EU, a decision was taken to exit.

At the time of preparing this commentary, the UK has now officially left the EU and the transition period has come to an end as of 31st December 2020.

Whilst the deal provides a more certain position in relation to the UK's future relationship with the EU the full implications of the deal will take some time to realise.

We therefore remain in a period of uncertainty in relation to many factors that impact the construction markets and costs associated with this market.

There is some evidence that demand may increase during 2021 which may have a positive effect on prices however it is understood that this is likely to be found in the latter half of the calendar year (i.e. within the 2021/22 financial period).

In any event we are now in a period of uncertainty in relation to many factors that impact the property investment and letting markets.

In addition:

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11th of March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. Travel, movement, and operational restrictions have been implemented by many countries. In some cases, "lockdowns" have been applied to varying degrees and to reflect further "waves" of COVID-19; although these may imply a new stage of the crisis, they are not unprecedented in the same way as the initial impact.

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally.

Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value.

Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards, except as identified below.

In respect of Retail and specific trading related assets/sectors such as Car Parks, as at the valuation date we continue to be faced with an unprecedented set of circumstances caused by COVID-19 and an absence of relevant/sufficient market evidence on which to base our judgements.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

Our valuation of these assets are therefore reported as being subject to ‘material valuation uncertainty’ as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of these valuations less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.

For the avoidance of doubt this explanatory note, including the ‘material valuation uncertainty’ declaration, does not mean that the valuation(s) cannot be relied upon. Rather, this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared.

In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19 we highlight the importance of the valuation date. Given the unknown future impact of the areas covered within this section we would, therefore, recommend that the valuation is kept under regular review and that specific market advice is obtained should you wish to affect a disposal.

COMPONENTISATION

The Valuer has provided componentised valuations within the report.

The CIPFA Code provides a useful description to the concept of component accounting:

IAS16 says “each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately”.

The application of accounting for components applied from 1st April 2010.

The Valuer has analysed as much comparable build cost data applicable to the portfolio as possible.

The approach assumed that the costs for a particular build type when analysed would allow the Valuer to identify suitable major components present in assets represented within the Local Authority portfolio.

At the outset, the Valuer has sought to determine the components, the percentage attributable to that component of overall building cost, and the relative lifespan of that component over which to depreciate for each class of property type valued in the portfolio.

The resulting information, presented as a representative “Beacon”, has then been applied to all similar properties within the portfolio and a suitable analysis carried out to determine a policy for what constitutes a “major component” and to inform the level of materiality at a component level.

As a result of the investigations, it was not always possible to use actual build cost data from the specific Local Authority portfolio. The Valuer has been able to gather relevant data from WHE’s existing client portfolio, which includes other Local Authorities, but took the view that it was more reliable to

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

use information from the Building Cost Information Service of RICS (BCIS) which has provided specific build cost data already analysed on a common approach for comparable property types within England and Wales.

As a result of the analysis the Valuer has been able to apply several componentisation property descriptions to the portfolio. For each of these property descriptions, a beacon property summary has been produced.

The analysis of data has resulted in new build property evidence to represent components by percentage of the overall assets and full life estimates for those components where appropriate.

The full life estimates for these key components have been determined from the information provided by market manufacturers, client data supplied for this purpose and from our research in the BCIS costing indices.

This approach is in line with the outline approaches within the IFRS, CIPFA and RICS guidance.

ADDITIONAL COMMENTS

It may be that further report(s) and valuations are necessary to reflect any in year changes to assets within the portfolio not valued and covered by this report to ensure that carrying figures are appropriate for the final day of the accounting period, 31st March 2021.

These circumstances may include material changes and new acquisitions and if required would be reported separately to this report.

AUDIT SUPPORT

We expect that as part of the valuation process, we will be required to provide certain additional explanation and assistance to the Authority where the process will be subject to audit.

SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS

SPECIAL ASSUMPTIONS

We are not aware of any special assumptions.

ASSUMPTIONS

- **Planning Proposals**

We have not made formal written enquiries of the Local Authority Planning Departments to ascertain if there are any adverse proposals likely to affect specific properties. We are instructed, however, that for the purposes of this Valuation Certificate, we should assume that there are no planning proposals that are likely to have an effect on the value of the properties unless these were specifically notified to us.

- **Construction and State of Repair**

Structural / Condition surveys have not been undertaken of the properties nor have the service installations been tested.

We have not carried out a structural survey nor have we inspected those parts of the properties that are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts.

No allowances have been made for rights, obligations or liabilities arising from the Defective Premises Act 1972.

Unless we are aware that a specific property has a limited economic life, we have assumed that the assets are at a suitable level of condition for service provision, and that all internal and external repairs and maintenance have been carried out. We have assumed that these repairs do not constitute improvement to the properties and do not have a material effect on asset value.

- **Hazardous or Deleterious Materials**

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of these properties or has since been incorporated and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this report, we have assumed that such investigation would not disclose the presence of any such material in any adverse condition.

- **Contaminated Land**

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the property and which may draw attention to any contamination or possibility of any such contamination. In undertaking

SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS

our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out on the property. We have not carried out any investigation into past or present uses either of the properties or of any neighbouring land to establish whether there is any potential for contamination from these sites to the subject property and have therefore assumed that none exists.

Should it however be established subsequently that contamination exists at any of the properties or any neighbouring land or that the properties have been or are being put to a contaminative use this might reduce the values now reported.

- **Plant and Machinery**

Any plant and machinery that has been considered to form part of the property or service installations is included in the valuation. Where there is doubt as to the correct classification, assets installed primarily to provide services to the properties have been valued with the land and buildings and assets primarily serving the commercial or industrial process have been excluded. Any departure from this is stated on the relevant Valuation Statement.

- **Lotting**

Where applicable, properties have been lotted. No allowance or discount has been made for any flooding of the market which might, in practice, happen if several properties were offered for sale simultaneously. The figure reported is the aggregate of the values on separate properties.

- **Taxation**

No allowance has been made for liability for taxation which may arise on disposal, whether actual or notional. Where possible VAT and Capital Gains Tax are specifically excluded, and our valuation does not reflect costs of realisation unless specifically requested by the client. No additions have been made for Stamp Duty Land Tax (SDLT).

- **Acquisition and Disposal Costs**

No notional directly attributable acquisition costs or selling costs have been applied to or deducted from the Current Value and Fair Value figures provided within this report.

For indicative purposes only, the Valuer would expect purchaser's cost to be in the region of 0.5% and 5.0% (plus or minus) dependent on the overall value of the asset and property type on an acquisition or disposal, respectively.

The Valuer has made no allowance for any vendor's costs or taxation (actual or notional) nor has any allowances been made for any capital or annual grants or incentives to which a purchaser may be entitled.

The Valuer has not been asked by the client to specifically reflect these costs separately. Guidance on this matter is provided within UKVS 1 Paragraph 1.7 - Costs to be excluded of the Red Book:

SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS

- The valuer must not include directly attributable acquisition or disposal costs in the valuation. When asked by the client to reflect costs, these must be stated separately.
 - In determining the figure to enter into the balance sheet (the 'carrying amount'), FRS 15 requires the addition of notional, directly attributable acquisition costs, where material, to the EUV. Likewise, where property is surplus to the entity's requirements and valued on the basis of market value, there should be a deduction for expected, directly attributable selling costs, where material. If requested to advise on these costs, the Valuer should report them separately and not amalgamate them with either the EUV or market value. The valuation should reflect the Valuer's opinion of the consideration that would appear in the hypothetical sale and purchase contract.
 - FRS 15 states that directly attributable costs can include stamp duty, import duties and non-refundable purchase taxes, as well as professional fees, the Valuer is alerted to a potential problem with a property that would, or would potentially, be subject to VAT in any transaction but the entity may not be able to reclaim the VAT. The decision whether or not to treat this as a directly attributable acquisition cost should be determined by the entity, together with its auditors. Even if this is the case the Valuer should state clearly in the report what assumptions have been made and the likely impact of VAT in any transaction.
 - In the case of surplus properties, directly attributable selling costs that are material may need to be itemised separately. If this is the case, they will include not only the transaction costs but also any marketing costs that can be reasonable anticipated.
- **Energy Performance Certificates**

In England and Wales, the Energy Performance of Buildings Directive requiring Energy Performance Certificates (EPC) is relevant.

This directive requires all properties to have an Energy Performance Certificate (EPC) covering the residential and commercial sectors. The Certificate is valid for ten years and includes an Energy Efficient Rating of between A and G.

Since 26th March 2015, the minimum energy efficiency standard (MEES) has been introduced.

This minimum standard applies to both domestic and non-domestic property and from 1st April 2018 Landlords have been unable to let an F or G rated commercial property on a new or renewed tenancy / lease.

From 1st April 2020, the regulations apply to all property leases, initially for domestic properties, and then in 2023 non-domestic properties too.

Exceptions include leases of less than six months and leases of longer than 99 years as well as listed buildings.

For these purposes we have assumed that all properties valued within the portfolio meet the E or higher required rating for letting purposes.

SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS

- **Deminimis Levels of Value**

Only those properties the value of which is considered likely to exceed the “deminimis” level of value determined by The Authority are included separately in this valuation. In all cases, we have included the valuation within the main body of the report as well as summarising them in letter format even if the Authority chooses not to include these within their financial statements.

AUDIT COMMENTARY

Our valuation methodology and assumptions evolved from ongoing instructions since 1992 when the current accounting requirements were introduced.

Our working processes are audited through our external consultants Certification International UK Ltd on an annual basis to achieve our ISO 9001:2008 accreditation.

The valuation report and results are reviewed by the client accountant and estates teams before we issue the final version of the report.

NON-PUBLICATION CLAUSE

Neither the whole nor any part of this report nor any reference thereto may be included in any published document, circular or statement nor published in any way without the previous written approval of Wilks Head and Eve as to the form and context in which it may appear.

Our letter of consent will be given when a final proof of the document is available, and the consent will refer to a specimen annexed and signed as identification of what has been approved.

As such publication of, or reference to, this report will not be permitted unless it contains a sufficient contemporaneous reference to any departure from the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards.

This report is provided for the stated purpose and for the sole use of the named client and their professional advisors and the Valuer accept no responsibility whatsoever to any other person.

VALUATION DEFINITIONS

Full definitions are outlined below:

Definition of Existing Use Value (EUV) – UK VPGA6 Local authority and central government accounting: existing use value (EUV) basis of value

SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS

Valuations based on EUV should adopt the following definition:

‘The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.’

1. Existing use value (EUV) is to be used only for valuing property that is owner-occupied by an entity for inclusion in financial statements. The definition of EUV is taken from the wording of the market value definition with one additional assumption and a further requirement to disregard certain matters. In practical terms, the definition of existing use value can be seen generally to accord with the conceptual framework of VPS 4, but with the following supplementary commentary:

2. **‘...the buyer is granted vacant possession ...’**

The assumption that vacant possession would be provided on acquisition of all parts of the property occupied by the business or ‘reporting entity’ does not imply that the property would be empty, but simply that physical and legal possession would pass on completion. Any parts of the property occupied by third parties should be valued subject to those occupations. Properties occupied by employees, ex-employees, or their dependants should be valued with regard to the circumstances of their occupation, including any statutory protection. This assumption also means that it is not appropriate to reflect any possible increase in value due to special investment or financial transactions (such as sale and leaseback), which would leave the owner with a different interest from the one that is to be valued. In particular the covenant of the owner-occupier must be ignored.

3. **‘...of all parts of the property required by the business ...’**

If parts of the property are unused and are surplus to the operational requirements of the business, their treatment will depend on whether they can be sold or leased separately at the valuation date. If they can be occupied separately, they should be allocated to a separate category as surplus property and valued on the basis of market value. If separate occupation is not possible, any surplus parts would have no more than a nominal EUV, as they would contribute nothing to the service potential of the property and would not feature in a replacement at least cost.

4. **‘...disregarding potential alternative uses ...’**

‘Existing use’, in the context of EUV, means that the valuer should disregard uses that would drive the value above that needed to replace the service potential of the property. An entity seeking to replace this potential at least cost will not buy a property if its value has been inflated by bids from other potential occupiers for whom the property has greater value because of alternative uses or development potential that are irrelevant to its own requirements.

The valuer should therefore ignore any element of ‘hope value’ for alternative uses that could prove more valuable. However, it would be appropriate to take into account any value attributable to the possibility of extensions or further buildings on undeveloped land, or redevelopment or

SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS

refurbishment of existing buildings, providing that these would be required and occupied by the entity, and that such construction could be undertaken legally and without major interruption to the current operation.

5. ‘...disregarding ... any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.’

There are circumstances where it may be appropriate for the valuer to ignore factors that would adversely affect the market value, but would not be characteristic of a replacement. Examples include:

- where an occupier is operating with a personal planning consent that could restrict the market in the event of the owner vacating
 - where the occupier holds the property under a lease and there are lease covenants that impose constraints on assignment or alternative uses
 - where a property is known to be contaminated, but the continued occupation for the existing use is not inhibited or adversely affected, provided there is no current duty to remedy such contamination during the continued occupation
 - where an industrial complex is overdeveloped, and the extra buildings have either limited the market value or detracted from it, but would need to be replaced to fulfil the service potential to the business
 - where the existing buildings are old and so have a limited market value, but would have a higher replacement cost to the business
 - where the property is in an unusual location, or is oversized for its location, with the result that it would have a low market value, but where the cost of replacing the service potential would be significantly greater and
 - where the market is composed solely of buy-to-let investors, but the valuer believes that the replacement cost (the price agreed between a willing vendor and willing owner-occupier purchaser) would be higher.
6. Any value attributable to goodwill should normally be ignored.
7. The fact that a large property may be in single occupation does not necessarily mean that it has to be valued on the assumption that only bids from other potential occupiers for the whole can be taken into account. If the property is one where a higher value would be generated by the potential to divide it into smaller units for the existing use, this should be reflected in the valuation.
8. Many market valuations are based on the existing planning use of the property, which often, but not invariably, generates the highest value. Such valuations have sometimes been described as ‘existing use valuations’. However, this is incorrect and they should properly be expressed as market values.
- It is emphasised that EUV is only to be used when valuing property that is occupied by the owners of the interest being valued for the purpose of their business, for inclusion in financial statements.

Definition of Fair Value (VPS 4 Section 7)

SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS

7.1 Fair value (the definition adopted by the International Accounting Standards Board (IASB) in IFRS 13) is:

- ‘The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.’

7.2 The guidance in IFRS 13 includes an overview of the fair value measurement approach.

7.3 The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. It is thus sometimes described as a ‘mark to market’ approach. Indeed the references in IFRS 13 to market participants and a sale make it clear that for most practical purposes the concept of fair value is consistent with that of market value, and so there would ordinarily be no difference between them in terms of the valuation figure reported.

7.4 A fair value measurement requires an entity to determine all of the following:

- the particular asset or liability that is the subject of the measurement (consistently with its unit of account)
- for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use)
- the principal (or most advantageous) market for the asset or liability
- the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.

7.5 Valuers undertaking valuations for inclusion in financial statements should familiarise themselves with the relevant requirements – see also VPGA 1.

Definition of Market Value (VPS 4 Section 4)

Market value is defined in IVS 104 paragraph 30.1 as:

- ‘the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.’

4.1 Market value is a basis of value that is internationally recognised and has a long-established definition. It describes an exchange between parties that are unconnected and are operating freely in the marketplace and represents the figure that would appear in a hypothetical contract of sale, or equivalent legal document, at the valuation date, reflecting all those factors that would be taken into account in framing their bids by market participants at large and reflecting the highest and best use of the asset. The highest and best use of an asset is the use of an asset that maximises its productivity

SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS

and that is possible, legally permissible and financially feasible – fuller treatment of this particular premise of value can be found at section 140 of IVS 104.

4.2 It ignores any price distortions caused by special value (an amount that reflects particular attributes of an asset that are only of value to a special purchaser) or marriage value. It represents the price that would most likely be achievable for an asset across a wide range of circumstances. Market rent (see below) applies similar criteria for estimating a recurring payment rather than a capital sum.

4.3 In applying market value, regard must also be had to the requirement that the valuation amount reflects the actual market state and circumstances as of the effective valuation date. The full conceptual framework for market value can be found at paragraph 30.2 of IVS 104.

4.4 Notwithstanding the disregard of special value, where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the asset in the future, the impact of that expectation is reflected in market value. Examples of where the expectation of additional value being created or obtained in the future may have an impact on the market value include:

- the prospect of development where there is no current permission for that development and
- the prospect of marriage value arising from merger with another property or asset, or interests within the same property or asset, at a future date

4.5 The impact on value arising by use of an assumption or special assumption should not be confused with the additional value that might be attributed to an asset by a special purchaser.

4.6 In some jurisdictions a basis of value described as ‘highest and best use’ is adopted and this may either be defined by statute or established by common practice in individual countries or states.

Definition of Depreciated Replacement Cost – DRC method of valuation for financial reporting, 1st Edition.

2.3 The DRC method is a form of cost approach that is defined in the RICS Valuation – Global Standards 2017 (RB Global) Glossary as:

‘The current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.’

2.4 The DRC method is based on the economic theory of substitution. Like the other forms of valuation (market approach, income approach) this cost approach involves comparing the asset being valued with another.

However, DRC is normally used in situations where there is no directly comparable alternative. The comparison therefore has to be made with a hypothetical substitute, also described as the modern equivalent asset (MEA). The underlying theory is that the potential buyer in the exchange would not pay any more to acquire the asset being valued than the cost of acquiring an equivalent new one. The

SECTION THREE – VALUATION ASSUMPTIONS AND DEFINITIONS

technique involves assessing all the costs of providing a modern equivalent asset using pricing at the valuation date.

2.5 In order to assess the price that the potential buyer would bid for the actual asset, valuation depreciation adjustments have to be made to the gross replacement cost of the MEA to reflect the differences between it and the modern equivalent. These differences can reflect obsolescence factors such as the physical condition, the remaining economic life, the comparative running costs and the comparative efficiency and functionality of the actual asset. Land required for the MEA will be separately assessed as described in section 7.

2.6 DRC method of valuation for financial reporting, 1st Edition discusses factors that may need to be taken into account in assessing both the cost of a modern equivalent asset and the valuation depreciation adjustments applied to the actual asset.

COMPANY INFORMATION

Company Information

Wilks Head & Eve LLP
3rd Floor
55 New Oxford Street
London, WC1A 1BS

Tel 020 7637 8471

Email Gharbord@wilks-head.co.uk

www.wilks-head.co.uk

