Valuation Report

IN RESPECT OF VALUATION OF PROPERTY ASSETS WITHIN THE HOUSING REVENUE ACCCOUNT

NEWARK AND SHERWOOD DISTRICT COUNCIL

2020/21 FINANCIAL PERIOD

Issued On: 01/06/2021

Valuation Date: 31/03/2021

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WILKS HEAD & EVE

CHARTERED SURVEYORS AND TOWN PLANNERS

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SECTION ONE - INTRODUCTION

EXECUTIVE SUMMARY

This report refers to Housing Revenue Account (HRA) portfolio valuations carried out for the Authority for accounting purposes 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 valuation of property assets held in the HRA is required by the Local Government and Housing Act 1989 Section 74.

Relevant guidance for valuation of Local Authority Housing Stock is confirmed in a publication issued by the DCLG entitled **'Stock Valuation for Resource Accounting Guidance for 2016**'.

Therefore, we have re-valued the stock portfolio by adopting this methodology, notably to include the current Vacant Possession Adjustment Factor.

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 DCLG guidance, 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

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:

Beacon Sample - Vacant Possession
- £1,815,000
- (One million, eight hundred and fifteen thousand pounds)

Beacon Sample - EUV-SH
- £762,300
- (Seven hundred and sixty-two thousand and three 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).

We understand that the Council has used our valuation figures to extrapolate over the full portfolio and the resulting EUV value as at 31st March 2021 is:

- £693,076,201.67
- (Six hundred and ninety-three million, seventy-six thousand, two hundred and one pounds and sixty-seven pence)

In addition, we understand that the EUV-SH value for the portfolio as at 31st March 2021 is:

- £291,092,004.70
- (Two hundred and ninety-one million, ninety-two thousand, four pounds and seventy pence)

All prices or values are stated in pounds sterling.

SECTION ONE - INTRODUCTION

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 FIRRV REV.

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

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 N Rd, 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 housing revenue account portfolio and are listed in full within the separately appended excel document(s).

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.

DATE OF VALUATION

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

- 31st March 2021

EXTENT OF INVESTIGATION

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

The inspections were completed on 1st April 2021.

The Council's Housing Department agreed the nominated beacon properties.

Letters were sent out to the nominated beacon tenants asking that our Valuer be allowed to inspect the beacon property on a date and time of day during our inspection period.

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.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

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.

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).

VALUATION BACKGROUND

Local Authorities are under a statutory duty to account separately for their housing stock and this information is of value not only to Local Authorities but also to a wide range of potential readers of the accounts, both inside and outside central government. The fact that stock valuations appear in the housing revenue accounts ensures that authorities decisions on resource allocation make resource cost apparent. It is essential that all valuations carried out for the purpose of resource accounting are on a consistent basis.

Following the adoption of IFRS 13 by the UK public sector, from 1st April 2015, the basis of valuation for accounting purposes will be Current Value (CV) measured by the adoption of the special assumption of EUV-SH.

The valuations will be subject to annual reviews and full revaluations. Revaluations may be carried out on a rolling programme, covering different parts of the stock each year, or every five years for the whole stock.

The aim of resource accounts in the housing revenue account is to put local authority housing on a business-like footing and to ensure that accounts give a “true and fair view of” the financial position and transactions of the authority. To this end the Valuer has had regard to:

- IFRS (incorporating IFRS 13)
- The CIPFA Code
- The Red Book.

SECTION TWO – PURPOSE OF VALUATION AND METHODOLOGY

A number of departures from these standards have been adopted to ensure the objectives are met and details of these variations as they affect the valuation of the property are referred to where appropriate.

Valuations have been carried out in accordance with the Red Book except where they are varied by this guidance to reflect the current policy requirements DCLG.

The beacon method is relatively easily implemented being based upon the market valuation of residential dwellings.

The beacon method is used for no other purpose except the special circumstances of the housing revenue account valuation but is an efficient method of arriving at a representative valuation which enables values to be attributed to large numbers of dwellings comprising a local authority's housing.

PROPERTY CLASSIFICATION

Asset valuations are required for all properties held in the HRA. Section 74 of the Local Government and Housing Act 1989 requires that expenditure and income relating to property specified in that section should be accounted for in the HRA. Guidance on the types of property specified is given in DoE circular 8/95. If we considered that a property is being wrongly held in the housing revenue account, the matter has been raised with the chief finance officer.

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)
- Department for Communities and Local Government (DCLG) - Stock Valuation for Resource Accounting – Guidance for Valuers – 2016. This sets out the terms of reference and basis of valuation for valuations of this type.

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.

Property, plant and equipment, which would be expected to include most residential housing stock assets, is measured at Current Value using the EUV-SH assumption, as defined in UK VPGA 7 and guidance in the Code and DCLG guidance.

The valuation basis for non-housing property which is considered to be used or consumed for the delivery of the housing function, e.g. estate shops, is Current Value for the asset in Existing Use – this requirement is met by providing a valuation on the basis of Existing Use Value (EUV) in accordance with UK VPGA 6 and guidance in the Code and DCLG guidance.

These valuation bases represent the service potential of the assets to an Authority and in the case of EUV-SH the delivery of the social housing provider's objectives.

Full definitions of EUV, EUV-SH, DRC, FV and CV are defined by the RICS in 'The Standards'.

Except in the case of properties held for sale, no allowance is made for any costs of sale or any liability for taxation, including VAT, which may arise on disposal.

VACANT POSSESSION ADJUSTMENT FACTOR

EUV-SH reflects a valuation for a property if it were sold; with sitting tenants enjoying occupation at less than open market rentals and Retail Price Index linked increases; where the tenants have additional rights including the Right to Buy, and where the landlord has additional liabilities including insurance, repair, maintenance, and statutory obligations. Therefore, it is necessary to adjust the Beacon Value to reach EUV-SH.

The Adjustment Factor measures the difference between private open market rented and socially rented property at a regional level. It is this discount which, when applied to the cumulative total of all beacon values, gives rise to the EUV-SH.

Although a preferred adjustment factor could be derived from a ratio of local authority rents to private sector rents, we have referred to those suggested in the DCLG guidance.

Adjustment Factors for England

Region	**Adjustments Factors 2010**	**Adjustment Factors 2016**
North East	37%	44%
North Wales and Merseyside	35%	40%
Yorkshire and the Humber	31%	41%
East Midlands	34%	42%
West Midlands	34%	40%
Eastern	39%	38%
London	25%	25%

South East	32%	33%
South West	31%	35%

Illustration
The adjustment factor is applied to the total vacant possession valuation based on the beacon valuation. For example, if the vacant possession value of an estate in the West Midlands based on the beacon valuations is £500,000,000, the Existing Use Value – Social Housing is £200,000,000 (i.e. £500,000,000 x 40% = £200,000,000).

SHARED OWNERSHIP

Where the Authority own a share of the interest in the property, the value of the equity share must be accounted for in the portfolio valuation. The approach is to value the property based on the beacon value assumptions and calculate the appropriate equity share.

This share should then be adjusted to reflect the occupation at less than market rents by adopting the regional adjustment factor.

SECTION THREE – PROCESS AND METHODOLOGY

VALUATION CRITERIA

There is no prescriptive approach that authorities must adopt to ensure current values are used in the balance sheet. In this case the following approach has been adopted:

- A full revaluation of 20% of the stock every with a desktop review of the remainder, informed by the results of the revaluation.

The review part of this process has:

a) Updated the stock numbers to allow for disposals, acquisitions, and newly constructed dwellings.
b) Accounted for material movements in value at the asset group level, including impairment.
c) Captured major changes in value of significant asset groups resulting from major refurbishment schemes.
d) Included properties which were originally classed as in the course of development, but which were completed by the valuation date.

ANNUAL BEACON METHODOLOGY

To value the portfolio, it has been necessary to research several information sources. These include:

- Sales of directly comparable property which have taken place during the financial year leading up to the valuation date.
- Any changes of income flow for non-residential HRA property, valued by way of investment appraisal methods.
- Information available at a local level showing house price movement, such as Lands Registry, Leading Mortgage Lenders, and other records of sales in the locality.
- Regional and National Indices which show general trends that could be used as a basis for the change in value of the portfolio.

Our valuation has taken place at the asset group and archetype level. Each beacon has been re-inspected and reviewed in the light of the valuation evidence that has become available, together with the investment and refurbishment information where this has been made available.

We have considered impairment at this level and in particular “Trigger Events” which may have happened during the year. Wherever possible we have included these factors, if appropriate, in our explanatory notes on impairment.

VALUATION APPROACH

WH&E have adopted the Beacon approach when valuing the housing stock.

SECTION THREE – PROCESS AND METHODOLOGY

The Authority has considered the selection of distinct Asset Groups within the housing area. These Asset Groups are chosen to reflect the areas in which individual value markets operate. The Authority considers that it is appropriate to consider a series of distinct Asset Groups for valuation purposes. We have verified that this approach is realistic, and no further changes have been necessary.

The beacon adopted for each of the property types has assumed vacant possession. In addition, we have been able to rely on information provided as to the property assets in each group and the variations in terms of accommodation, improvements, and modernisation in each case.

ASSET GROUP AND ARCHETYPE DETERMINATION

Even though this document only comprises a revaluation of the portfolio, a simple reference to the valuation methodology required by the DCLG guidelines may be helpful here. It is important that the results of this report are set in the context of these valuation principles.

The approach considers whether the whole portfolio of residential housing stock within the Council's ownership, should be dealt with as a single or multiple Asset Groupings.

In this case, the Housing Department have been very thorough and methodical and have concluded that multiple "Asset Groups" are necessary. This is logical and reflects the local characteristics, on both a geographical and valuation level.

We have also considered if the existing asset groups and archetypes still apply. Wherever appropriate we will have raised this fundamental change with your Authority at officer level prior to reporting and will have revalued on the agreed and revised basis.

The valuation methodology then requires the Valuer to consider each different type of property within this "Asset Group". Similar properties are subdivided from the "Asset Group" to form "Archetypes". In some cases, the subdivision may be to a very specific level. In this case the divisions are based on the way the Authority defines its portfolio for operational and allocation purposes.

For each of the archetype groups, we have valued a "beacon" property as a representative example of that property type and used this as the sample with which to value the Archetype group, with additions or subtractions for each individual property, depending on the information available to us.

VALUATION COMMENTARY

Our valuation has accorded with the relevant guidance notes in all respects; however, we believe that a few specific value sensitive issues ought to be brought to your attention as notes within this report.

We briefly summarise these areas below:

- It has been made aware to us that in other Housing Revenue Accounts, certain stock, particularly in multi-story accommodation or where common access ways or facilities bound or form part of the structure of assets held by the HRA that where inadvertent, or indeed notified, breaches of covenants, or variation in use or changes to originally specified finishes, fittings or other equipment broke particular fire, health and safety or other statutory regulations, that this may well have an extremely significant effect on value and indeed on a practical level continued habitation of residential accommodation in the short and longer terms.

- In this case, as independent external Valuers, we have not been notified of any such breach, and our inspections did not constitute a survey for such breaches. The information on housing stock within the Housing Revenue Account contained certain designations as to property type. As independent external values we have applied our beacon valuation approach to those categorisations and have not sought to extend or sub-divide these property types into further categories in any way.

- This includes external cladding and other similar fittings – we have not been notified of any such issues affecting the portfolio and therefore have worked on the assumption that none are present. The presence of these factors may have a significant effect on value.

- You will be aware that the “Vacant Possession Adjustment Factor” may not have been applied to the whole of your asset stock. Often the residents of sheltered accommodation do not enjoy the same level of tenure, renewal rights or, indeed have “Right to Buy” qualification.

These issues have been agreed with the Authority and our valuation report reflects these assumptions.

IMPAIRMENT

Impairment occurs because something has happened to the fixed assets themselves or to the economic environment in which the fixed assets are operated.

This may include:-

(a) a significant decline in the demand for social housing;
(b) evidence of obsolescence or physical damage to the asset;
(c) an adverse change in the statutory or regulatory environment in which the Authority operates;
(d) a commitment to significant housing re-organisation by the Authority;

MARKET UNCERTAINTY

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.

SECTION THREE – PROCESS AND METHODOLOGY

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.

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.

SECTION THREE – PROCESS AND METHODOLOGY

COMPONENTISATION

The fundamental objective of depreciation is to reflect, in the revenue account, the cost of using the asset i.e. in this case, the amount consumed in providing the service of social housing. This cost of use includes the wearing out, using up or other reduction in the economic life of a tangible fixed asset. This may arise through use, the passage of time or obsolescence or through changes in technology or demand for the goods and services produced by the asset.

In accordance with the Code of Practice on Local Authority Accounting, depreciation should be provided for on all fixed assets with a finite useful life. Subsequent expenditure that maintains or enhances the previously assessed standard of performance of an asset does not negate the need for depreciation. Enhancements will also depreciate and their consumption over time should be reflected in the revenue account.

Since the adoption of IFRS in 2010 it is clear that component accounting should be applied, and this approach should apply to accounting within the Housing Revenue Account as far as possible.

IAS 16 paragraphs 43-47 require that each part of an item of PP&E with a cost that is significant in relation to the total cost of the item, and with a significantly different useful economic life, should be depreciated separately, but those with the same useful lives and depreciation methods may be grouped for depreciation purposes.

In deciding the degree to which a structure should be broken down into its component parts for depreciation purposes, the matter of materiality, i.e. the extent to which the additional componentisation will impact on the actual depreciation charge, needs to be considered. If the impact is minimal then the extra work involved in breaking down the structure into 10 or 20 component parts is unlikely to be justified. The Department's view, in discussion with CIPFA, is that it should be possible for a fairly pragmatic approach to be taken. CIPFA have issued LAAP Bulletin 86 Componentisation of Property, Plant and Equipment, June 2010 with a further update in February 2015.

The Department for Communities and Local Government does not envisage that this need be an onerous task and expects that for non-specialised buildings minimal componentisation should be required. However, it is for the individual local authority to decide what its material components are. Traditionally (i.e. pre-International Financial Reporting Standards UKGAAP) the minimum requirement has been for the building itself.

In this case, and further to discussions with the Authority, we have not provided any componentisation information for the authority as part of this exercise.

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 FOUR – VALUATION ASSUMPTIONS

SPECIAL ASSUMPTIONS

We are not aware of any special assumptions.

VALUATION ASSUMPTIONS

The accuracy of the beacon valuation together with the choice of beacon is a major factor governing the quality of the overall housing stock asset valuation.

The beacon valuations assume that the property is vacant and that the current future use is for residential accommodation, with no potential residential redevelopment of the site, or intensification of use as a result of possible sub-division or extension of the property. No account is taken of any other alternative development potential that may include demolition and merging of sites.

These assumptions have been adopted to ensure that all the beacon valuations are prepared on a consistent basis. The beacon valuations are, in the majority of cases, applied to council housing stock which for the foreseeable future will remain as council housing with no requirement for demolition and redevelopment. To include elements of 'Hope Value' attributable to the possibility of redevelopment of the existing buildings within the existing planning use would include elements of value inappropriate to the groups of property valued by the beacon.

Situations where it is inappropriate to make the assumption that the property will remain tenanted for the foreseeable future are dealt with separately. These situations may arise in areas of low demand and unpopular housing.

The assumptions to make in preparing the beacon valuation are set out below. EUV as defined in the Red Book at UK VPGA 6 provides the basic assumptions for the beacon valuation but with additional assumptions to meet the needs of a local authority housing stock asset valuation.

EUV-SH is the estimated amount for which a property should exchange, in 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, subject to the following special assumptions that the property will continue to be let by a body pursuant to delivery of a service for the existing use:

(a) At the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to an organisation intending to manage their housing stock in accordance with the regulatory body's requirements;

(b) Properties temporarily vacant pending re-letting would be valued, if there is letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession and;

(c) Any subsequent sale would be subject to all of the above special assumptions.

For leasehold properties IFRS introduced significant changes to the treatment of leased assets for capital accounting purposes. Currently the standard adopted is IAS 17.

In summary these classifications will require the following valuations.

i. Lessee of Operating Lease – no value required as not captured on the balance sheet.
ii. Lessor of Operating Lease – usually accounted for as an Investment Property (IAS 40).
iii. Lessee of Finance Lease – CV of the lease interest (which is not the value of the legal interest in the lease but the underlying freehold existing use value of the property as if owned as risks and rewards of ownership are considered to have transferred).
iv. Lessor of Finance Lease – no figure normally required from the Valuer.

Other 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 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 a number of 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:

    - 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'), IAS16 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.

    - IAS16 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.
- 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.

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