Office of the Deputy Prime Minister
Creating sustainable communities

Guidance on Stock Valuation for Resource Accounting

Updated and Revised July 2005

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EXECUTIVE SUMMARY

This Guidance updates the Guidance published in 2000 to local authorities on the bases and methods of valuation for Housing Revenue Account (HRA) assets for resource accounting. The guidance is appropriate for all Housing Revenue Account valuations from April 2005 and until further guidance is issued, if appropriate.

The principles behind the valuation methodology remain the same as in the original guidance but an important change is to the adjustment factors that have been revised to take account of the changes in the residential housing market over the last five years. Details are provided in Appendix 4 and the factors are set out at paragraph 3.4 in Chapter 3. Other changes are mainly to update valuation terminology and references to Government circulars.

The basis of valuation for the bulk of the housing stock within the HRA is Existing Use Value for Social Housing (EUV-SH) as defined by the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards 5th Edition. One method of valuation is prescribed in the Guidance to arrive at EUV-SH, based on the vacant possession value of the properties, adjusted to reflect the occupation by a secure tenant.

The general principles and process to follow when using this method are fully described. Authorities may wish to adapt the process to meet their individual requirements, but the general principles and the key stages should be adopted, albeit in various forms.

Guidance to the valuation of non-housing and miscellaneous assets is also provided. These assets are expected to form a small part of the HRA properties by number and value. The resources devoted to preparing these valuations should have regard to the materiality of the effect of these values on the accuracy of the total HRA assets.

CHAPTER SUMMARIES

Chapter 1 outlines the objectives of resource accounting and the necessity for a consistent approach to housing valuations. The HRA will reflect on a consistent basis the resources used over the lifetime of authorities' housing assets rather than simply the cash spent on them each year. Instead of merely showing historic debt charges, the HRA will reflect both the cost of capital tied up in an authority's housing assets and the cost of wear or deterioration of those assets.

Chapter 2 defines operational and non-operational property for asset valuation purposes. All properties within the HRA must be categorised into one of these categories and valued accordingly. Operational housing property subject to a secure tenancy is valued to EUV-SH; all other operational property is valued to Existing Use Value (EUV), or where there is no market on a depreciated replacement cost approach (DRC).

Non-operational property is valued to Market Value (MV).

All definitions are as defined by the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards 5th Edition and are reproduced in the Guidance at Appendix 1.

Chapters 3 and 4 are the most important chapters and set out in detail the valuation approach for the bulk of the HRA housing stock, i.e. those dwellings occupied by a secure tenant.

The housing stock is divided into asset groups which are cohesive collections of property with common characteristics such as a single housing estate or groups of estates, properties in rural locations or sheltered housing. Asset groups are further subdivided based on uniting characteristics material to their valuation, such as numbers of bedrooms or dwelling types. The subdivisions are called archetype groups. The archetype groups are valued on the beacon principle.

A sample property, "the beacon" is selected which is representative of the archetype group and a detailed inspection carried out. The beacon property is valued with a vacant possession assuming a continuing use as residential accommodation with no intensification of use or alternative development. This valuation is defined as the 'Beacon Valuation'.

Comparable sales evidence for the beacon valuation will be drawn from a variety of sources, the most important being open market sales for owner occupation of comparable properties. Other sources will include open market sales in the private sector, Right to Buy valuations and Right to Buy determinations.

The value of the beacon, with adjustments where appropriate, is applied to the number of the properties within the archetype group.

The vacant possession value of the archetype group is adjusted to reflect the occupation by a secure tenant. Adjustment factors are provided on a regional basis and reflect the ratio of local authority rents to private sector rents. Valuers are not obliged to use the adjustment factors but any departure should be recorded with details of how the alternative adjustment factor was calculated. The value of the asset group is simply a matter of totalling the value of each of the archetype groups.

Details of the beacon valuations are recorded on a beacon record sheet, together with the make up of the valuation for the archetype group and the asset group. The beacon portfolio will form part of the final valuation certificate.

Chapter 5 deals with situations where there are no sales for owner occupation on which to base a beacon value. Other sources of comparable evidence should be considered as including auction sales, cash sales and investment sales. Unpopular housing estates are the most likely areas where there is an absence of owner occupied sales.

Three stages of unpopularity have been defined in the Guidance for valuation purposes and each stage may be represented within a single estate.

The first stage of decline assumes that all the properties within the group have a positive value, albeit low, based on comparable investment sales.

The second stage of decline assumes less than 100% demand for all the properties. Vacant properties for which there is no further demand for occupation will have a nil value; the remaining occupied properties will have a positive value as an investment.

The third stage of decline assumes there is no demand for any of the properties within the group. It is unlikely that any of these properties will be occupied but in certain circumstances (where it is considered when the existing tenant moves out that there will be no re-let) the property will also be valued at nil.

Chapter 6 outlines the valuation approach to leasehold properties. Properties held on long ground leases are valued on the beacon approach. Properties with ground leases about to expire are treated as short life investment properties, having regard to potential claims for dilapidations.

Other properties leased by the authority are valued subject to existing lease agreements. Properties leased to the authority are classed according to accounting criteria and if classed as finance leases are valued on the basis of the income stream over the period of the lease.

Chapter 7 covers the valuation approach to all other operational assets including sheltered housing within the HRA. The valuation basis is Existing Use Value. Shared ownership properties should be considered through a beacon approach to Existing Use Value.

The resources allocated to the valuation of these assets should reflect the fact these assets form a small part of the HRA properties by number and value. The amount of effort which will be appropriate to devote to these valuations must have regard to the materiality of the effect of these values on the accuracy of the total HRA assets.

Chapter 8 outlines the approach to assets in the course of refurbishment/ redevelopment. The Royal Institution of Chartered Surveyors Appraisal and Valuation

Standards 5th Edition has been followed in respect of new build development. The valuation approach is to value the site as a cleared site at the date of valuation, and in addition, stated separately, the cost of development incurred by the valuation date.

Refurbishment schemes for existing properties have been subdivided into two categories:

- those to be completed within twelve months of the valuation date;
- those taking more than twelve months of the valuation date to complete.

The valuation approach for the first category scheme is to assume that the work has been completed at the valuation date. This will avoid authorities having to identify these schemes and the costs incurred at the valuation date. This is a departure from the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards 5th Edition and should be recorded as such in the final report.

The second category schemes are much larger in scale and may cover whole estates. The approach is to value the property assuming contract work had not commenced at the valuation date, and stated separately, the cost of the contract work completed at the valuation date.

Private Finance Initiative (PFI) scheme assets that in accordance with accounting practice are off balance sheet would be removed from the HRA. Assets covered by on balance sheet PFI schemes would be valued as assets in the course of refurbishment/development or on the beacon approach.

Chapter 9 covers the valuation of non-operational property. The valuation basis is Open Market Value as defined by the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards 5th Edition. The resources allocated to the valuation of these assets should have regard to the fact that these assets form a small part of the HRA properties by number and value. The valuation approach and process to adopt should have regard to the materiality of the effect of these values on the accuracy of the total HRA assets.

Chapter 10 covers the treatment of depreciation. In accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting, depreciation should be applied to all fixed assets with a finite useful life. The joint committee responsible for preparing the Code has accepted that the Major Repairs Allowance (MRA) is likely to constitute a reasonable estimate of depreciation for HRA properties. Where MRA is adopted no action by the valuer is required.

Where the authority decides the MRA approach would mis-state depreciation, it will need to instruct valuers on any information on land values and useful remaining economic lives that will be required in using an alternative approach. In most cases, however, depreciation could be calculated at global stock level. It will be necessary to apportion the valuation between land and buildings for those HRA properties not covered by the MRA. No apportionment is required for non-operational property, or for certain operational assets where depreciation is not required.

Chapter 11 covers impairment and sets out the requirements for impairment reviews. In the event that reviews are necessary they will be incorporated into the annual reviews as detailed in Chapter 13.

Chapter 12 covers the format of the Valuation Certificate and the required breakdown of values for properties of different tenures and bases of valuation. Separate values will be required for operational and non-operational property and assets in the course of refurbishment. The operational property should be further subdivided into the following categories of valuation:

- asset groups valued as Existing Use Value – Social Housing (EUV-SH);
- properties leased by the authority valued as Existing Use Value (EUV);
- specialist properties and non-housing properties valued as Existing Use Value (EUV);
- depreciated Replacement Cost (DRC) properties;
- properties leased from the authority valued as Existing Use Value (EUV);
- Finance Leases valued as Existing Use Value (EUV).

The figure to be included in the balance sheet is the total of all these categories including non-operational properties. Any negative values are stated separately. Acquisition and disposal costs should be included.

As a note to the account it will also be necessary to show the unadjusted vacant possession value based on the 'Beacon Value' from which EUV-SH has been derived.

Chapter 13 covers future updating and revaluation of the assets. Two options are available. A full revaluation every fifth year. At revaluation it will be necessary to consider regrouping the properties and the archetypes and defining new beacon properties. In addition, asset valuations are to be reviewed on an annual basis.

Alternatively, a rolling programme of revaluations of part of the stock is acceptable. However, all properties should be revalued at least once every five years. At least once every five years, it will be necessary to consider regrouping the properties and the archetypes and defining new beacon properties. In addition, annual updating of all stock not receiving a revaluation that year is required.

At revaluation, internal and external inspections will be required of all the beacons on which the revaluation is based. The annual updates will consist of a review of the beacon valuations having regard to local and national trends in the housing market, information provided by the authority regarding changes to the stock and any revaluations that have occurred. Inspections should not normally be required for annual updating for either operational or non-operational property.

Where an authority has secured a place on an ODPM Large Scale Voluntary Transfer Programme with a completion date no later than March 2007, ODPM will consider a request to base the 2005/06 revaluation and subsequent review on a desk exercise. A full revaluation would be required if the proposed transfer did not take place as envisaged.

APPENDICES

The following details are included in the appendices to the report.

Appendix 1 definitions of the various bases of valuation

Appendix 2 sample beacon record sheets

Appendix 3 expected departures from the RICS Appraisal and Valuation Standards 5th Edition and assumptions and limitations to the valuation certificate

Appendix 4 adjustment factor technical details.

CHAPTER 1

Resource accounting in the Housing Revenue Account

Key points

- objectives of resource accounting
- valuations
- capital charge
- use of the guidance

1.1 INTRODUCTION

1.1.1 Housing valuations are not new to the Housing Revenue Account (HRA) but, until the introduction of resource accounting principles, the current value of the housing assets was not material to the HRA accounting process.

1.1.2 Resource accounting aims to show the resources consumed in delivering services. In the case of the HRA properties, the service objective is to deliver appropriate housing to those who are unable to obtain suitable housing through the wider housing market.

1.2 OBJECTIVES OF RESOURCE ACCOUNTING

1.2.1 Resource accounting in the HRA provides a financial framework that will:

- encourage more efficient use of housing assets;
- increase the transparency within the HRA;
- assist authorities in planning their housing strategy;
- bring HRA accounting procedures onto a more directly comparable basis with registered social landlords;
- achieve consistency with central government resource accounting and budgeting;
- achieve consistency with resource accounting in authorities' other revenue accounts;
- place an authority's HRA onto a more business-like basis.

1.2.2 The financial framework for the HRA, based on a form of resource accounting, requires authorities to carry out valuations of their housing stock and prepare and maintain business plans.

1.3 VALUATIONS IN RESOURCE ACCOUNTING

1.3.1 Under resource accounting, the capital financing costs of the housing assets are based a capital charge based on the current value of the asset.

1.3.2 Valuations form an integral part of the HRA accounting process and, to ensure consistency of approach, this Guidance on the valuation of HRA assets has been updated by the Office of the Deputy Prime Minister.

1.4 CAPITAL CHARGE

1.4.1 The capital charge, based on the value of the asset, is the measure of the resources held and consumed in the delivery of the service. The capital charge is made up of two elements, the cost of capital employed in an authority's housing assets and the cost of wear or deterioration of those assets.

1.4.2 On the introduction of resource accounting this capital charge formed part of the accounts replacing the system where the cash spent on the houses each year and the historic debt charge were recorded.

1.4.3 The cost of capital is calculated at a specified rate of return (currently 3.5 %) on the value of the authority's housing assets. The basis of valuation for the cost of capital will be Existing Use Value for Social Housing (EUV-SH).

1.4.4 Part of the accounting framework is the element of subsidy, the Major Repairs Allowance (MRA), which represents the cost of maintaining the current condition of the stock. In the view of CIPFA/LASAAC committee the MRA, based on the annual cost of replacing individual building components as they reach the end of their useful life, is a reasonable estimate of the cost of wearing out (depreciation) of council dwellings.

1.4.5 Capital charges, based on current values of the stock, show the true cost of capital tied up in the asset. 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 HRA ensures that an authority's decisions on resource allocation make resource costs apparent. It is essential that all valuations carried out for the purpose of resource accounting are on a consistent basis.

1.5 USE OF THE GUIDANCE

1.5.1 This Guidance sets out the approach that authorities should adopt in preparing the HRA asset valuations, and in particular the valuation approach for general purpose council housing. 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 every year, or every five years for the whole stock. Details are contained in Chapter 13.

1.5.2 The Guidance must be adopted for asset valuations for the HRA except in cases of LSVT authorities. Where an authority has secured a place on an ODPM Large Scale Voluntary Transfer Programme with a completion date no later than March 2007, ODPM will consider a request to base the 2005/06 revaluation and subsequent review on a desk exercise. A full revaluation would be required if the proposed transfer did not take place as envisaged.

1.5.3 The aim of resource accounts in the HRA is to put local authority housing on a business like footing and to ensure that accounts 'present fairly' the financial position and transactions of the authority. To this end the Guidance has had regard to:

- UK Generally Accepted Accounting Practice (GAAP) including the requirements of the relevant SSAP's, FRSs;
- the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice;
- The Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards 5th Edition.

in so far as they are consistent with the requirements and objectives of the Office of the Deputy Prime Minister.

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 listed in Appendix 3 as well as in the appropriate place within the Guidance.

Valuations should be carried out in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards except where they are varied by this Guidance to reflect the current policy requirements of the Office of the Deputy Prime Minister.

1.5.4 The need for guidance on valuation methodology within the HRA arises from the various valuation techniques that are available for valuing social housing, and the need for consistency of approach between authorities.

1.6 VALUATION APPROACH

1.6.1 The two principal techniques currently used for valuing social housing are a cash flow valuation, based on the income generated by the property, and an adjusted vacant possession value technique based on the value of the property assuming vacant possession, with an adjustment factor to reflect occupation by a secure tenant.

The adjusted vacant possession value method is considered the most appropriate for the HRA because:

- the method is one that is easily implemented;
- auditing/monitoring for consistency, accuracy and process is straight forward;

- evidence for vacant possession values is widely available across the whole country for the bulk of the housing stock;
- valuations produced by one method are comparable across the country;
- it allows disaggregation of valuation information for business and asset management planning.

1.6.2 The discounted cash flow method is not considered appropriate for the HRA account because:

- detailed information is required on the management and repair costs of the stock;
- this information is not always available so assumptions have to be made;
- available information is not in a consistent format between authorities;
- valuations based on varying assumptions would not be comparable across the country;
- information is often available for the stock as a whole and cannot be disaggregated;
- income and expenditure levels are frequently a result of historic and current practice which do not reflect the condition of the properties.

1 Statement of Standard Accounting Practice: Financial Reporting Standard; Statement of Recommended Practice.

CHAPTER 2

Bases of valuation

Key points

- property classification
- valuation bases

2.1 PROPERTY CLASSIFICATION

2.1.1 Asset valuations are required for all properties held in the Housing Revenue Account (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 a valuer considers that a property is being wrongly held in the HRA, the matter should raised with the Chief Finance Officer.

2.1.2 For accountancy purposes, properties are categorised as operational or non-operational assets. Operational assets are those that are used or occupied by a local authority in the direct delivery of a service for which it has either a statutory or discretionary responsibility. Non-operational assets are those held by the authority but not directly occupied or used or consumed in the delivery of services.

The categorisation of these HRA assets into operational and non-operational property is a matter for the Chief Finance Officer, with assistance by the valuer. There is no fixed rule based on property type, as categorisation is dependent on the function of the asset within the authority.

2.1.3 Figure 1 at the end of this chapter provides a family tree for typical property types found within the HRA.

2.1.4 De minimus levels for the HRA are set by individual authorities and assets below that threshold are not included in the balance sheet and would not be required to be valued. Where individual assets are below the threshold but when grouped are above the threshold e.g. lockup garages should be valued and included in the balance sheet.

2.2 VALUATION BASIS

2.2.1 The basis of valuation for operational property is Existing Use Value (EUV) for non-housing property and Existing Use Value for Social Housing (EUV-SH) for housing property. These valuation bases represent an entry value that is the cost to an authority, including acquisition costs, of acquiring an asset that will provide the same service potential as the existing property.

Where operational property is so specialised because of the construction, arrangement, size or specification of the building that there will be no market for sale to a singular owner-occupier, the valuation approach is depreciated replacement cost (drc). It is considered there will be few, if any, operational properties within the HRA that warrant a drc approach.

The basis of valuation for non-operational property is Market Value (MV). This represents an exit value, i.e. the price that might be received by the authority on an outright sale less the costs of the sale.

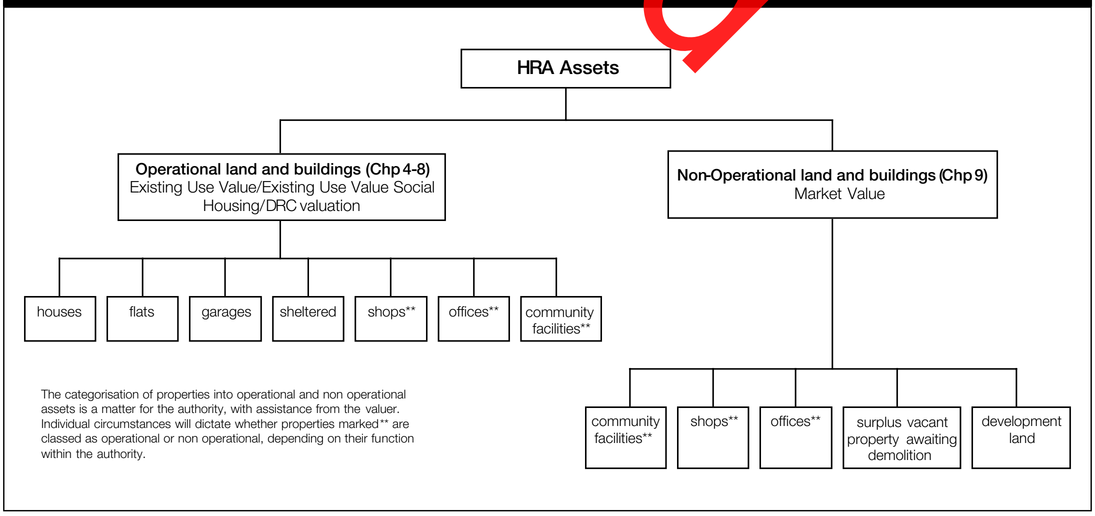
Full definitions of EUV, EUV-SH and MV as defined by the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards UK Practice Statement (PS) 1.3, 1.13 and PS 3.2 are reproduced in Appendix 1.

2.2.2 As valuation bases represent entry and exit values, notional additional acquisition costs, where material, should be added to EUV and EUV-SH. Expected directly attributable selling costs should be deducted from MV, where material. Guidance on the treatment of these costs is included in Chapter 12, Valuation Reports.

2.2.3 Specialised buildings, where there is no market to assess an entry value, should be assessed on the gross cost of rebuilding the asset with the same service potential, less an allowance for depreciation and obsolescence to reflect the fact that the existing property is worth less than a new replacement. This is known as the depreciated replacement cost approach (drc) and should be carried out in accordance with the RICS Appraisal and Valuation Standards, UK Appendix 3.1.

2.2.4 For completeness the land and building component of the drc valuation should be stated separately in the report, together with an assessment of the remaining life.

Figure 1 Classification of HRA Property for Accounting Purposes



CHAPTER 3

Beacon Approach to the valuation

Key points

- prescribed method of valuation
- beacon principle
- assumptions behind the beacon principle
- adjustment factor to arrive at EUV-SH
- monitoring trail

3.1 INTRODUCTION

3.1.1 To establish EUV-SH for resource accounting a vacant possession value, adjusted to reflect the continuing occupation by a secure tenant, is the method which should be adopted by all authorities for the majority of their dwellings.

3.1.2 This approach has been prescribed to ensure an auditable and consistent method is adopted by every authority in preparing EUV-SH asset valuations. The method was adopted on the introduction of resource accounting in the HRA in 2000 and will continue to be the prescribed method in ODPM Guidance. The approach is not new and was called the 'house type comparative method' in previous Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and was adopted by many authorities for previous housing asset valuations.

3.1.3 This method is easy to apply and uses as its starting point dwellingsales mainly from the owner-occupied market. This is a well developed market with evidence of dwelling sales, including council house sales, widely available across the whole of the country. The adoption of this approach provides all authorities with a source of evidence on which to base the valuations. Alternative methods, using rental information and annual outgoings including costs of repair and maintenance, are reliant on a much thinner data bank of evidence, not always accessible or consistent in quality or quantity or geographical spread.

3.2 BEACON PRINCIPLE

3.2.1 The recommended approach to arriving at the vacant possession value of the housing stock is to adopt the beacon principle. This approach, if applied consistently across the whole stock, provides an accurate assessment of the vacant possession value, and a data set of beacons that will form the basis for updating at subsequent reviews.

The beacon principle is used for large groups of properties that contain properties of similar design, age, type, or construction. A sample property, "the beacon" is selected, which is representative of the group, and a detailed inspection and valuation carried out. For the purposes of this exercise 'representative of the group' means the most typical or frequently occurring type of dwelling within the group.

3.2.2 The beacon valuation is compared with the other properties within the group. The aim is to establish the range of values, if any, from the beacon. Material variations in the value will be reflected in the valuation of the group and the procedures to adopt are set out in Chapter 4.

3.2.3 This testing of the beacon value is a refinement of the initial beacon approach. The aim is to reflect any changes in value across the group which otherwise would not merit an additional beacon. If testing was not undertaken the valuation would be a relatively crude process, insensitive to changes in value.

3.2.4 For the purposes of this exercise properties within +/- 5% or +/- £2000 of the beacon value, whichever is the greater, will be valued on the beacon valuation. Variations greater than this will be accommodated as a specific variation from the beacon. Procedures for incorporating any variations from the beacon are covered in Chapter 4. For the majority of the housing stock it is expected that the groups of property valued by the beacon variations will have a range in value of some 30% or £12,000, which ever is the greater, across the group as a whole. An additional beacon and archetype group may be required where properties are found to be outside this range.

3.2.5 The beacon method avoids the necessity of valuing and inspecting each individual property. Only selected properties are inspected and any verification of property information will only be required for the beacon. This approach should be regarded as adequate in terms of the RICS Appraisal and Valuation Standards and a note to that effect included in the final report.

3.2.6 Valuers will be reliant on a considerable amount of housing information provided by the authority covering details of tenure, degree of modernisation, service charge costs etc. If the beacon information is found to be inaccurate the matter should be taken up with the Chief Finance Officer to establish the extent of the inaccuracies and how the problems may be resolved. It is essential that information adopted for the valuation is factually correct.

3.3 BEACON VALUATION

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

The beacon valuation should 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 should be taken of any other alternative development potential that may include demolition and merging of sites.

3.3.2 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, to be 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.

3.3.3 Situations where it is inappropriate to make the assumption that the property will remain tenanted for the foreseeable future are dealt with separately in Chapter 5. These situations may arise in areas of low demand and unpopular housing.

3.3.4 The assumptions to make in preparing the beacon valuation are set out below. Existing Use Value (EUV) as defined in the RICS Appraisal and Valuation Standards at UKPS 1.3 provides the basic assumptions for the beacon valuation but with additional assumptions to meet the needs of a local authority housing stock asset valuation.

BEACON VALUATION ASSUMPTIONS

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

No account should be taken of a bid by a prospective purchaser with a special interest, in particular a bid by an existing tenant and no account should be taken of any potential residential redevelopment of the site or intensification of use as a result of possible subdivision or extension of the property.

3.4 VP ADJUSTMENT FACTOR

3.4.1 The beacon value itself most naturally relates to sale of a single owner-occupied dwelling. Therefore, it must be adjusted, using an adjustment factor, to obtain EUV-SH. EUV-SH reflects a valuation for a property if it were sold with sitting tenants enjoying rents at less than open market rents and tenants' rights including the Right to Buy. The adjustment factor provided measures the difference between market rented and social rented property at a regional level

3.4.2 The preferred adjustment factor to be applied is the ratio of local authority rents and yields to private sector rents and yields at the regional level. The table below details the adjustment factor to be applied to the beacon valuation; Appendix 4 gives more technical details.

Adjustment factors by Government Office Region with examples

Region	Adjustment factor
North East	51%
North West and Merseyside	48%
Yorkshire and the Humber	47%
East Midlands	50%
West Midlands	49%
Eastern	46%
London	37%
South East	45%
South West	44%

3.4.3 The adjustment factor is applied to the vacant possession valuation based on the beacon valuation. For example, the vacant possession value of an estate in the East Midlands is £300,000,000 based on the beacon valuations. EUV-SH is £300,000,000 x 50% = £150,000,000

3.4.4 Valuers are not obliged to use the regional adjustment factors but it should only be necessary to depart from the given factors if the valuer considers that their use does not provide a fair reflection of EUV-SH for the portfolio as a whole. This may arise where there are circumstances, particular to a local authority area, that are not sufficiently reflected in the regional factor. In making this decision it is considered that a tolerance of +/- 5 percentage points of the adjustment factor would be acceptable before it was considered the factor did not represent the differential between market rented and social rented property.

3.4.5 If the valuer considers that the adjustment factor does not provide EUV-SH within the stated levels of tolerance they will be required to establish an auditable methodology in arriving at an alternative percentage. The methodology should reflect all the factors specific to that local authority area which impact on the general levels of value of affordable housing. This will involve the valuer considering the wider market for social housing other than the specific local authority property. Factors to consider will include levels of affordable rents, other than local authority rents, the demand for the property, typical levels of management and repair costs for other types of social housing, and the rate of return required for this type of investment.

3.4.6 It is not appropriate to rely solely on the actual rents and costs for the specific local authority properties when considering the appropriateness of the given adjustment factor. These rents and costs may not be representative of the wider social housing market, affected as they are by historic and current policy. The valuer must have regard to all the evidence including that of other socially rented accommodation when making any valuation adjustments.

3.4.7 The reasons for departing from the factor provided in this Guidance must be clearly stated in the 'beacon portfolio' sheets together with the methodology and sources of evidence adopted for preparing the alternative.

3.5 AUDIT/MONITORING TRAIL

3.5.1 The HRA account and the valuations within the account will be subject to audit in the same way as all other local authority accounts.

Records of the valuation process, including the beacon valuations should be retained in the suggested format as set out in the following chapter. The production of a beacon portfolio, in which every beacon property will be recorded, together with a breakdown of the total valuation into smaller groupings will be a requirement of the valuation brief.

CHAPTER 4

Application of the Beacon Approach

Key points

- information requirements
- asset groups, archetypes, beacons
- beacon records
- beacon valuations
- archetype valuations
- asset group valuations
- recording valuations
- mining subsidence/radon/contaminated land

4.1 INTRODUCTION

4.1.1 This chapter sets out in key stages the process to be followed when using the beacon approach for the valuation of the housing stock. Authorities may wish to adapt the process to meet their individual requirements, but the general principles of the method and the various key stages should be adopted, albeit in various forms.

The process described in this chapter should cover most of the situations and dwelling types found within an authority's housing stock. Other property types are covered in Chapters 5-9.

4.1.2 Three basic terms are used throughout the application of the beacon approach. These are:

- asset group – a group of properties reflecting appropriate management units e.g. a housing estate;
- property archetypes – dwellings within an asset group which have a number of uniting characteristics material to the valuation e.g. two bed terrace houses;
- beacon – a specific real dwelling representative of an archetype e.g. 15 Smith Road.

For ease of reference and to provide an overview of the beacon approach a summary of the key stages is presented below. The stages are expanded in the main body of the chapter at the appropriate paragraph.

Key Stages in the Beacon Approach

Key stage	Action	Paragraph Ref
1	collect stock information	4.2
2	divide stock into asset groups	4.3
3	establish archetype groups	4.4
4	identify beacon properties	4.5
5	inspect beacon property	4.6
6	beacon record sheet	4.7
7	comparable sales evidence	4.8
8	adjusting sales evidence	4.9
9	beacon valuation	4.10
10	beacon variations	4.11
11	valuation of the archetype group	4.12
12	adjustment factor	4.13
13	valuation of asset group	4.14

4.2 INFORMATION REQUIREMENTS – KEY STAGE 1

4.2.1 The quality, quantity and breakdown of information for grouping properties is a key factor when using the beacon approach to valuation. To group housing properties by common characteristics requires the following information:

- property address;
- estate/housing group/district/town;
- type – terrace, semi detached, multi storey flat etc;
- size/no of bedrooms;
- age;
- construction e.g. traditional/non-traditional/defective.

This should be regarded as the minimum amount of information required. Anything less makes grouping of property and identifying archetypes very superficial and impacts on the overall accuracy of the valuation. Most authorities should have this information about their stock.

4.2.2. Additional information, although not essential, would be advantageous in the following areas for valuation purposes:

- refurbishment programmes over the last three years;
- service charges for flats/sheltered housing;
- existing reports/surveys covering mining subsidence, contaminated land, radon risk areas and properties with asbestos.

This information will help to establish the condition of the properties relative to one another and service costs for comparison with private sector sales.

4.2.3 The following information may also be necessary for identifying and valuing unpopular estates (covered in Chapter 5):

- waiting lists for properties;
- void levels;
- tenant turnover;
- future clearance and redevelopment plans.

4.2.4 Stock condition survey information, if available, will provide a valuable source of information on the condition of the stock. This may be a useful tool when establishing property archetypes and variants from the beacon valuation as described in para 4.4 and 4.11.

4.2.5 Open market sales are the best evidence for establishing vacant possession. However, additional information using other sources may be useful if market sales are not available. For example:

- Right to Buy valuations.
- Right to Buy determinations.

Valuers should not rely solely on Right to Buy information if alternative market values are available.

4.3 DETERMINATION OF ASSET GROUP – KEY STAGE 2

4.3.1 For manageability of the valuation process and also as a means of providing information for the business plan, the operational housing assets should be arranged into 'asset groups'. The asset group is a major component of the valuation, forming the first level of sub division of the total stock value.

The valuer may find it useful to discuss the subdivision of the HRA portfolio into asset groups with the Chief Finance Officer. This will establish whether groupings already exist, for possibly different purposes, but which may be appropriate for this exercise.

4.3.2 Groups will, in the main, be made up of housing properties. However, there may be non-housing properties within the group, especially when it is based on a geographical boundary or comprises a large housing estate. The beacon approach would not usually be appropriate for these property types such as shops, management offices etc. but it is important the assets are included in the total valuation. Chapter 7 covers this situation including sample reporting schedules.

A family tree showing a typical breakdown of operational property into asset groups is included at the end of this chapter.

4.3.3 The subdivision of the stock into asset groups will depend on the level of detail available about the stock. Asset groups should be cohesive collections of property with common characteristics, e.g. location, type and tenure.

4.3.4 Typical groups may be:

- a large housing estate;
- several estates in the same location;
- a collection of rural villages covering a wide geographical area;
- a small town;
- existing management groupings;
- properties covered by an area office;
- special property types, e.g. defective houses, sheltered houses, hostels, property held on ground leases;
- property groupings used for stock condition surveys.

4.3.5 The number of asset groups within the HRA will depend on the number of properties, the level of information available about the stock and the homogeneity of the stock. Where possible the asset groups should relate to the groupings that have been used within the asset management plan and the business plan.

4.3.6 The purpose of dividing the stock into asset groups is to:

- provide valuation information at a lower level than the value of the whole stock;
- make the valuation process easier to manage when dealing with large numbers;
- link the asset groups and valuations to the business plan;
- provide stock groupings which may be used for stock condition surveys.

Each asset group will be a collection of property archetypes (refer to fig. 2 at end of the chapter).

4.4 DETERMINATION OF ARCHETYPE GROUPS – KEY STAGE 3

4.4.1 The asset groups are sub divided into archetype groups, i.e. similar property types which will be valued by a "beacon". Archetypes are collections of dwellings types within an asset group which have at least one but usually several similar characteristics such as number of bedrooms, type, degree of modernisation, or possibly location within an estate. Archetypes must have at least one, and preferably several, uniting characteristics material to their valuation.

Set out below are examples of typical archetype groups within a housing estate asset group.

- 2 bedroom terrace
- 3 bedroom semi detached
- Multi storey flats
- Unpopular housing
- Sheltered houses
- Lockup garages
- Vacant property awaiting redevelopment

These archetypes are not necessarily the same as those for the calculation of the Major Repairs Allowance (MRA), where the criterion is the cost of repair as opposed to range in value considerations. However some of the MRA archetypes may be appropriate for this valuation exercise if the stock falls naturally into those specified types.

Every dwelling in an asset group must be included in an archetype group to ensure its inclusion in the overall valuation.

4.4.2 The number of archetype groups in an asset group will depend on the homogeneity of the housing stock. Insufficient archetypes will not capture the variations in value between property types and too many archetypes may not be cost effective in terms of any increase in the accuracy of the valuation. There is no prescribed number of archetypes that should be used, but regard should be had to the purpose of the exercise: to divide the houses into property types to reflect material variations in value.

4.4.3 It is anticipated that range of value across the archetype should not exceed 30% or £6000, which ever is the greater, across the group as a whole. If, following a roadside inspection of the archetypes, it appears the value range across the type is in excess of these parameters, sub division of the archetype should be considered.

4.4.4 There will be situations where some property types on estates are not represented in large numbers e.g. six bedroom properties, bedsitting rooms, detached houses. In these cases, where it is considered there is no material effect on the accuracy of the overall valuation, the properties should be included in the next best match archetype and treated as a variation from the beacon (see para 4.11). To establish an archetype, and corresponding beacon, for a small number of properties is not cost effective in terms of the overall accuracy of the final valuation. This may result in the range of value across the archetype exceeding 30% and if this is the case the 'beacon record sheet' (see para 4.7) should be noted with the reason for the range.

4.4.5 Similar situations will arise within an archetype where some properties have been modernised or are situated in better locations within the scheme but numbers are insufficient for a separate beacon. These properties will be treated as variants from the beacon in line with para 4.11 but they should be identified at this stage if at all possible.

4.5 IDENTIFICATION OF THE BEACON WITHIN THE DEFINED ARCHETYPE – KEY STAGE 4

4.5.1 The beacon property provides the basic unit of value and must be a specific real property, which both exists and represents the typical or most frequently represented property type, within the archetype. Beacon choice is important and an external inspection of the archetype properties, together with information from office records about the type, size and condition of the houses, may be necessary to establish a typical property. Valuers will be required to satisfy themselves that the beacon property is representative of the archetype.

4.5.2 In rural areas similar types of house may be scattered across very wide geographical areas. In these situations a typical property in one location may be sufficiently representative to be adopted as a beacon for the whole area. Using a location factor to reflect the changes in value across the region may cater for variations in value. The range of values across the asset group may exceed 30% in these cases and this fact, together with the reason for it, should be recorded on the beacon record sheet.

4.5.3 In urban locations with many non estate type properties, a more robust approach to beacon choice may need to be adopted, having regard to the total numbers of dwellings involved and the effect of their valuation on the accuracy of the value of the portfolio. It may be appropriate to create wide archetype groups such as flats, houses and converted properties within post code areas which define the major variations in property values. A typical type of property within the area should be taken as the beacon property. Variations within the archetype such as a three bedroom property as opposed to a two bedroom could be treated as variant from the beacon.

4.5.4 The range of value across the asset group/archetype for non-estate property may well exceed the 30% or the £12,000 range. This range is only a guideline and where circumstances dictate a wider range may be appropriate. When the range of value is in excess of the limits the fact should be recorded on the 'beacon record sheet' (see 4.7 below).

4.5.5 It is a matter of valuer judgement as to the time spent on valuing these non-estate properties but due regard should be had to the numbers involved in relation to the total stock, and the materiality of the accuracy of their valuation to the total value of the portfolio.

4.5.6 Large estates, even though in close proximity to one another, may be defined as individual asset groups when information is required on an estate basis for business planning. Where there is a similarity in property types and levels of value it may be appropriate to adopt the same beacon properties for valuing each of the asset groups.

For example, a beacon property on one estate could be used as a beacon for other estates if the properties were of similar types and value.

4.5.7 It is expected that, depending on the homogeneity of the stock, a beacon will on average cover between 50-600 properties. However, large estates where there is a uniformity of property may be covered by one beacon for considerably greater numbers. Significant numbers of non-estate properties may require a much lower ratio to reflect the various property types.

4.5.8 The range of 50-600 is only a guideline and will vary significantly between authorities and between asset groups. The overriding aim is to establish a beacon value which, when applied to the archetype group with variants, will capture the value of the asset group as a whole.

4.5.9. For the more individual or unusual properties a beacon approach may not provide a sufficiently accurate valuation. In these cases, and it is anticipated they will be few and far between, it may be necessary to prepare individual valuations. This however will only be the case where the valuation will have a material effect on the accuracy of the value of the portfolio. Specific valuations may be required for these properties for business planning purposes.

4.6 PROPERTY INSPECTION – KEY STAGE 5

4.6.1 Each beacon must be inspected internally and externally and a valuation prepared using the assumptions set out in para 3.3.4. An external photograph should be taken of the property. In preparing the valuation, tenants' improvements and tenants' waste i.e. deterioration of the property due to lack of repair, maintenance and decoration which is the responsibility of the tenant, should be excluded from the valuation. These items are excluded as they will not be common to all the properties valued by the beacon.

4.6.2 Where it is obvious that tenants' waste is common to the whole archetype group and it is unlikely that the authority would be able to recover the costs of rectifying the damage, the properties should be valued as they stand. This is most likely to occur in areas of low demand with a high turnover of tenants.

4.6.3 Internal inspections may not be necessary where the beacon has already been inspected by the asset valuer within the last three months. This situation may arise if the property has been valued for a RTB application which has not resulted in a sale. If this approach is adopted it is recommended that a roadside inspection is carried out. Valuers must satisfy themselves that no material changes to the property have taken place, such as improvements carried out by the authority during the intervening period.

Details of the original inspection should be incorporated onto the beacon record sheet as detailed at 4.7 below.

4.6.4 The inspection is not a building survey and should be limited to a general surface examination of those parts of the property which are accessible. That is those parts that are visible and readily available for examination from ground and upper floors having regard to safety, practicality and the constraints of being a visitor to the property. There is no requirement to inspect lofts, lift floor coverings, carry out damp meter tests or inspect external services. Due weight should be given to information provided by the occupier during the onsite inspection.

It is anticipated that the inspection will take in the region of 20-30 minutes and this should be regarded as being adequate for the purpose of the exercise (RICS Appraisal and Valuation Standards PS 4.1).

4.6.5 The limit of the inspection to the beacon types should be detailed in the final report.

4.7 BEACON RECORD SHEET – KEY STAGE 6

4.7.1 A record of the inspection, together with the photograph should be incorporated into a 'beacon record sheet' which will be a key piece of information for any future monitoring exercise and review of the valuations.

4.7.2 The beacon record sheet is the definitive source of information on the beacon for this and subsequent valuation reviews. The record sheet allows for a variety of information and as a minimum the following details should be recorded:

- address of beacon property;
- date of inspection;
- valuation date;
- accommodation;
- type e.g. 1930's semi detached;
- asset group;
- archetype group and number within the archetype;
- comparable evidence
- adjustments of comparables;
- valuation of beacon;
- % variation in value across the archetype.

The following information is not essential but may be useful to the authority:

- quality of comparisons [a scale is recommended to enable information to be analysed];
- quality of property [a scale is recommended to enable information to be analysed];
- quality of neighbourhood [a scale is recommended to enable information to be analysed].

Sample beacon record sheets are enclosed at Appendix 2. Authorities should adapt the layout to one which best suits their needs, as long as the key information is incorporated. The beacon record sheets will form part of the final report and together will make up a beacon portfolio. This portfolio will be a key piece of information for subsequent valuation reviews.

4.8 COMPARABLE SALES EVIDENCE – KEY STAGE 7

4.8.1 The criterion for selecting the comparable evidence is to find sales information which best fits the beacon with the minimum of adjustments. Details of three comparable sales upon which the beacon valuation has been based should be included on the sheet wherever possible. There will be situations where the evidence is limited, and these situations should be noted.

4.8.2 There are several types of comparable evidence on which to base the valuation of the beacon. There may be an active resale market within the estate or surrounding properties, Right to Buy valuations, Right to Buy determinations as well as sales within the private sector in the surrounding location.

4.8.3 Each type of information must be assessed for its accuracy, reliability and relevance to the valuation of the beacon property.

Market sales within the estate of similar property should be regarded as a priority source, and to a lesser degree Right to Buy valuations and determinations. Although these valuations will relate to similar property types, they do not have the veracity of an open market sale and should be given a lesser weight when valuing the property.

Re-sales on estates may be of property that has been substantially improved and it is essential that the condition of re-sales is established and adjusted to fit the beacon.

4.8.4 Sales from the private sector may be helpful in setting general levels of value within a location, especially for non-estate type property, but it may be necessary to make adjustments to this type of evidence to allow for a “council estate” factor, where appropriate.

4.8.5 In some circumstances it may be necessary to draw information from other estates where there is a re-sale market, and make adjustments for the particular estate in question. This may apply in particular to specific property types such as sheltered houses, defective property, high rise flats and maisonettes. Where this is the case the beacon record sheet should be noted accordingly.

4.8.6 Auction sales, cash transactions and investment sales should also be considered in the absence of any relevant owner occupied evidence. Valuation guidance when this type of situation is encountered is provided in Chapter 5.

4.8.7 The order of preference, subject to the valuer’s judgement, for comparable sales information is:

- open market re-sales of similar RTB properties in the immediate locality;
- open market re-sales of similar RTB properties on similar council estates.

Other sources include:

- RTB valuations and determinations which should be considered in conjunction with additional sale evidence such as that listed below:
- market sales from the private sector in the immediate locality;
- market sales from auctions, cash transactions and investment sales.

4.8.8 Details of individual transactions completed after 1st April 2000 are available from the Land Registry.

4.8.9 The most recent sales information should be adopted and, where the available evidence is dated, it must be cross checked with other more recent information on sales in adjacent locations, to establish any movements in value.

4.9 ADJUSTING SALES EVIDENCE – KEY STAGE 8

4.9.1 In most cases it will be necessary to adjust the comparable sales evidence to fit the beacon property. Typical adjustments will be for:

- degree of modernisation;
- size/number of bedrooms;
- type e.g. semi detached, terrace;
- construction e.g. Airey, Orlit;
- location;
- freehold/leasehold.

For consistency of approach it may be useful to set up a scale of adjustments, especially for frequently occurring variations such as location, number of bedrooms, absence/presence of central heating, terrace as opposed to semi detached etc.

4.9.2 Adjustments should be kept to a minimum and where evidence is plentiful adjustments should be no more than 15% of the comparable sale. Substantial adjustments to sales evidence may lead to inaccuracies in the valuation. Where substantial adjustments are being made the final valuation should be crossed checked against other evidence such as Right to Buy valuations and determinations.

4.9.3 There will be situations where relevant sales evidence is sparse though lack of a market e.g. unusual property types or remote locations with few properties. In these cases adjustments to comparables may be greater than 15% and details should be provided on the beacon record sheet showing the adjustment process and why this has been necessary.

4.10 BEACON VALUATION – KEY STAGE 9

4.10.1 The adjusted sales evidence should then be applied to the beacon property to form the beacon valuation. This must be recorded on the beacon record sheet. The valuation is the 'building block' on which the valuation of the archetype group is based and it will also provide important information for updating the valuation, when required. It is essential that the beacon record sheet contains all the relevant information as set out in para 4.7.2 as well as any additional information which would be useful for future re-valuations.

4.11 IDENTIFYING VARIANTS FROM THE BEACON – KEY STAGE 10

4.11.1 On completion of the beacon valuation, sample properties within the archetype group may need to be inspected. The purpose of the inspections is to test the value of the beacon across the archetype properties, to establish the degree and extent of any variations in value. The aim is to capture any variations in excess of +/-5% or +/-£2000 whichever is the greater, from the beacon and reflect these variations in the value of the archetype. Without this procedure the beacon method is rather a crude approach to the valuation of the archetype.

4.11.2 The +/- 5%/£2000 band should capture the minor differences between properties such as presence/absence of a bay windows, slight differences in floor areas, layout of accommodation etc. and it will not be necessary to identify properties with these minor variations from the beacon. These properties will taken at the beacon value.

4.11.3 All sources of information should be used to establish the identity and type of other variants if this has not already been carried out (para 4.4.4). Sources include estate plans for location within the estate and stock condition surveys and modernisation programmes for establishing condition. A roadside inspection marking significant property variations on a plan may be a useful approach to adopt.

4.11.4 Inspections of these identified variants may be limited to a roadside inspection if the reason for the variation is location within the estate or presence/absence of garage space. Internal inspections may be appropriate if the variation results from a modernisation scheme.

The number of inspections will be depend on:

- the homogeneity of the archetype;
- the numbers within the archetype;
- property inspections already carried out for RTB;
- quality of information about the stock.

The numbers to inspect should be sufficient for testing the beacon valuation and provide sufficient information for adjusting the beacon value to account for the variation. It is expected that only one inspection of each variant type will be necessary and that may be limited to a roadside inspection.

4.11.5 For consistency a scale may be useful when adjusting the beacon valuations for the variations, especially for adjustments such as location, which may be common to all the archetypes. The variants should fall within the suggested value ranges for archetype groups i.e. no greater range than 30% or £12,000, whichever is the greater across the group. Where it is found there are substantial numbers of properties exceeding these limits it may be appropriate to establish another archetype group and beacon.

4.11.6 Where archetype groups cover a wide range of property types, which may be the case for street properties, the variations from the beacon value may be much larger to accommodate the different types of property included in the archetype. The resources devoted to preparing these valuations should have regard to the materiality of the effect on the accuracy of the total HRA asset value.

4.11.7 Variations from the beacon should not usually be necessary for major property variations except where dealing with non estate property as detailed at para 4.5.3. Differences resulting from property type, size/number of bedrooms, etc. will normally be accommodated by a separate archetype and beacon. Only where the archetype includes several property types each with low numbers, so not warranting individual beacons, should adjustments be necessary for these major variations.

4.11.8 No formal record of the inspection of the variants is required but details of the number of variants and their addresses must be recorded on the beacon record sheet. Variations to the beacon value should also be recorded on the beacon record sheet. An example is set out in Appendix 2.

4.12 VALUING THE ARCHETYPE GROUP – KEY STAGE 11

4.12.1 The value of the archetype when there are no variations in value, or the variations are de minimus i.e. within +/- 5% or +/- £2000 whichever is the greater, of the beacon value, is the beacon value multiplied by the number of properties in the archetype.

Where the valuation approach is to ascribe a value to each individual property the beacon value should be recorded against each property within the archetype.

4.12.2 Where there are variations to the beacon value, the number of properties exhibiting the variation should be multiplied by the variant value. The valuation of the archetype as a whole is simply a matter of building up the values of the variant groups to establish the archetype value.

Where the valuation approach is to ascribe a value to each individual property the beacon value and the variations should be recorded against each property where appropriate. The value of the archetype is the total of all these valuations.

4.12.3 In some cases, it may not be possible to identify the exact number of properties with each variant characteristic. In these cases a judgement will have to be made based on all available information as to how many properties within the archetype exhibit each variation. Once this has been established the same procedure as set above should be adopted.

4.12.4 The unit of valuation is the HRA portfolio and no deduction should be made to the beacon values on the grounds that a larger portfolio would command a lower price than a portfolio with fewer numbers of stock. Not only is the assumption one that is inappropriate in terms of resource accounting, but also there is no evidence to suggest that the sale of a local authority housing portfolio is adversely affected purely by the numbers of dwellings within the portfolio.

4.12.5 The make up of the archetype valuation should be included on the beacon record sheet as it will form an essential piece of information in any subsequent valuation review. An example is shown on the beacon record sheet at Appendix 2. The adjustment factor as described below should then be applied to the total value of the archetype.

4.13 ADJUSTMENT FACTOR – KEY STAGE 12

4.13.1 The value of the archetype, based on the beacon value, is adjusted to take account of the occupation of secure tenants at less than market rents to arrive at EUV-SH. The adjustment factors have been provided and are listed in Chapter 3 together with a methodology on the approach that has been adopted in their derivation. There should be no departure from the adjustment factor unless the valuer has evidence which shows the level of adjustment does not provide a fair assessment of EUV-SH for that particular portfolio. In these cases a full account of the alternative method for deriving the factor, and the supporting data, must be provided to the authority.

4.13.2 The adjustment factor is only applied to properties where the appropriate basis of valuation is EUV- SH and the beacon approach has been adopted.

However there will be circumstances, even when the beacon approach has been adopted, where an adjustment factor is not appropriate for establishing EUV-SH e.g. in areas of unpopular housing where there is no difference between market and existing rents and these are dealt with in Chapter 5.

4.13.3 Valuations of other types of property, such as hostels, bed and breakfast accommodation and specialised sheltered accommodation where included in the HRA, may require no further adjustment if occupation is not by means of a secure tenancy and the basis of valuation is EUV. These property types are dealt with in Chapter 7.

4.14 VALUING THE ASSET GROUP KEY – STAGE 13

4.14.1 The value of each asset group is the total of all the property archetypes contained within the group. The make up of the asset group valuation should be recorded on an asset group schedule, an example of which is in included at Appendix 2 and will form part of the beacon portfolio.

4.14.2 A summary of all the asset group valuations will form part of the valuation certificate and an example is included at the end of this chapter.

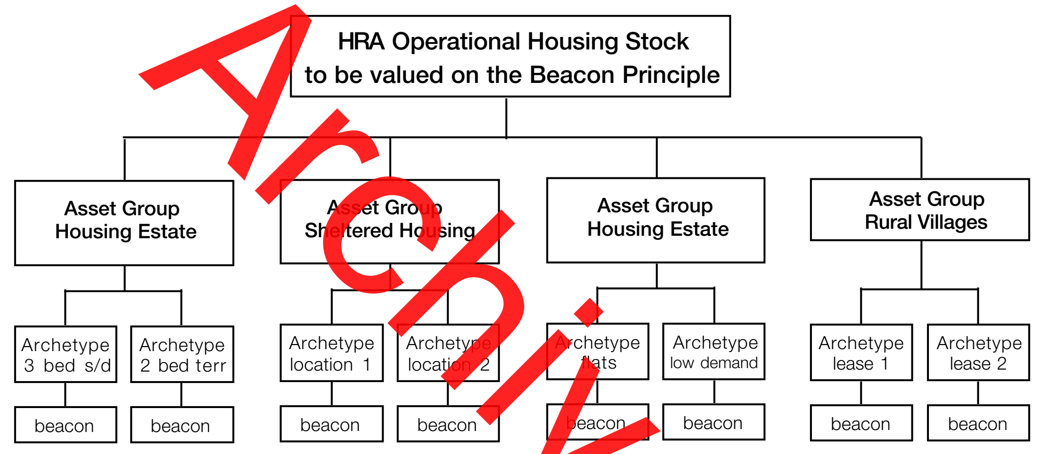
4.14.3 Any additional individual properties that have been identified as part of the group will be recorded on separate schedules as indicated at the end of Chapters 6 and 7. These will also form part of the valuation certificate.

4.15 MINING SUBSIDENCE/CONTAMINATED LAND/RADON RISK/ASBESTOS

4.15.1 A standard approach should be adopted to cover all these environmental issues. Unless the authority have provided reports covering mining subsidence, contaminated sites, areas of radon risk and properties with asbestos, it should be assumed the properties are not so affected and the final report should be worded accordingly. This approach should only be adopted if the valuer, having carried out the valuation exercise, has no evidence to the contrary, either historical or current.

4.15.2 Where the valuer has reason to suspect properties are located in areas so affected, a note to this effect should be included in the report with a recommendation to the authority to obtain the necessary specialist advice. The valuations in these areas will reflect, to the extent the market would do so, the known risks associated with any of these factors.

Figure 2 **Grouping of Housing Property for the Application of Beacons**



Asset Group Valuation Schedule – *operational property*

Name of Asset Group	Stock number	Unadjusted vacant possession value based on beacon values	EUV-SH	Balance sheet	Note to accounts
Riverside Estate	1,000	£21,893,000	£11,158,000	£11,158,000	£21,893,000
Pinkie Estate	600	£32,972,000	£16,486, 000	£16,486, 000	£32,972,000
Summerston Estate	240	£10,781,000	£5,390,500	£5,390,500	£10,781,000
(see Appendix 2 for archetype groups within Riverside Estate) The valuations above have not been adjusted for directly attributable acquisition costs which are dealt with in Chapter 12.					

CHAPTER 5

Absence of Owner Occupied Market

Key Points

- unusual construction and types
- unpopular houses/vacant houses
- use of adjustment factor
- stages of decline
- reporting

5.1 INTRODUCTION

5.1.1 In some cases there may be a scarcity of sales of similar houses sold for owner occupation, making it difficult to establish an accurate beacon value based on this source of evidence.

This may arise because:

- the properties, though of a type sold for owner occupation such as terraces, flats etc. are of a type of construction unattractive to the owner occupied market because of difficulties raising finance e.g. system built property, houses classed as defective under the Housing Act 1985 part XV1;
- properties are not a type sold for owner occupation e.g. bed sit accommodation with shared facilities;
- properties are situated in unpopular locations where there is no demand for owner occupation.

The beacon approach as set in Chapter 4 should still be adopted for these property types but modified, in line with this chapter, to take account of the various situations that may be encountered.

The properties in this section would normally be let on secure tenancies. More specialised accommodation for vulnerable members of the community where occupation is not usually on the basis of a secure tenancy e.g. sheltered housing with additional support or hostels for the homeless is detailed in Chapter 7.

5.2 UNUSUAL CONSTRUCTION AND TYPE – BUT NOT LOW DEMAND VALUATION APPROACH

5.2.1 The properties in this category are those which, although not unpopular, do not sell for owner occupation. This may be a result of difficulties raising mortgage finance because the houses are classed as defective or because they are of a type unattractive to the owner occupied market e.g. maisonettes/high rise flats.

5.2.2 These properties should be identified by the authority and where numbers are substantial the properties should be categorised as an asset group, or an archetype within an asset group, along the lines set out in Chapter 4.

5.2.3 Where properties are few in numbers in isolated pockets and surrounded by areas where there is an established owner occupied market, it may be appropriate to include them within one of the main property archetypes. The valuation approach in theses instances should be as in Chapter 4, based on the value of the archetype beacon which should be adjusted to reflect the poorer environment/location and type of property.

5.2.4 Where the properties form a separate archetype, such as Orlit houses or bed sitting rooms, the beacon approach should be adopted drawing on all possible sales information and making adjustments to reflect the attributes of these properties.

5.2.5 Sales of other property types may form a basis for the beacon valuation. Sales of property such as studio apartments/starter homes may form a basis for the valuation of bedsitting room type of accommodation. Sales of flats may establish a tone of value for maisonettes. Auction sales and cash sales may provide evidence for properties where a mortgage is unobtainable because of the type of construction.

5.2.6 It is important when valuing these unusual property types to look in the wider geographical area including the private sector and other council estates for sales evidence. The evidence should be adjusted for the location and property type to provide the beacon value. Where adjustments exceed 15% (Chapter 4 para 4.9.2) the beacon record sheet should be noted accordingly.

5.2.7 It may be useful in these situations, as a check, to consider the value of the nearest property where there is an owner occupied market to establish a benchmark against which these unusual property types can be compared.

5.2.8 Where the properties are also unpopular, the process outlined below should be adopted.

5.3 AREAS OF UNPOPULAR HOUSING

5.3.1 One or more of the following characteristics may identify these localities:

- none/low levels Right to Buy applications;
- none/low levels Right to Buy sales;
- none/low levels resales;

- high levels of long term vacant property;
- high levels of difficult to let property;
- high turnover of tenants;
- high incidence of voids;
- very low property values in absolute and relative terms;
- poor reputation of the area;
- planning blight.

In some instances whole streets or parts of an estate may be boarded up or tower blocks partially occupied or estates may have large numbers of vacant properties scattered throughout the area because tenants are reluctant to take up a tenancy.

5.3.2 The authority will have housing management information to help identify any such areas of housing.

5.3.3 Identification and categorisation of these areas of unpopular housing should be discussed with the Chief Finance Officer. The authority may categorise empty housing as surplus to requirements or awaiting re-development. These property types should be categorised as non-operational and the correct basis of valuation will be Market Value (see Chapter 9).

5.3.4 The extent of these areas will vary between authorities but not all vacant property should be regarded as falling into this category.

Vacant properties awaiting re-letting in areas where there is a demand should be included in an archetype group in the usual way as described in Chapter 4. The same approach should be adopted for properties in popular locations that have been vacated for refurbishment or possible redevelopment. The fact they are vacant is not because they are unpopular and the valuation approach is as in Chapter 4. This will provide the appropriate signals for resource accounting and bring to the attention of the authority the value and resources tied up in the existing asset.

5.4 UNPOPULAR HOUSING VALUATION APPROACH

5.4.1 Properties falling within this category will form significant areas of property and should be classed as an archetype group. Where there are small pockets of low demand/vacant units in otherwise popular housing estates i.e. one particular street or one particular tower block they should be included within one of the main property archetypes and treated as a variation from the beacon. The valuation approach in theses instances should be as in Chapter 4, based on the value of the archetype beacon which should be adjusted to reflect the particular circumstances of these properties.

5.4.2 The valuation approach in Chapter 4 establishes EUV-SH by applying an adjustment factor to vacant possession value, which is based on owner occupation. The use of an adjustment factor for substantial areas of unpopular houses may not always be appropriate. The sources of evidence for establishing values of unpopular houses will be taken from sales of poorer quality properties, often bought as high risk/high return investments and probably not necessarily for owner occupation. In some cases the level or 'tone' of open market rents obtained for the private sector properties will be no different from the level of rents for social/affordable housing including council rents, having regard to general location, environment, and condition and the different types of tenancy involved. In these situations the use of an adjustment factor to beacon values would undervalue the asset.

5.4.3 It is a matter of valuer judgement following discussions with the Chief Finance Officer to establish whether affordable/social rents for the property archetype/asset group have a similar 'tone' to private sector rents. It will be necessary when considering this issue to compare like with like having regard to the fact that private sector rents may often be for furnished accommodation on short term lets. This evidence will require to be adjusted to reflect a secure tenancy which is unfurnished and provides security of tenure.

5.4.4 Sources of information which may provide a comparison of market rents and affordable rents include the Housing Corporation 'guide to local rents Part 1: cross tenure rents', Rent Officer information and other sources such as local newspapers and local knowledge.

5.4.5 For a consistent approach it is recommended that as part of the ground work in valuing these unpopular properties, the general level of affordable/social rents is compared with a notional market rent on the same terms and conditions. The comparison may be appropriate for the whole asset group if it comprises an unpopular estate or for an archetype where there are unpopular areas within the defined asset group.

5.4.6 A robust approach should be adopted having regard to the implications of the decision for the overall accuracy of the valuation. Where the valuation approach as set out in para 5.4.1. has been adopted and the assets are included within an existing archetype, the value of the unpopular properties should be adjusted by the appropriate factor only if the affordable/social rents are less than the equivalent private sector rent.

5.4.7 For larger numbers of property which form separate archetypes and asset groups, in making the decision, it may be useful to consider the impact of the adjustment factor on the capital value of a typical property. By the nature of the general environment, capital values will generally be relatively low and to adjust by a factor of ***40%-50%*** may provide an unrealistic valuation.

5.4.8 Where it is considered that the level of affordable/social rents for the property archetype is not materially different from private sector rents a note to this effect should be made on the beacon record sheet. Details of the general level of affordable rents for the archetype and evidence of open market rents should be included on the sheet as this information will be necessary when updating the valuations in subsequent years.

No adjustment factor is necessary in these situations as the beacon valuation will represent EUV-SH.

5.5 UNPOPULAR HOUSING INFORMATION

5.5.1 To establish EUV-SH in areas of unpopular housing will involve looking at different sectors of the housing market including:

- cash sales to individual investors;
- auction sales;
- speculative sales;
- investment sales to private sector landlords;
- rates of return on residential investments;
- council rents;
- private sector rents.

The aim is to establish the capital value of the property in the absence of an owner occupied market. There may be sufficient evidence to establish capital values directly by comparison with auction sales, investment sales etc. These will be mainly be related to the investment market and what a prospective purchaser would pay assuming the property was to be let at a market rent.

5.5.2 Any plans for these areas should be discussed with the Chief Finance Officer as there may be a council decision to demolish the properties in the short to medium term. These decisions should be reflected in the valuations in as much as the market would do so and will effectively make the properties short life properties.

5.5.3 Where no decisions have been made about the future of these types of property the valuer in preparing the valuation should assess the long term viability of social housing in the area. Information on future demand for social housing, population movements, employment prospects and age profile of the current tenants should help to build up a picture which an investor would reflect in the purchase price.

5.5.4 A possible source of evidence for the valuation of short life properties is the private investment market for low value properties which, by the reason of their repair and condition, may only have a relatively short life. Analysis of these sales may be useful in providing information on the required rates of return for investments of this nature.

It may be useful as a check to consider the value of adjacent property where there is an owner occupied market to establish a benchmark against which these low value properties can be assessed.

5.5.5 All the information should be evaluated against the characteristics of the properties as a basis for the value of the archetype group.

5.6 GROUPING OF UNPOPULAR HOUSING

5.6.1 The approach to the valuation, where there are substantial numbers of properties, is to divide the properties into archetypes as set out in Chapter 4 or to treat them as one mixed archetype group. The latter approach may be the most appropriate where, because of a lack of an owner occupied market, an investment approach has to be adopted for the valuation. A mixed archetype group will also be appropriate where all the properties, irrespective of type, are vacant and boarded up. This will be necessary where it is likely the properties have a short life in their existing use.

5.6.2 Set out below are various scenarios which may be encountered on these types of estates and the valuation approaches that should be adopted. These scenarios will not cover every type of situation but should provide guidance as to how property groups with certain characteristics should be treated for the asset valuation. The scenarios represent the various stages of decline that might be found either within an estate or for the estate as a whole.

5.6.3 At any one time an asset group may have areas of housing of all the types described below. In these situations it may be appropriate to group the properties into archetypes to match the various stages as described.

5.7 MIXED ARCHETYPE OF VACANT AND LET PROPERTY – FIRST STAGES OF DECLINE

5.7.1 These areas will be characterised by a pepper potting of vacant and tenanted properties, but although properties are difficult to let, tenancies are allocated and taken up. Property turnover may be high and the estates may be of a type which provide short term accommodation with voids higher than the average. If the estate has a considerable number of long term voids and there is little prospect of such property ever being let, the estate should be regarded as in the second stage of decline which is dealt with para 5.8 below.

5.7.2 The future of the properties should be discussed with the Chief Finance Officer to establish whether there are any plans for demolition of all or parts of the estate, and in the absence of any strategy the long term viability of the estate for social housing should also be considered.

5.7.3 Archetype groups should be established in the usual way, but in these areas the range of values across property types may be narrow and all types may fall within the 30% range set out in Chapter 4 para 4.4.2. The residential investment market is not as sensitive to variations in property type as the owner occupied market. Subject to valuer judgement it may be reasonable to place all the properties, especially if they form part of a demolition/redevelopment unit, in one archetype group and adopt a beacon value based on all the information available.

5.7.4 All the sources of comparable evidence as listed at 5.5 should be evaluated to establish a beacon value for a typical property within the archetype group. In areas where there is a residential investment market it will be possible to ascribe a beacon value based directly on the capital value of the comparable sales. An investment approach may also be adopted using a market rent for the beacon property and a rate of return derived from sales of other investment property. This would need to be adjusted to reflect the nature of the beacon and its setting within the estate and wider geographical area.

5.7.5 In considering and adjusting the comparable sales evidence it is important that adjustments are made to reflect the viability of social housing in the locality, especially if it is considered there is no long term future for the estate. The estate may have a limited life because of the plans of the authority to demolish or because it is considered the letting demand will fall away dramatically in the short to medium term. Some private sector sales may already reflect these factors if they are of existing surplus local authority housing, or private sector property in poor condition where future tenant demand is uncertain. In these cases the price paid will represent the short term nature of the investment.

5.7.6 If this is not the case and the comparable sales are effectively long term residential investments it may be necessary to adjust the sales to reflect any risk there is in the viability of the archetype for social housing. Adjustments would usually be reflected in the rate of return required on the investment and the number of years remaining before the property became unlettable.

5.7.7 Adjustments may also be necessary to reflect the longer void periods which may be encountered within the local authority stock as opposed to the private sector. Longer voids increase the income risk of the investment and should be accounted for by adjusting the return an investor would require on the investment.

5.7.8 The value of the archetype is the number of properties within the archetype multiplied by the beacon value. The valuation will require to be adjusted by the appropriate adjustment factor if it is considered that the general level of rents for the properties is less than private sector rents. In making the decision regard should be had to para 5.4 to 5.4.8.

5.7.9 Where it is considered that there is little difference between market rents and the rent passing or little difference in the capital value of the property, irrespective of whether it is let at a social or private rent, no adjustment factor should be used as this would understate the value of the property.

5.8 MIXED ARCHETYPE OF VACANT AND LET PROPERTY – SECOND STAGE OF DECLINE

5.8.1 In some areas there may be little evidence of an investment market making it unrealistic to ascribe a unit value to the properties. Even where there is a general market, the council properties may be so unpopular and potential demand for tenanted accommodation be so low as to make a sale unrealistic under the terms of EUV-SH.

5.8.2 A characteristic of these properties is the very high level of long term voids and the possibility they will never be re-let. It is a matter of valuer judgement following discussion with the Chief Finance Officer and using housing management information to establish whether it is reasonable to assume a future demand for these long term void properties.

5.8.3 The important consideration in these cases is the fact that a proportion of the properties are providing a service as housing accommodation and as such they have a ‘value in use’ to the authority. This is in line with the basic accounting principle of value to the business. The remaining service potential to the authority may be low, but the properties have not yet reached the stage as detailed at 5.9. That scenario may arise in the future in the absence of regeneration of the property and the area.

5.8.4 Archetype groups should be established in the usual way but it is anticipated that all the properties will be placed in a single group. The point of creating the archetype is to distinguish the properties from surrounding asset groups/archetypes which do not have these problems.

5.8.5 The future plans for the area should be discussed with the Chief Finance Officer as there may be a council decision to demolish the properties in the short to medium term.

5.8.6 Where no decisions have been made about the future of these areas an assessment should be made of the viability of the existing tenancies and, in the long term, the viability of social housing in the area. Information on existing tenancies concerning turnover, frequency of relets and length of tenancies should provide information on the immediate demand for social housing. Population movements, employment prospects and age profile of the current tenants should help to build up a picture of the longer term prospects for the estates.

5.8.7 The value in use to the authority may be assessed by a simple investment valuation of the group as a whole based on market rents with an allowance for long and short term voids and other outgoings assuming only minimal care and day to day maintenance. The aim is to establish a capital value, which in these type of cases would be restricted to some form of high risk investment market. It is anticipated that it would be unrealistic to assume the properties will remain tenanted for much more than five years and this should be reflected in the valuation. An alternative approach is to value a typical property and apply this valuation to the number of properties which are currently or are expected to remain tenanted for the remaining life of the estate. The remaining properties within the archetype have a nil value.

5.8.8 The guiding principle when valuing these property groups is that the service potential represented by the value in use of the existing tenanted properties, however small, must be accounted for in the balance sheet.

5.8.9 Where it is considered there is little difference between market rents and the rent passing, or little difference in the capital value of the property irrespective of whether it is let at a social or private rent, no adjustment factor should be used as this would understate the value of the property.

5.9 VACANT PROPERTY ARCHETYPE – FINAL STAGES OF DECLINE

5.9.1 Where the archetype group is made up of vacant/boarded up property and investigation reveals the properties are impossible to let, the value of the archetype should be recorded at nil.

5.9.2 Areas of housing of nil value will most likely comprise groups of property which are vacant and cannot be let. It would be unusual to return a nil value for an archetype group where there are still tenanted properties as the asset is providing a service. However, there may be some instances where either by inaction or historical accident or where the authority are clearing the area for demolition, a small minority of houses remain tenanted but are surrounded by vacant/boarded up units.

In these circumstances it will still be appropriate to return a nil value for the archetype, if it is reasonable to assume that these few tenanted properties are un-lettable following the departure of the existing tenants.

5.9.3 If the properties have been declared non-operational the appropriate basis of valuation is open market value and is dealt with in Chapter 9.

5.10 HIGH RISE UNPOPULAR HOUSING

5.10.1 There will be cases where floors of high rise flats and maisonettes have been allowed to fall vacant for refurbishment or upper floors vacated for redesign of the roof space, whilst the lower floors are in occupation.

Where refurbishment work is in progress the valuation approach is as set out in Chapter 8 (Land and Buildings in the course of Development/Refurbishment). Where work has yet to commence, but floors have been vacated, the vacant properties should be valued at nil, and the occupied units in line with the approach set out above. This approach should not be adopted where properties, in otherwise popular estates are vacant prior to a refurbishment or redevelopment scheme, para 5.3.4 refers.

5.11 UNPOPULAR HOUSING BEACON RECORD SHEET

5.11.1 A beacon record sheet should be completed in the usual way for these types of property but it may not be possible to supply the same level of detail for comparable sales evidence as this may be drawn from a variety of sources.

The beacon record sheet should show the reasoning behind the value of the beacon and or archetype and any assumptions that have been made concerning redevelopment.

Sample beacon record sheets covering vacant houses and areas of vacant and let property are included in Appendix 2, beacon record sheets 2, 3 and 4.

5.12 NEGATIVE VALUATIONS

5.12.1 Negative values are not usually appropriate for operational property within the context of resource accounting and capital charging because:

- where the asset is still providing a service i.e. the property is still tenanted, the asset has a value to the authority;
- if the asset is no longer providing a service, i.e. because it cannot be let, it has a nil value to the business as an operational property in its existing use, not a negative value.

5.12.2 However, where the valuation is negative because of a legal liability such as a dilapidation claim on a leasehold property, a negative value must be recorded in the valuation certificate. These situations are dealt with in Chapter 6.

5.12.3 For capital charging purposes the value of these properties recorded at a negative valuation will be taken at nil but they must be recorded separately in the final report at the negative value.

CHAPTER 6

Operational Leasehold Housing Property

Key Points

- ground leases
- property leased by the authority
- property leased to the authority
- interdepartmental leases
- reversionary interests and nomination rights

6.1 INTRODUCTION

6.1.1 Leasehold properties may be of several types including:

- ground leases where the authority is lessee;
- property leased by the local authority to other housing organisations/charities;
- individual properties leased to the authority in order to meet local housing needs;
- leases/licences/agreements between departments within the authority.

Properties held on ground leases normally fall to be valued by the beacon approach as the houses will be in a defined location and of a uniform type. The houses should form either an archetype within an asset group or, in cases where there are substantial numbers and range of types, a separate asset group. Local authority housing subject to ground leases will not be common in many areas of the country, and unless advised to the contrary, it should be assumed that all the properties are freehold.

Other types of leased properties may be less uniform in nature, and often scattered throughout the authority. A more individual approach may be necessary for establishing the valuations in these cases.

The Code of Practice on Local Authority Accounting requires leases to be classified as either finance leases or operational leases. Where a lease is operational no fixed asset will be entered on the balance sheet of the lessee. Where a lease is classified as a finance lease the asset and the outstanding liability will be recorded on the lessee's balance sheet and the rental payments under the lease will be apportioned between a finance charge and the principal repayment of the outstanding liability. The local authority capital finance framework in Part 1 of the Local Government Act 2003 follows the accounting classification in its treatment of leases.

6.2 GROUND LEASE

6.2.1 Ground leases will cover a discrete number of identifiable properties, often whole estates or pockets of properties within defined boundaries. In the case of whole estates the beacon approach described in Chapter 4 should be adopted and the estate split into property archetypes. The beacon valuations will need to reflect the following:

- the terms of the lease;
- any restrictive covenants;
- any legal requirement for the authority to purchase the freehold or extend the lease at a revised ground rent.

It will be necessary for the valuer to verify the details of the ground lease in respect of the beacon property.

6.2.2. In some cases, it may not be necessary to have a separate beacon valuation for the leasehold properties. Ground leases may be of such a length and the onerous restrictions of a type for there to be little difference between leasehold and freehold values. A beacon from an adjacent local authority freehold property may provide a reasonable value for both types of tenure. In these cases a note should be made on the beacon record sheet that the same beacon has been adopted as for adjacent freehold property.

6.2.3 Some ground leases may be for non-estate properties scattered across a locality and it may be impractical, in terms of materiality to the overall accuracy of the valuation, to have beacons for each set of ground leases.

Where the lease terms have little effect on value, when compared with a freehold property, the properties should be grouped with other non-estate property as set out in Chapter 4. An alternative approach is to group the houses into similar broad lease groups, with a typical property selected as a beacon for the group. The beacon value should then be adjusted depending on accommodation/condition of the houses and flats, etc. in accordance with Chapter 4 para 4.11. The adjustments to the beacon for the various property types may exceed +/- 15% of the beacon value and this should be recorded on the beacon record sheet.

6.2.4 The treatment of properties where ground leases only have a short term to run should be discussed with the Chief Finance Officer. In effect these are shortlife properties, unless there is a legal requirement under the lease for the authority to purchase the freehold.

6.2.5 The valuation must reflect any legal obligation to purchase the freehold/extend the lease. In some circumstances the asset value of the property will be negative, especially if under the terms of the lease the buy back price is open market value with vacant possession.

6.2.6 Where the remaining ground lease has a short term to run, making the property unattractive to the owner occupied market, an investment approach to the valuation should be adopted. Regard should be had to the rate of return required for residential investments, the open market rent of the property, dilapidations due at the end of the lease and length of lease remaining

6.2.7. Where it is considered that there is little difference between market rents and the rent passing or little difference in the capital value of the property, irrespective of whether it is let at a social or private rent, no adjustment factor should be used to arrive at EUV-SH as this would understate the value of the property.

6.2.8 Where the valuations are negative as a result of complying with the terms of the lease, the negative valuation must be included in the balance sheet as a separate item. This is in line with the basic accountancy principle of prudence; any negative values that can be foreseen should be included in the accounts. The valuation for capital charging purposes will be nil as negative valuations are not appropriate for resource accounting and capital charging.

6.2.9 A beacon record sheet will be necessary for these properties, providing details of the valuation.

6.3 PROPERTY LEASED BY THE AUTHORITY (AUTHORITY AS LESSOR)

6.3.1 Property leased to third parties where the lease term is for 21 years or less will be included in the HRA. Authorities may have various types of agreement with such bodies as registered social landlords and housing charities who provide a wide range of social housing. It will be necessary for the valuer to have a sight of the leases for the properties involved.

6.3.2 Properties leased for terms in excess of 21 years are not included in the HRA and should not be included in the asset valuation. This includes long leases granted under the Right to Buy. If the valuer considers that, having seen the lease, the property is wrongly held in the HRA the matter should be raised with Chief Finance Officer.

6.3.3 Where agreements cannot be regarded as leases such as ad hoc arrangements/licences, the properties should be valued with vacant possession on the beacon approach as set out in Chapter 4.

6.3.4 Although these leased properties will usually be of an individual nature, it should not be necessary to inspect each property internally and externally. A sample inspection of a typical property should be carried out and a roadside inspection of the remaining should be sufficient where properties are of a similar type and let under a similar types of lease.

6.3.5 The valuation approach is EUV but having regard to the lease. This is a departure from the definition of EUV which assumes that vacant possession is provided on completion of the sale of all parts of the property occupied by the business. In these cases although the property is leased to a third party the use of the property remains for social housing. It is in fact operational as opposed to surplus to requirements, and the valuation should reflect the continuing use as social housing. This departure from the definition of EUV should be recorded in the final report.

6.3.6 The valuation approach will involve capitalising the rent under the lease at the appropriate rate of return with an allowance for any reversionary value to EUV-SH.

Reversionary values that are material should be based on vacant possession value, taking into account any improvements that should be carried out under the terms of the lease. This figure will need to be adjusted by the appropriate factor for the authority, to provide EUV-SH, and deferred for the period remaining on the lease.

6.3.7 Valuations of property let under the Landlord and Tenant Act 1954 should have regard to the statutory right to renewal. The terms of the lease should be examined when preparing the valuation and discussed with the Chief Finance Officer.

6.3.8 Individual valuations for property should be prepared and included in a separate property schedule, except where streets/groups of houses have been let on identical leases and rents. In cases where there are a number of properties let on similar terms, the value of the total number of units should be based on the value of a single property and reported accordingly on the schedule. A sample schedule is included at the end of this chapter.

6.4 PROPERTIES LEASED TO THE AUTHORITY (AUTHORITY AS LESSEE)

6.4.1 Authorities may require additional property to meet local housing needs and lease in accommodation from third parties. If the leases are classified as finance leases these properties should be identified and, where the leases are of an individual nature, each property should be valued. The approach to inspections is the same as at 6.3.4, having regard to valuer judgement and the effect on the overall accuracy of the valuation.

6.4.2 Properties leased for terms of up to ten years to the authority for housing the homeless are not included in the HRA. If the valuer considers that having seen the lease and the property, the asset is wrongly held in the HRA the matter should be raised with Chief Finance Officer.

6.4.3 Finance leases should be capitalised and shown in the balance sheet of the lessee (the authority). The value of the asset is recorded as a fixed asset, and the obligation to pay the future rents as a deferred liability.

6.4.4 The valuation approach for leases classed as finance leases, where the local authority is the lessee, is to capitalise the rent passing for the term having regard to rent reviews and the prospect of renewal. The rate of return on similar types of investment may prove a useful starting point, but this should be adjusted for to take account of the fact of there will be no capital growth in the investment.

6.4.5 This may seem at odds with traditional valuation practice which is to capitalise the profit rent from the property. That approach is reflecting what the market would pay to step into the shoes of the existing tenant if the asset was no longer required for providing the service.

By taking on the lease the tenant has made the financial decision that the value of the asset, as part of providing the service, is worth at least the rent payments for the length of the lease. It is this value which is to be recorded in the balance sheet.

6.4.6 Individual valuations of each property should be prepared and included in a separate property schedule.

6.5 INTER-DEPARTMENTAL LEASES

6.5.1 For the purposes of the asset valuation leases/agreements between departments within the authority should be disregarded. It is acceptable for annual company accounts to take account of the existence of these agreements, provided they are at arm's length terms. However it is not acceptable for group accounts where the properties should be valued ignoring the lease. For the purpose of the asset valuation these types of property should be valued ignoring any internal agreements

6.5.2 The allocation of the capital charge between the occupying departments is a matter for the authority.

6.5.3 These properties should be valued on the beacon approach and included in an archetype group in the usual way. If the authority require them to be identified, a separate schedule should be prepared listing the addresses of the properties and included in the final report.

6.6 REVERSIONARY INTERESTS AND NOMINATION RIGHTS

6.6.1 Nomination Rights and Reversionary Interests for property sold under long leases under the RTB scheme are not accounted for in the HRA and do not require to be valued as part of the asset valuation for the HRA. These valuations are not adjusted for directly attributable acquisition costs which are dealt with in Chapter 12.

Housing Revenue Account Asset Valuation – 1 April 2005					
CHAPTER 6 SCHEDULES – LEASES BY THE AUTHORITY (authority lessor)					
Ref No.	**Address**	**Description**	**Value £'s**	**length of lease remaining years**	**Remarks**
1	3,5,7 Victoria Road	3 terrace properties leased to a housing association	36,000	10	15 year leases from 2000 at £1000 per annum per property
2	15 The Rowans	Semi-detached property leased to a charity to accommodate people with learning difficulties	22,000	5	10 years from 2000 at £2500 per annum

Housing Revenue Account Asset Valuation – 1 April 2005					
CHAPTER 6 SCHEDULES – FINANCIAL LEASES (authority lessee)					
Ref No.	**Address**	**Description**	**Value of lease term £'s**	**length of lease remaining years**	**Remarks**
1	1,3,5 Brown Crescent	3 terrace properties leased from private sector to meet demand	25,000	20	25 year leases from 2000 at £1000 per annum per property
2	15 The Square	Semi-detached property leased from private sector to meet demand in rural area	22,500	25	30 years from 2000 at £2500 per annum

The valuations are not adjusted for directly attributable acquisition costs which are dealt with in Chapter 12.

CHAPTER 7

Other Operational Assets and House types Including Sheltered Housing and Shared Ownership

Key points

- categorisation of assets
- basis of valuation
- types of property
- report schedules
- contamination/radon/mining subsidence

7.1 INTRODUCTION

7.1.1 Although the HRA is primarily concerned with general purpose council houses, there may be other properties (dwellings and non dwellings) within the account which are either ancillary to the housing function or are providing accommodation for specific groups of people. For example, sheltered accommodation with varying degrees of support may form part of the HRA assets. Non-housing property may include lock-up garages let exclusively or mainly to HRA tenants. These will normally be considered part of the HRA although where an authority has a policy of letting of garages, on a long-term basis, to people who are not HRA tenants, it may be more appropriate to account for them in the General Fund.

7.1.2 Other likely operational assets are play areas, grassed areas and gardens, community centres, shops and council offices. The decision as to whether costs for these assets should be charged to the HRA is for the authority to make in the light of local circumstances and the use made of the assets. Guidance is in DOE Circular 8/95.

7.2 CATEGORISATION

7.2.1 The categorisation of these HRA assets into operational and non-operational property is a matter for the Chief Finance Officer, with assistance from the valuer. There is no fixed rule based on property type, as categorisation is dependent on the function of the asset within the authority.

7.2.2 It is necessary for all properties to be identified and categorised. The final valuation report will require the value of the non-housing operational assets to be stated separately from the value of the dwellings.

7.3 BASIS OF VALUATION

7.3.1 Non-housing property within the HRA which is classed as operational is valued to EUV in accordance with the RICS Appraisal and Valuation Standards UKPS PS 1.13 et al.

7.3.2 Specialised property such as community halls, hostels etc. which are rarely sold on the market for their existing use, should be valued on a drc approach in accordance with the RICS Appraisal and Valuation Standards UK Appendix 3.1. When the drc approach is adopted there should be discussion between the valuer and the Chief Finance Officer with regard to the assumptions used in the valuer's assessment of worth. This would include whether the drc basis should be replacement on a like for like basis, or a modern substitute.

7.3.3 Dwelling houses for specific groups of people such as sheltered accommodation, depending on the degree of specialisation and nature of tenure, are either valued as mainstream housing to EUV-SH as described in Chapter 4, or EUV when there is no security of tenure.

7.4 INFORMATION

7.4.1 The following information will be required as part of the valuation process:

- shops/offices – floor areas, details of rent passing and terms of lease;
- lock up garages – numbers, rent passing, types of tenancy, voids, waiting lists, number of vacants;
- environmental factors – reports covering mining subsidence, contaminated land radon risk, asbestos.

7.5 PROPERTY TYPES

7.5.1 The following types of property may be classed as operational within the HRA. The list is not exhaustive and where properties have not been categorised discussion should take place with the Chief Finance Officer prior to the valuation:

- play areas/communal gardens/landscaping;

- lock up garages;
- offices (possibly shops depending categorisation);
- hostels/sheltered housing;
- meeting halls/community centres (usually classed as specialised properties);
- shared ownership schemes.

7.6 OPEN SPACES/PLAY AREAS/ALLOTMENTS

7.6.1 Areas of landscaping and communal gardens included within the HRA will usually be reflected in the beacon values for the surrounding houses, and would not fall to be accounted for separately. Larger areas of operational space such as designated play areas, play grounds, playing fields, parks and formal gardens will usually be classed as community assets and do not require to be valued. Where, however, the asset is included in the HRA and is not classed as a community asset, a valuation on basis of EUV should be prepared. The valuation should reflect a level of value for the existing use e.g. recreational land together with the value of any play equipment that has been installed if not accounted for elsewhere.

A beacon approach to the valuation is probably not appropriate and individual valuations should be prepared for the identified assets and identified on a separate schedule. For consistency a level of value or 'tone' value for these areas could be adopted across the authority.

7.7 LOCK UP GARAGES

7.7.1 As these properties are of similar design a beacon approach to the valuation is probably the most appropriate.

The grouping of the garages for valuation purposes will depend on how the information on numbers and rents is held by the authority. Where there is little subdivision across the stock it may be necessary to treat all the garages as one asset group for the whole stock. Alternatively where garages are identified at estate level, a valuation as a separate archetype within the asset group will provide more information for the business plan.

The valuation will have regard to the level of rents, types of lease and the outgoings such as management, voids etc. Where information is not available for the whole stock, an alternative approach would be to value a typical garage for which information is available. The resulting capital value, with adjustments where necessary for condition, demand etc. should then be adopted for the remaining properties.

7.7.2 There may be locations where the garages are in poor repair, vacant and unoccupied. If these have been categorised as non-operational properties the appropriate basis of valuation is MV (see Chapter 9).

Where the assets are categorised as operational it may be appropriate in some situations to return a nil value. This situation may arise in areas where a nil value has been placed on the surrounding houses.

7.7.3 Individual lock up garages have a relatively low value and may be below the de minimus threshold set by the authority. Groups of garages however may well exceed the de minimus level and for the purposes of the asset valuation where properties are of a similar type they should be grouped and valued accordingly.

7.8 OFFICES, SHOPS AND MISCELLANEOUS ASSETS

7.8.1 The basis of valuation for these non-specialised properties is EUV subject to the terms of any existing leases. This is a departure form the definition of EUV which assumes that vacant possession is provided on completion of the sale of all parts of the property occupied by the business. Although the property forms part of the business, hence the classification of operational, the existence of any lease cannot be ignored. This departure for leased properties should be noted in the final report.

Unless there are sufficient physical similarities between the properties and they are let on identical leases and rents, individual valuations may be required as opposed to a beacon approach.

Roadside inspections should be carried out of all the properties but the valuer should make a judgement as to whether all the properties require internal inspections. If the authority has provided sufficient information on floor areas, an internal inspection of a sample of properties may be sufficient for the purpose of the valuation. A note to this effect must be included in the final report.

7.9 HOSTELS/SHELTERED HOUSING

7.9.1 The nature of these properties will vary widely from authority to authority depending on the degree of services they provide. The most likely type of property will be:

- temporary accommodation/hostels;
- various types of sheltered accommodation.

7.9.2 Hostels/temporary accommodation where there is little income or market evidence of sales may be more properly valued on a DRC approach (see below). The reason is that the use of the property is so specialised there is no market for the property in the wider local authority area. In larger towns and cities, however, there may be sufficient evidence of sales for similar types of use to establish an EUV.

7.9.3 In some cases authorities use properties which would otherwise be in the owner occupied market for temporary housing/hostels. The occupants of the property may have individual rooms but share the public rooms, bathrooms and kitchen. Where there are no formal secure tenancy agreements, the property should be valued with vacant possession assuming a continuing use as residential accommodation, i.e. EUV.

7.9.4 Where there are a significant number of these properties it may be appropriate to adopt a beacon approach to arriving at a typical EUV which could be adjusted to reflect the varying types of properties. The resources devoted to preparing these valuations should have regard to the materiality of the effect of these valuations on the accuracy of the total HRA. It is not envisaged that all these properties should be inspected internally and a roadside inspection may be sufficient.

7.9.5 Sheltered accommodation, where there is a significant element of care and shared facilities, may be better compared to the residential home market. Regard should be had to the quality of the accommodation and facilities provided, in comparison with similar accommodation in the private sector. In valuing these properties regard should be had to the wider market outside the local authority area as the residential home market is not so site/location specific as the owner occupied market. The basis of valuation for these types of property is EUV.

7.9.6 Where however the sheltered accommodation is more akin to general purpose housing with some additional support such as warden call systems, shared laundry facilities, common rooms etc. the valuation approach as set out in Chapter 4 should be adopted and the values adjusted to reflect these features in as much as the market would do so. The basis of valuation is EUV-SH arrived at by the beacon approach and adjustment factor. The properties should be included in an asset group, either as a separate archetype or part of an archetype, possibly as a variant from the beacon.

7.9.7 Comparable sales for this type of accommodation may be difficult to establish and it will be a matter of adjusting the available information to establish a beacon value. Details should be recorded on the beacon record sheet in line with the Guidance as set out in Chapter 4.

7.10 MEETING HALLS/COMMUNITY CENTRES (SPECIALISED PROPERTIES)

7.10.1 The approach to the valuation for specialised properties is drc in accordance with the RICS Appraisal and Valuation Standards Appendix 3.1 and UK Appendix 1.5. Valuations adopting this approach should be expressed in the final report as subject to the prospect and viability of the continuance of the occupation and use in accordance with the RICS Appraisal and Valuation Standards PS 5.5.

The Chief Finance Officer should be notified where it is the intention to adopt a drc valuation for some property assets. The terms of the report should be agreed, including the approach to VAT and whether a modern substitute or replacement of the existing approach is to be adopted.

7.10.2 For the purposes of this valuation exercise there is no specific requirement to provide an MV if this is materially different from thedrc . This is a departure from RICS Appraisal and Valuation Standards PS 5.6 and should be recorded in the report.

It may, however, be a specific requirement of the authority for asset management purposes and, if so, the valuation should be included in the report schedule accordingly.

7.11 SHARED OWNERSHIP

7.11.1 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.

7.11.2 Where there are discrete areas of shared ownership accommodation it may be appropriate to group them into a separate archetype group with a beacon. However, where numbers are small, they should be included in the best match archetype group and valued as a variant from the beacon and recorded as such on the beacon record sheet.

7.12 REPORTING SCHEDULES AND PROCEDURES

7.12.1 A beacon record sheet should be prepared for lock up garages with details of how the valuation was prepared and the numbers of units included in the valuation. The valuation should also be recorded on a separate schedule which will form part of the final report and give details of the value, (see sample schedule at end of this chapter).

7.12.2 Sheltered accommodation which is more akin to general purpose housing as described at para 7.9.6 and shared ownership schemes should also have a beacon record sheet.

7.12.3 Beacon record sheets are not required for the other types of property as it is expected they will be few in number and value. These valuations must be included on report schedules which form part of the final report. The report schedule must include the address of the property, description, valuation, (EUV/drc and MV if appropriate), and remarks.

7.12.4 The value of the operational non-housing assets requires to be shown as a separate item in the balance sheet, hence the necessity at this stage for schedules for housing and non-housing assets. A specimen report schedule is included at the end of this chapter.

7.12.5 It is recommended that houses valued to EUV as detailed in para 7.9.4 are not included in archetype groups and asset groups to avoid an adjustment factor being adopted along with the other property. These properties valued to EUV should be recorded on a separate schedule and a specimen is included at the end of this chapter.

7.13 DEPRECIATION

7.13.1 To allow for any depreciation calculation the land and building elements of the valuations for properties not covered by an MRA allowance should be provided, together with the remaining life of the asset. Further guidance on depreciation is included in Chapter 10.

7.14 CONTAMINATION/RADON/MINING SUBSIDENCE/ASBESTOS

7.14.1 The same standard approach should be adopted for these environmental issues as in Chapter 4 para 4.15.

Housing Revenue Account Asset Valuation – 1 April 2005

SCHEDULE 7 – OPERATIONAL PROPERTY NON-HOUSING

Ref No.	Address	Description and Area	EUV £'s	drc £'s	EUV/drc land £'s	EUV/drc building	Remain life	Remarks
1	2 Smith Court	Ground floor office in multi-storey block extending to 50 sq m used as advice centre.	10,000		2,500	7,500	35	originally a flat but converted to office use as difficult to let
2	The Milton Meeting Hall, Milton Estate	Substantial purpose built with kitchen and w/cs for use by local tenants extending to 200 sq m built in 1955 on a 0.2 ha site		110,000	20,000	90,000	20	Open market value £25,000 assuming use as a store
3	Play area to rear of 1,2,3 Smith Court	0.05 ha site set out as children's playground with slide and other equipment	10,000		6,000	4,000	10	new playground for use by tenants on the estate
4	1 Clover Row	Shop extending to 30 sq m in parade of 5 on large estate. Leased for 15 years from 1/4/98, FRI at £3,000 per ann	20,000		4,000	16,000	30	the situation where a shop is classed as operational will be infrequent
5	500 lock up garages across the authority	blocks of garages, single storey with flat felt roofs and metal u/o doors	250,000		150,000	100,000	20	generally in good repair and in demand

These valuations are not adjusted for directly attributable acquisition costs which are dealt with in Chapter 12

Housing Revenue Account Asset Valuation – 1 April 2005

SCHEDULE 7 – OPERATIONAL PROPERTY SPECIAL HOUSING

Ref No.	Address	Description and Area	EUV £'s	drc £'s	EUV/drc land £'s	EUV/drc building	Remain life	Remarks
1	4 The Square	Three storey terrace house with 8 bed sits with shared kit and bathrooms and welfare support	50,000		12,000	38,000	45	value assumes VP as a dwelling house. No secure occupation
2	St Martin's Hall	500 sq m former YMCA hostel now adapted and used as accommodation with additional welfare support		375,000	50,000	325,000	20	DRC based on replacement with mod equiv Open market value £75,000 assuming use as a store
3	The Mews	Purpose built sheltered units with communal dining and recreational areas and residential staff	150,000		50,000	100,000	40	value has regard to private residential home market
4	1,3,5,7 Castlemains Cottages	Shared Ownership Scheme	50,000		10,000	40,000	40	Value based on 50% share owned by the authority

These valuations are not adjusted for directly attributable acquisition costs which are dealt with in Chapter 12

CHAPTER 8

Land and buildings in the course of development/ refurbishment and PFI schemes

Key Points

- basis of valuation
- HRA approach
- report schedules
- PFI schemes

8.1 INTRODUCTION

8.1.1 The usual valuation approach for land and buildings in the course of refurbishment is set out in the RICS Appraisal and Valuation Standards UK Appendix 1.2,3.8 et al

8.1.2 Valuations for the HRA will depart from the RICS Appraisal and Valuation Standards in order to recognise the large numbers of development/refurbishment contracts which will be ongoing at the date of valuation.

8.2 VALUATION APPROACH

8.2.1 The reason for departure from the RICS Appraisal and Valuation Standards is to recognise the difficulties authorities may have in identifying each redevelopment/refurbishment scheme within the HRA. Contracts will vary in size and number from authority to authority and may often form part of a larger refurbishment scheme carried out over a period of years. To avoid authorities having to identify each contract and to ensure a consistent approach, the following procedures should be adopted.

8.2.2 Land and buildings in the course of development at the date of valuation should initially be classified into the following types:

- new build development by or on behalf of the authority;
- redevelopment/refurbishment schemes of existing property.

8.3 NEW BUILD SCHEMES

8.3.1 New build schemes in the course of construction at the date of valuation should be valued in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards, UK Appendix 1.2 on the basis of MV of the land plus development costs expended to date.

Development Costs which are to be included (finance, management etc) should be discussed with the Chief Finance Officer and referred to in the final report. UK Appendix 1.2, 3.8.4 et al of the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards refers.

8.4 REDEVELOPMENT/REFURBISHMENT SCHEMES

8.4.1 Redevelopment/refurbishment schemes will range from the re-fitting of windows/rewiring/new external works, often with the tenants remaining in residence, to major schemes where the tenants are moved out for a temporary period. Schemes may also include the complete removal of the upper floors of maisonettes to reconfigure the properties and provide a new roof and a more attractive asset.

8.4.2 The approach to adopt in these cases depends on the time scale of the work involved. There will be two categories of schemes:

8.5 CATEGORY A SCHEMES

8.5.1 Schemes in progress at the valuation date and scheduled for completion within twelve months of the valuation date are classed as Category A Schemes. The valuation should assume the contract work has been completed.

Example
A contract has been let for the installation of full gas central heating in 100 terrace houses. The contract was on site at the date of valuation and is scheduled for completion within two months of the valuation date.

The valuation should assume that all the houses have gas central heating. This is a departure from the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards as detailed in UK Appendix 1.2. This departure should be referred to in the final report.

The beacon method of valuation should be adopted and the properties included in a property archetype in the usual way, possibly as a variant to the beacon. These assets will not be classified as assets under the course of construction.

8.5.2 Anticipated schemes at the valuation date where contract work has not been let, or where the contractor has not taken control of the site, should be ignored and the properties valued as existing.

8.6 CATEGORY B SCHEMES

8.6.1 Schemes in progress at the valuation date where contract work on site will extend beyond twelve months of the valuation date are classed as category B schemes. This category will cover the more complex schemes that may cover a wide range of works over the period.

The valuation will be the value of the existing buildings prior to the current contract commencing with, stated separately, the cost of the contract work completed by the valuation date.

Example
A tower block of 100 flats is undergoing complete refurbishment including new external cladding, new kitchens and bathrooms. The contract has various stage target completion dates but final completion will take longer than twelve months from the valuation date.

At the valuation date the EUV-SH of the property is £17,500 per unit on the basis that no work under the contract has taken place. (Beacon approach and adjustment factor.) The contract work completed to date for the cladding is £500,000.

8.6.2 There will be schemes that comprise new build and refurbishment. In these cases it will be necessary to treat each part of the development in accordance with the above paragraphs.

8.7 REPORT SCHEDULES

8.7.1 Land and buildings in the course of redevelopment, and valued on that basis, should be shown on a schedule to be included with the valuation report. The schedule should include the address of the property, description, valuation of the site and retained building and the cost of works to date. A sample report schedule is included at the end of this chapter.

The total value of the HRA assets should exclude the cost of the contract works which are shown separately in the report.

The departure from the RICS Appraisal and Valuation Standards for properties valued assuming the work has been completed should be recorded in the final report.

8.8 COMPLETED SCHEMES

8.8.1 On completion of the refurbishment works, the assets valued on the basis of new build or category B schemes should be re-valued at the next annual review and included in an appropriate asset group.

8.9 ASSETS COVERED BY HRA PRIVATE FINANCE INITIATIVE SCHEMES

8.9.1 The accounting treatment of local authority PFI schemes is governed by the Code of Practice on Local Authority Accounting. This in turn reflects the approach set out by the Accounting Standards Board in its Application Note (Private Finance Initiative and similar contracts) to FRS 5 (Reporting the Substance of Transactions). Under these provisions the question whether the property involved in the contract is on the authority's or the contractors's balance sheet turns on the degree to which each party has access to the benefits and the risks of the property.

8.9.2 The implication for the HRA resourcing system is that where HRA dwellings fall on the contractor's balance sheet for the period of a PFI contract, the capital charges will not apply to those dwellings. This reflects the fact that the contractor will be providing the capital for the refurbishment of the dwellings and bearing any associated risks. Those dwellings should not therefore be included in this stock valuation exercise. At the end of the contract, however, the dwellings will return to the authority's balance sheet, and should then be valued in accordance with this Guidance.

8.9.3 Schemes where the dwellings do not fall on the contractor's balance sheet should be included in the HRA asset valuation and valued in accordance with this Guidance, either as assets in the course of development/refurbishment or, if completed, on the beacon approach as set out in Chapter 4.

Housing Revenue Account Asset Valuation – 1 April 2005							
SCHEDULE 8 – LAND AND BUILDINGS IN THE COURSE OF DEVELOPMENT/REFURBISHMENT							
Ref No.	**Address**	**Description and Area**	**Land and buildings excluding contract work £**	**Land £**	**Retained buildings £**	**Contract work to valuation date £**	**Remarks**
1	1-4 The Cedars	Four new houses in a rural location		14,000	n/a	100,000	new development on greenfield site
2	East Court	100 flats Multi-storey block of flats undergoing complete redevelopment	1,750,000 (inc. land)			500,000	retained buildings valued to EUV-SH

CHAPTER 9

Non-operational assets

Key Points

- basis of valuation
- categorisation of assets
- special assumptions
- negative values
- report schedule

9.1 INTRODUCTION

9.1.1 Non-operational properties i.e. those not directly occupied, used or consumed in the delivery of a service must be accounted for and the values shown separately in the balance sheet.

9.2 BASIS OF VALUATION

9.2.1 The basis of valuation for non-operational assets is MV in accordance with RICS Appraisal and Valuation Standard, Practice Statement 3.2. that is reproduced at Appendix 1. This is an exit value, consistent with the value to the business model that is the guiding principle for financial reporting. The valuation basis is one that recognises all the potential value of the asset and provides a valuation that an authority should achieve on an outright sale. The property is not required for its service potential and there is no requirement for it to be retained in existing use.

Selling costs directly attributable to a sale should be deducted from the valuation, where material.

Guidance as to the appropriate level of deductions is included in Chapter 12.

9.3 CATEGORISATION OF NON-OPERATIONAL PROPERTIES

9.3.1 Categorisation and identification of non-operational assets will be a matter for the Chief Finance Officer, with assistance from the valuer. Non-operational assets are those held by the authority but not directly occupied or used in the delivery of services.

9.4 METHOD OF VALUATION

9.4.1 A beacon approach may not be appropriate for non-operational assets because of the diversity of property within this categorisation. Valuations should be prepared in accordance with the RICS Appraisal and Valuation Standards. The number and type of inspections must be adequate having regard to the purpose of the valuation and whether and when the valuer has previously inspected the property. (RICS Appraisal and Valuation Standards, Practice Statement 4.1.) The final report should include a statement concerning the extent of the inspections carried out for these non-operational properties.

9.5 VACANT HOUSING ASSETS

9.5.1 Although the categorisation of non-housing properties is relatively straight forward, in the case of housing assets the situation may not be as clear cut. Set out below are guidelines for distinguishing non-operational housing assets from operational property, which may be useful in discussions with the Chief Finance Officer.

Non-operational housing assets should be:

- vacant (it would be unusual for occupied property to be non-operational); and
- be subject to a formal council decision to sell/demolish/redevelop.

Vacant units awaiting new tenants or units which are declared unlettable, but upon which no formal decision has been made, should still be classed as operational property. The valuation approach in these cases is set out in Chapters 4 and 5 depending on the reasons why the properties are vacant.

9.5.2 There will be a wide range of types of vacant units which are classed as non-operational, from rows of terrace houses to tower blocks and deck access estates. In preparing the MV due regard should be had to all possible alternative uses, in as much as the market would do so.

9.5.3 The units that have been declared surplus should be amalgamated to form a single lot, in as much as the market would do so.

9.6 LAND HELD FOR REDEVELOPMENT

9.6.1 Land declared surplus to requirements or held for redevelopment by the authority should be valued having regard to all potential uses and possible site amalgamations (RICS Appraisal and Valuation Standards, Practice Statement 3.3 Commentary 5 on Hope Value). In some locations there may be no demand for any further development of any kind. Levels of value in these areas will be related to open space/recreational land values taking into account the contingent liabilities associated with these areas.

9.6.2 Development sites may be assembled on a piecemeal basis as and when houses are demolished. If the whole area has been declared surplus with part demolished and part remaining, the complete site should be valued as a single asset with an allowance for demolition costs on the properties remaining.

9.6.3 When preparing the valuation the planning situation may be uncertain and any risk in obtaining a prospective planning permission or delay forms part of the market and must be reflected in MV.

9.6.4 The authority in some situations may require the valuation to reflect the full potential of the site, assuming a planning permission has been granted for a potential alternative use, without making any allowance for risk or delay of obtaining such permission. A valuation on this basis is particularly useful for asset management and business planning purposes.

Such an assumption is a 'special assumption' (see RICS Appraisal and Valuation Standards, Practice Statement Appendix 2.3).

9.6.5 The appropriate value for the balance sheet is MV, and any additional valuation based on special assumptions should be included in the remarks column of the report schedule and not included in the overall asset value. A note to the accounts should record the value on the special assumption.

9.7 OTHER NON-OPERATIONAL PROPERTIES

9.7.1 Shops, offices, industrial units, masts and aerials should be valued to MV having regard to the existing leases and any potential value for redevelopment/change of use on expiry of the lease. TV masts and aerials which are frequently found on the tops of multi storey flats should also be included in the asset register based on the value of the rental income received.

Lock up garages may also be classed as non-operational depending on whether they are delivering a service for which the authority has either a statutory or discretionary responsibility. When classed as non-operational the MV must have regard to alternative potential uses in as much as the market would do so.

9.8 NEGATIVE VALUES

9.8.1 In some instances the MV of the asset may have a negative value. There may be no market for vacant property and demolition costs may exceed the value of the cleared site. A negative value in reality assumes the authority has a contingent liability arising from a disposal of the asset.

In some situations where the asset has a negative value there is no legal or statutory requirement on the authority to incur the expense e.g. site remediation/demolition. In these situations a nil value should be reported. (RICS Appraisal and Valuation Standards, Practice Statement 5.7)

Discussion with the Chief Finance Officer about the authority's intentions and their statutory obligations will be useful in identifying these situations.

Negative values must be stated separately in the report and not offset against positive values.

9.9 CONTAMINATION/RADON RISK/MINING SUBSIDENCE/ASBESTOS

9.9.1 A standard approach should be adopted for these environmental issues as set out in Chapter 4. Unless the authority have provided reports covering mining subsidence, contaminated sites, and areas of radon risk, the properties should be assumed to be not so affected and the final report should be worded accordingly. This approach should only be adopted if the valuer, having carried out the valuation exercise, has no evidence to the contrary, either historical or current.

9.9.2 Where the valuer has reason to suspect properties are located in areas so affected, a note to this effect should be included in the report with a recommendation to the authority to obtain the necessary specialist advice. The valuations in these areas will reflect, to the extent the market would do so, any known risks associated with any of these factors.

9.10 VALUATION REPORT

9.10.1 The valuation report will require the positive and negative values of non-operational assets to be stated separately. The individual assets should be incorporated into a schedule which includes the address of the property, description, MV, MV with special assumptions if appropriate, and remarks. A sample schedule is included at the end of this chapter.

9.11 REPORT SCHEDULES

9.11.1 Beacon record sheets are not necessary for these individual valuations but the values must be recorded on schedules which will form part of the valuation certificate. A sample report schedule is included at the end of this chapter.

Housing Revenue Account Asset Valuation – 1 April 2005

NON-OPERATIONAL PROPERTY

Ref No.	Address	Description and area	MV £'s	MV special assumptions	Remarks
1	1 1-21, 2-20 Cedar Street	40 houses awaiting demolition	150,000	200,000	MV assumes redevelopment potential for housing. MV special assumption assumes planning permission obtained
2	Vacant site at Cross Street	0.5 ha site for housing development	125,000		site has planning permission for residential development
3	Red Court	Multi storey block awaiting demolition	(100,000)		council decision to demolish no demand for residential development, demolition costs exceed site value

Total Positive Value – 275,000
Total Negative Value – (100,000)

These valuations are not adjusted for directly attributable selling costs which are dealt with in Chapter 12.

CHAPTER 10

Depreciation of assets

Key Points

- objectives
- assets covered by the major repairs allowance (MRA)
- assets not covered by the MRA
- assets where no depreciation required

10.1 OBJECTIVES OF DEPRECIATION

10.1.1 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.

10.1.2 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.

10.1.3 The accounting practice for depreciation is set out in the Code of Practice on Local Authority Accounting, and additional guidance on its treatment in the English HRA is given in the Guidance Notes for Practitioners on the Code, published by CIPFA. The purpose of this chapter is to provide the valuer with background knowledge as to how depreciation may affect valuation requirements.

10.2 DEPRECIATION OF ASSETS COVERED BY THE MAJOR REPAIRS ALLOWANCE

10.2.1 A full explanation of the Major Repairs Allowance (MRA) is contained in the DETR Consultation Paper "Calculation of the Major Repairs Allowance" published in November 1999. In brief terms, the MRA is the annual cost of maintaining the property over a thirty-year period. The costs are based on replacing all of the major components of a property as and when they reach the end of their useful economic lives.

10.2.2 Under the Code of Practice on Local Authority Accounting, the depreciation method adopted by an authority should be the one most appropriate to the type of asset. The Guidance Notes for Practitioners on the Code state: "The (CIPFA/LASAAC) Joint Committee has accepted that the MRA is likely to constitute a reasonable estimate of depreciation for HRA properties. However if, in the professional opinion of the Chief Finance Officer, the use of the MRA as an estimate of depreciation would result in a material missstatement of the accounts, then an alternative method of estimating depreciation should be used." (2004/2005 edition, Module 3, paragraph O25, page 170.)

10.2.3 In cases where the MRA is adopted as the most appropriate measure of depreciation, the valuer will not be required to provide assessments of remaining life or residual values for the assets covered by the MRA. If, however, the Chief Finance Officer decided to adopt one of the more traditional methods of depreciation – or wanted to carry out a simple test of an MRA-based depreciation charge – it would be necessary to calculate the amount to be depreciated (normally, the current value of the asset less its residual value) and allocate this over the useful remaining economic life of the asset. Because land is not depreciated, the residual value will normally be the land value. The Chief Finance Officer would therefore need to consider whether to instruct the valuer to provide land values separately and assess useful remaining economic life.

10.2.4 In ODPM's view, it should be possible to carry out some fairly simple calculations to estimate residual lives and land values at the global stock level. This would typically include:

- assessing the useful economic remaining life of the asset (for example producing a weighted average remaining life of the whole stock assuming a total design life of the property of 60 to 80 years, but with possible adjustments to reflect major modernisation);
- establishing the depreciable amount of the asset typically by deducting the value of land from the total value of the asset (this could be done adequately by using regional information on land values as a proportion of vacant possession values which is widely available); and
- allocating the depreciable amount as fairly as possible over the useful economic life of the asset (usually in equal amounts per year).

10.2.5 Therefore, it is unlikely that valuers will be required to provide an assessment of remaining economic life and land values for individual beacon properties. However, if the Chief Finance Officer does requires such information, then valuers need to have regard to this when selecting beacon properties to represent asset groups.

10.3 DEPRECIATION FOR ASSETS NOT COVERED BY THE MRA

10.3.1 Operational assets not covered by the MRA, such as lock up garages, offices and other miscellaneous assets, will also have to be depreciated.

10.3.2 These assets should be relatively few in number and low in value in relation to the total value of the HRA portfolio. The resources devoted to preparing the necessary information for depreciation calculations of these properties should have regard to the materiality of the effect of these calculations on the overall accounts.

10.3.3 The approach to adopt is to apportion the valuation between the land value (in most cases this represents the residual value) and the buildings (the depreciable amount). The depreciable amount is then allocated on a systematic basis over the useful economic life of the asset.

10.3.4 For practical purposes it may be appropriate for the valuer to make a judgement of the percentage of the asset's value which is representative of the value of the site. This will lessen the resources required for providing additional land valuations, with no significant effect on the accuracy of the overall calculation in the accounts.

10.3.5 The reporting schedules for those categories of properties should include the appropriate columns for the apportionment of the land and buildings and the assessment of the useful remaining life.

10.4 ASSETS WHERE NO DEPRECIATION REQUIRED

10.4.1 Non-operational properties (e.g. commercial/investment property, surplus assets) are not automatically exempt from depreciation. However non-operational investment properties are given an exemption in accordance with the Code of Practice on Local Authority Accounting. There is no requirement for an apportionment of land and buildings or an assessment of remaining life for such investment property. Surplus assets may or may not be depreciated, and a decision on this has to be made in the light of the particular circumstances. For example where surplus assets are intended for disposal but there are practical difficulties associated with the disposal, they could be considered as candidates for depreciation. In such a case, the extent to which the property is deteriorating, and the potential loss in value of holding the asset without selling it, will be potentially of interest to an authority.

10.4.2 There will be operational assets, usually bare land held freehold, for which no depreciation is appropriate. However, where land is subject to depletion by, for example, the extraction of minerals, depreciation is appropriate to reflect the wasting nature of the asset.

CHAPTER 11

Impairment

Key points

- background
- impairment
- measurement of impairment
- impairment within the HRA

11.1 BACKGROUND

11.1.1 Impairment is a reduction in the value of fixed assets below the carrying amount in the balance sheet. Where there is reason to believe that a reduction in value is material, the carrying value should be adjusted accordingly. The Code of Practice on Local Authority Accounting provides all the necessary detail on the accounting treatment of impairment. The purpose of this chapter is to provide the valuer with background knowledge as to how impairment affects valuation requirements.

11.2 IMPAIRMENT

11.2.1 Impairment occurs because something has happened to the fixed assets themselves or to the economic environment in which the fixed assets are operated. In the case of the HRA assets, changes that indicate impairment may have occurred include:

- a significant decline in the demand for social housing;
- evidence of obsolescence or physical damage to the asset;
- a significant adverse change in the statutory or other regulatory environment in which the authority operates;
- a commitment by the authority to undertake a significant housing reorganisation.

11.3 MEASUREMENT OF IMPAIRMENT

11.3.1 Impairment is measured by comparing the carrying value of the fixed asset in the balance sheet with its current value. Where current value is less than the value in the balance sheet, impairment has occurred. From a valuation perspective, in the case of the HRA assets, impairment occurs where there is a reduction in EUV-SH.

11.3.2 It is not always practicable to carry out individual property valuations to establish whether there has been a reduction in the carrying value and this is certainly the case for HRA property. Valuations for impairment within the HRA should be carried out on groups of properties, and the appropriate groupings in most cases will be the asset groups, which are also the groups to be adopted for the annual desk top reviews.

11.4 IMPAIRMENT AND THE HRA

11.4.1 The Code of Practice on Local Authority Accounting requires impairment reviews where there are 'trigger events' which suggest a change of value may have occurred and examples of these events are set out in this Guidance at para 11.2.1.

11.4.2 As the HRA housing assets are depreciated it is unlikely that impairment will occur unless there are external events or changes in circumstances which cause a sudden reduction in value. This is because impairment caused by wearing out of the asset is already accounted for. In the case of HRA assets, impairment reviews will form part of the annual desk top reviews which are covered in detail in Chapter 13.

11.4.3 When carrying out the annual reviews in accordance with Chapter 13, it is important to look at all sources of information to establish whether there have been any "trigger events" which may indicate falls in value. This information and its effect on values should be incorporated into the index which is applied to revise the asset group valuation. Chapter 13 provides details of the methodology behind the annual review valuations.

11.4.4 Impairment reviews are particularly important where authorities have decided that no depreciation charge is made on the grounds that it would be immaterial, or even when depreciation is charged where the remaining life of the assets is in excess of fifty years.

Reviews are considered necessary in these cases, even in the absence of trigger events, because year on year depreciation may lead to impairment which is not fully recognised.

11.4.5 If there has been a reduction in value the remaining life and the residual value should also be reviewed and revised, where necessary, if that method of depreciation has been adopted.

11.5 VALUATION REQUIREMENTS FOR HRA ASSETS

11.5.1 The annual desk top reviews and rolling programmes of revaluations which are described in full in Chapter 13 will cover all the requirements for carrying out impairment reviews. These annual reviews will capture not only any material increases in value in an asset group, but also any material falls in value, i.e. impairment. No additional valuations are required for impairment reviews other than the annual desk top valuations.

11.5.2 Where under the annual review the asset group value has been impaired, the valuer must make a note in the report of the amount of the loss and the reason for the reduction in value resulting from the impairment. This is necessary because the loss is accounted for differently depending on the cause of the loss. The different accounting treatments are explained in the Code of Practice on Local Authority Accounting.

11.6 REPORTING

11.6.1 The annual review schedules as detailed in Chapter 13 will incorporate all the information resulting from any impairments that have been recognised.

CHAPTER 12

Valuation reports

Key points

- valuation certificate and property schedules
- notional costs of acquisition and disposal
- beacon portfolio

12.1 INTRODUCTION

12.1.1 The valuer will be required to provide two documents for the final report:

- a valuation certificate;
- a beacon portfolio.

12.2 THE VALUATION CERTIFICATE

12.2.1 The certificate is the document that supports the figure reported in the balance sheet and consists of a preamble which sets out the basis of valuation, the stock number adopted for the valuation, the valuation date, assumptions, limitations and the agreed departures from the RICS Appraisal and Valuation Standards together with the total valuation of the HRA assets.

12.2.2 The second part of the certificate should include the property schedules showing the asset group valuations and the schedules itemising all the properties that have not been valued on a beacon approach. Set out at the end of the respective chapters are sample schedules which should be adapted as necessary. The incorporation of these schedules will allow a reader of the report to follow the make up of the final valuation.

12.2.3 The exact format of the report is the responsibility of the valuer subject to the requirements of the RICS Appraisal and Valuation Standards PS 5.1 The valuer responsible for undertaking the valuation must sign the report and any subsequent valuation reviews.

12.2.4 In accordance with the RICS Appraisal and Valuation Standards the total operational and non-operational valuations must be accompanied by a breakdown of values for properties of different tenures and between bases of valuation. For the purposes of this asset valuation the total asset value should be broken down into the categories as shown in the schedule at the end of this chapter.

12.3 NOTIONAL DIRECTLY ATTRIBUTABLE ACQUISITION AND DISPOSAL COSTS

12.3.1 Financial Reporting Standard 15 – Tangible Fixed Assets requires the addition of such costs, where material, to existing use values and deduction of such costs for properties where the basis of valuation is open market value. The accounting for these costs is consistent with the bases of valuation in the balance sheet which are in effect entry values for operational property and exit values for non-operational property.

12.3.2 For the HRA assets the costs associated with entry values such as professional fees including legal and valuation advice are likely to be material even though they may only be a small percentage of the total asset valuation. Valuers are advised that an addition should be made for these costs and, unless they have evidence to the contrary, an addition of a maximum of 2% of the value of the operational assets should be made.

12.3.3 In line with the RICS Appraisal and Valuation Standards UK PS 1.7 the addition for costs must be shown separately from the actual valuations. The proposed addition of up to 2% allows for legal and valuation advice including a stock condition survey but excludes VAT as Local Authorities are neutral to VAT.

12.3.4 Disposal costs, where material, should also be accounted for in a similar manner and, where appropriate, include the costs of marketing. Costs may not be significant where authorities have very little property which is valued to MV and in these cases the notional disposal costs should be regarded as not material and a statement to that effect included in the final report. Where the valuer considers that the extent of the property is such that costs would be material, a deduction should be made of up to a maximum of 2% unless there is evidence to the contrary. In line with the RICS Appraisal and Valuation Standards 5th Edition UK PS 1.7 the deduction for these costs must be shown separately from the actual valuations.

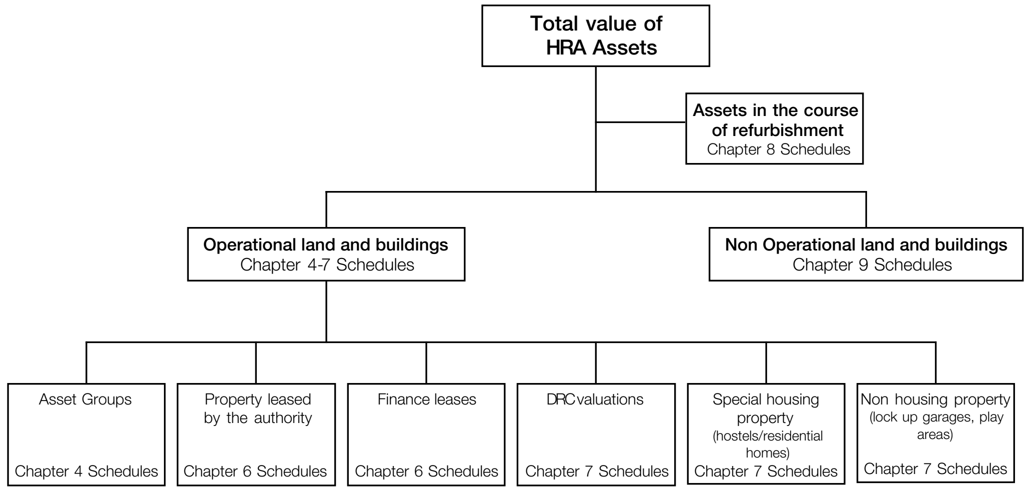
12.4 UNADJUSTED VACANT POSSESSION VALUATION AS A NOTE TO THE ACCOUNTS

12.4.1 In addition to the balance sheet valuation it is also a requirement that, as a note to the accounts, the value of the operational property should also be provided on the basis of the vacant possession values as provided by the beacons. The inclusion of this valuation ensures that the economic cost to Government of providing council housing at less than open market rents will be shown in the accounts. This vacant possession value has been included in the schedules in Chapter 4 and forms part of the final report schedule at the end of this chapter.

12.5 THE BEACON PORTFOLIO

12.5.1 The beacon portfolio is a document as described in Chapter 4 containing all beacon record sheets and the archetype and asset group valuations. The portfolio is a key piece of information as not only will it provide the basis for the valuation reviews, but it will also form a key piece of evidence in any future monitoring exercise. The beacon record sheets should be grouped into asset groups and indexed, for ease of use.

Reporting Schedule



The final report should provide the total value of the HRA asset split into the categories as shown by the individual boxes.

Reporting Schedule						
Operational Property	**Chapter Schedules**	**Basis of Valuation**	**Balance Sheet**	**Note to Accounts**	**Basis of Valuation**	**Chapter Schedules**
Freehold Long leasehold	4 – 6	EUV-SH	X,000 (1)	X,000 (1a)	**VP based on beacon values**	4 – 6
Special Housing	7	EUV	X,000 (2)	X,000 (2)	EUV	7
Non-housing	7	EUV	X,000 (3)	X,000 (3)	EUV	7
Properties valued by drc	7	Cost Approach	X,000 (4)	X,000 (4)	Cost Approach	7
Assets leased by the authority	6	EUV	X,000 (5)	X,000 (5)	EUV	6
Assets leased to the authority (finance leases)	6	EUV	X,000 (6)	X,000 (6)	EUV	6
LSVT transfer if appropriate, whole or partial		TMV	X,000 (7)			
Operational Property for balance sheet			X,000 (1-7)			
Notional acquisition costs 2%		X,000				
Value as Note to Accounts			X,000 (1a-6)			
Non-operational Property for balance sheet	9	MV	X,000			
Notional disposal costs 2% (if appropriate)			X,000			
Assets in the course of development						
Retained land and buildings	8		X,000			
Cost of Work to date				X,000		
Negative Values						
Operational			(X,000)			
Non-operational			(X,000)			

CHAPTER 13

Revaluations and valuation reviews

Key points

- purpose and approach
- commissioning of valuation services
- requirements and methodology
- treatment of improvements, assets in course of development, leases
- report form valuation timetable

13.1 PURPOSE AND APPROACH

13.1.1 The purpose of full revaluations and valuation reviews is four fold:

- the HRA assets will always be shown in the balance sheet at current valuation (an important consideration in terms of asset management and business planning):
- signs of impairment as well as increases in value will be noticed at an early stage (an aid to business planning);
- unacceptably large swings in value should be avoided at full revaluations;
- to ensure the valuation reflects changes in stock numbers.

The aim of the full revaluation is to account for all the changes in the value of the stock by revaluing the asset and archetype groups and the beacon properties.

The aim of the review exercise is to capture any significant changes in value "in year" and to avoid major fluctuations on the quinquennial revaluation.

The requirement for the annual review/revaluations is to put into effect on a formal basis the requirements of the Code of Practice on Local Authority Accounting and to provide a consistent approach for all authorities.

13.1.2 There is no prescriptive approach that authorities must adopt to ensure current values are used in the balance sheet. There are a variety of approaches and authorities should adapt these to meet their needs and availability of resources. Any programme of reviews and revaluations must ensure that all parts of the stock have been fully revalued at intervals of not more than five years.

13.1.3 Possible approaches include:

- a full revaluation every five years with desk top reviews in the other four years;
- a full revaluation of 20% of the stock every year with a desk top review of the remainder, informed by the results of the revaluation;
- a full revaluation of a varying percentage of the stock over the five years with desk top reviews for the remainder, informed by the results of the revaluation.

13.1.4 The last two approaches allow the costs of the exercise to be spread more evenly between the years without any detriment to the accuracy of the overall valuation. Where these approaches are adopted all the asset and archetype groupings and the remaining life of the whole HRA portfolio should be reviewed at least every five years. This is to ensure any changes in the distribution of dwelling types within the portfolio are fully reflected.

13.2 COMMISSIONING THE VALUATIONS

13.2.1 A commissioning document for the initial valuation should include a requirement for annual reviews and part revaluations, where appropriate.

13.2.2 The valuations should be carried out by a qualified internal or external valuer with no necessity for review of full revaluations by an external valuer if the internal valuer is used. This position reflects the position as set out in FRS 15 for public sector organisations and the CIPFA Code of Practice on Local Authority Accounting and has been adopted on the grounds of cost benefit.

The definition contained within FRS 15 of qualified (internal or external) valuer should be followed when commissioning the valuations. A qualified valuer is:

> *'A person conducting the valuation who holds a recognised and relevant professional qualification and having recent post-qualification experience, and sufficient knowledge of the state of the market, in the location and category of the fixed asset valued. An internal valuer is a director, officer or employee of the authority. An external valuer is not an internal valuer and does not have a significant interest in the authority'.*

13.2.3 On completion of the exercise, valuations may be subject to monitoring to ensure that authorities have complied with the Guidance and that a consistent valuation approach has been adopted across the country.

13.3 MINIMUM REQUIREMENTS FOR THE REVIEW

13.3.1 As a minimum the annual review should:

- update the stock numbers in the asset and archetype groups to account for disposals and demolitions, acquisitions and newly constructed dwellings;
- take account of material movements in value at the asset group level, including impairment;
- capture major changes in value of significant asset groups resulting from major refurbishment schemes;
- include in the asset groups property originally classed as in the course of development, but now complete.

13.4 ANNUAL REVIEW METHODOLOGY

13.4.1 The approach should be based on a desk top review of the beacon valuations to establish any changes in value and how they impact on the asset group as a whole. To establish trends in value it may be appropriate to consider several different sources of information including:

- sales of comparable property types that have taken place during the year – this should be regarded as the prime source of information;
- information at the local level of movements in house prices as published by the Land Registry and leading mortgage lenders;
- regional and national indices showing general trends that could be used as a basis for informed opinion of any changes in value of the portfolio.

13.4.2 When reviewing the beacons it is important to look at events that have taken place which may have a downward effect on values. Such events or 'trigger events' may indicate impairment has occurred and, when identified, a valuation review must be carried out to comply with the Code of Practice on Local Authority Accounting. These impairment reviews are effectively included in the annual desk top valuations and so it is important to consider the possibility that downward movements in value may have taken place.

13.4.3 Events or changes in circumstances potentially leading to impairment may include a decline in demand for social housing, a rapid deterioration in the general environment or a substantial decline in the quality of the property. Chapter 11 gives a more detailed explanation of impairment.

13.4.4 Having looked at all the sources of information the annual review should be carried out at the asset group level. It is not necessary for all the individual archetype groups to be revalued individually except in particular circumstances where major changes have taken place. If it is evident that increases are generally uniform across the whole asset group, an index should be established which is a fair reflection of the movement in value for the asset group as a whole over the reporting period.

13.4.5 A more detailed exercise may be necessary where there have been major changes to archetype groups' values through impairment, major refurbishments etc.

13.4.6 The non-housing assets and non-operational property should also be reviewed having regard to changes in the local and national property market for the specific group of properties. It is important when reviewing these properties to understand the purpose of the review which is to avoid unacceptably large swings in value at full revaluation.

13.4.7 As these assets are expected to form a small part of the HRA both in number and value, the resources devoted to these updates should have regard to the materiality of the effect of these values on the accuracy of the total HRA asset value. In some cases movements in value may not be material and if this is the case the existing valuations should be adopted.

13.4.8 However there will be circumstances where it is appropriate to update values of these non-housing and non-operational assets and the recommended approach is the use of an index, based on market evidence within that property sector. This index, after allowing for disposals, could be applied to the respective total values i.e. land and buildings as reported in the original asset valuation or the previous update.

13.4.9 Where the asset is valued on the depreciated replacement cost basis the review should have regard to an appropriate building cost index as published by the Building Cost Information Service, (BCIS). The land element should also be revised having regard to movements in values. It may be appropriate to take the index used on the buildings or an index used for other similar types of property within the portfolio. As these properties will be small in numbers and value in relation to the total portfolio a pragmatic approach should be taken having regard to the purpose of the review, which is to avoid major swings in value at the revaluation.

13.4.10 It will be necessary, where valuations have been apportioned between land and buildings for calculating depreciation, to review the remaining life of the asset. A robust approach should be adopted and it may be appropriate for the remaining life of these non-housing and non-operational assets to be revised only on full revaluation when the properties are revisited.

13.5 TYPICAL STAGES IN THE ANNUAL REVIEW PROCESS

13.5.1 Set out below is a typical review process. Authorities may wish to adapt this process to meet their individual requirements.

- establish details of property disposals and acquisitions/redevelopments and recast the numbers in the archetype/asset groups and non-operational schedules;
- re-calculate existing asset group valuations to account for revised stock numbers (the valuations subject to review are exclusive of any notional acquisition and disposal costs);
- review beacon values to establish an index to reflect changes at the asset group level or archetype level where necessary;
- revise the value of the asset groups;
- review other categories of properties.

13.6 ANNUAL REVIEW INSPECTIONS

13.6.1 Internal/external inspections should not normally be required. The review should be regarded as a desk top exercise which will reflect general market changes in the portfolio valuation.

13.7 INFORMATION ON CHANGES TO THE PORTFOLIO

13.7.1 It will be the responsibility of the local authority to supply the necessary details for the preparation of the annual review and details should be available from estate records and audit trails for the activities that have taken place during the year. There will be no requirement for the valuer to verify the information and the valuation report for the desk top review should include a statement to this effect.

Information required will include:

- revised stock numbers, as at a specified date, broken down to allow identification at the archetype group level. The stock number and date at which it is taken should be included in the report.
- Details of new development schemes treated as buildings in the course of development/refurbishment in the existing valuation, but now completed;
- details of other major refurbishment schemes which have been completed. Major schemes are ones where the properties have been completely refurbished, frequently requiring the tenant to be moved out during the course of the work;
- details of any development/refurbishment schemes either still in progress or initiated since the last valuation.

In the absence of information to the contrary, it should be assumed that no significant changes have taken place to the properties from the date of the previous full revaluation or review and that properties are in a similar condition to that at the date of the original inspections.

13.8 TREATMENT OF IMPROVEMENTS

13.8.1 During the review period there will be changes to the stock because of general maintenance and refurbishments. A pragmatic approach should be adopted having regard to the availability of information on schemes that have taken place and the materiality of the effect of any changes in value on the accuracy of the total HRA assets.

13.8.2 For example the refitting of new kitchens in properties which form only a small part of an archetype group should be ignored. Not only will the numbers of properties affected be small, relative to the total stock number, but also the improvement is unlikely to be significant in relation to the total value of the stock. To capture and value all the work that has taken place in year is beyond the scope of a desk top review. Abstracting the information on an annual basis will not be cost effective for the purposes of the review valuation. This information, however, should be available and included in the full revaluation.

13.8.3 The approach in 13.8.2 should be adopted for the majority of small improvement schemes including those where the beacon property has been improved. The review is intending to capture general changes in the market, not specific changes in individual or small groups of properties. These changes should be taken into account at the full revaluation.

13.8.4 Completed major refurbishment schemes which affect large numbers of houses within an asset group should be accounted for if the work has made a significant difference to the vacant possession value of the property. The type of scheme envisaged is one of total refurbishment often with the removal of the tenants for short periods. These specific increases over and above the general level of increase for the asset group should be accounted for.

13.8.5 Some assets may have been included as buildings in the course of development/refurbishment in the existing valuation. These assets will require to be revalued and included in an appropriate archetype group at the review following their completion.

13.8.6 The level of detail required in valuing the additional work carried out in year is ultimately a matter of judgement for the valuer and dependent on the level of information available. The purpose of the valuation review is to capture the major changes in value in the portfolio as measured by changes in value of the asset groups.

13.9 ASSETS IN THE COURSE OF CONSTRUCTION AT REVIEW

13.9.1 New build schemes in the process of construction at the date of review should be included in accordance with Chapter 8 para 8.3.

13.9.2 Category A schemes will be reviewed automatically as part of the asset group review as any work will be already reflected in the valuation.

13.9.3 Category B schemes that are complete should be included in an archetype group and valued on the appropriate beacon for the group, possibly as a variant.

13.10 PROPERTY HELD ON LEASE BY THE AUTHORITY

13.10.1 A pragmatic approach should be taken when looking at these properties which are expected to form a small part in number and value of the HRA assets.

13.10.2 As a minimum the total reported value for these assets should be reviewed to take account of:

- acquisitions and disposals;
- finance leases should reflect the declining term remaining on the lease;
- the remaining properties should be indexed having regard to indices used for other assets in the portfolio.

13.11 REVALUATIONS OF ALL OR PART OF THE PORTFOLIO

13.11.1 Full revaluations of all or part of the stock must be carried out in accordance with this and subsequent guidance. This will involve re-inspecting the beacon properties or establishing new beacons and property groupings where necessary.

13.12 METHOD OF REPORTING ANNUAL REVIEWS

13.12.1 It is important when carrying out the annual reviews to establish an audit trail establishing the changes in stock numbers and values from year to year. This will help in all subsequent reviews and full revaluations. Set out at the end of this chapter are specimen schedules for housing assets and other property types.

13.12.2 When preparing the report for the desk top review the valuer must specify clearly the work which the reviewer has carried out, including the extent of any inspections, and the information relied on and provided by the authority.

13.12.3 A statement to the effect there may have been other changes to the locality and local planning policy which have not been brought to the attention of the valuer and may affect the valuation, should be incorporated into the report.

13.13 TIMETABLE

13.13.1. There is a requirement for a full revaluation for inclusion in the 2005/06 accounts in line with Code of Practice on Local Authority Accounting. However where an authority has secured a place on an ODPM Large Scale Voluntary Transfer Programme with a completion date no later than March 2007, ODPM will consider a request to base the 2005/06 revaluation and subsequent review on a desk exercise. A full revaluation would be required if the proposed transfer did not take place as envisaged.

13.13.2 Subsequent annual reviews, re-valuations and/or rolling programmes of revaluations should be carried out in line with this Guidance on an annual basis. The valuation date is the 1st April in each year.

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ASSET GROUP

01.04.2005 Valuation	Annual			01.04.2006 Review				
Asset Group	**Stock No**	**VP £**	**EUV-SH £**	**Index**	**Stock No**	**VP £**	**EUV-SH £**	**Remarks**
Pinkie Estate	600	32,972,000	21,431,800	105	600	34,620,600	22,503,390	Changes in beacon values indicate a 5% rise in value for the asset group as a whole.
Summerston Estate	240	10,781,000	7,007,650	105	240	11,320,050	7,358,032	Changes in beacon values indicate a 5% rise in value for the asset group as a whole.

Note:
This is an example where there have been no changes to stock numbers and no significant variations in trends of value within each asset group. The year 2000 valuations subject to review are exclusive of any directly attributable acquisition costs. Any such costs will have to accounted for separately on completion of the 2001 review

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ASSET GROUP – Riverside Estate

	01.04.2005 Valuation			01.04.2005 Revised for Stock No				01.04.2006 Review			
Arhetype Group	**Stock No**	**VP £**	**EUV-SH £**	**Revised Stock**	**VP £**	**EUV-SH £ EUV-SH £**	**Annual Index**	**Stock No**	**VP £**	**EUV-SH £**	**Remarks**
2 bed semi	500	21,470,000	13,955,500	450	19,320,000	12,558,00	105	450	20,286,000	13,185,900	
Deanside Sq	250	Nil	Nil	250	Nil	Nil	-	250	Nil	Nil	
Difficult to let	100	48,000	48,000	100	48,000	48,000	90	100	43,200	43,200	impairment through drop in demand in locality
Difficult to let	150	375,000	375,000	150	375,000	375,000	90	150	337,500	337,500	impairment through drop in demand in locality
Total	1,000	21,893,000	14,378,500	950	19,743,000	12,981,000		950	20,666,700	13,566,600	

The year 2005 valuations subject to review are exclusive of any directly attributable acquisition costs. Any such costs will have to accounted for separately on completion of the 2006 review. This is an example where each archetype has been reviewed to capture impairment and changes in stock numbers. The authority's records should be able to provide an audit trail for the changes in stock number whether sold/demolished or otherwise altered.

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OPERATIONAL PROPERTY NON-HOUSING (Chapter 7)

		01.04.2005		01.04.2006 Review				
Address	**Description**	**Valuation**	**Annual Index**	**Land**	**Buildings**	**Total £**	**Estimated Remaining Life**	**Remarks**
2 Smith Court	50 m2 office block	10,000	110	2,750	8,250	11,000	35	No change in remaining life.
The Milton Meeting Hall, Milton Estate	200 m2 hall on 0.2 ha site	110,000	105	21,000	94,500	115,000	20	Index adopted is BCIS index as valuation is a depreciated replacement cost approach.
500 lock up garages	blocks of garages	250,000	100	150,000	100,000	250,000	20	Assumed no change in condition in absence of information to the contrary.

The year 2005 valuations subject to review are exclusive of any directly attributable acquisition costs.

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NON-OPERATIONAL PROPERTY (Chapter 9)

		01.04.2005		01.04.2006				
Address	**Description**	**MV £**	**Annual Index**	**MV £**	**MV £**	**MV £**	**Special Assumption**	**Remarks**
2 Smith Court	50 m2 office block	10,000	110	2,750	8,250	11,000	35	No change in remaining life
The Milton Meeting Hall, Milton Estate	200 m2 hall on 0.2 ha site	110,000	105	21,000	94,500	115,000	20	Index adopted is BCIS index as valuation is a depreciated replacement cost approach.
500 lock up garages	blocks of garages	250,000	100	150,000	100,000	250,000	20	Assumed no change in condition in absence of information to the contrary.

The year 2000 valuations subject to review are exclusive of any directly attributable acquisition costs.

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NON-OPERATIONAL PROPERTY (Chapter 9)

		01.04.2005		01.04.2006	01.04.2006	
Address	**Description**	**MV £**	**Annual Index**	**MV £**	**Special Assumption**	**Remarks**
1-21, 2-20 Cedar Street	40 houses awaiting demolition	150,000	100	150,000	400,000	Special assumption assumes planning permission obtained for redevelopment for a supermarket
Vacant site at Cross Street	0.50 ha site for redevelopment	125,000	110	137,500	-	Site now has planning permission for residential development
Red Crescent	Site of multi storey block demolished in year	(100,000)	N/A	100,000	-	Site now has planning permission for residential development and property demolished
Total positive		275,000		387,500		
Total negative		(100,000)		-		

The year 2000 valuations subject to review are exclusive of any directly attributable acquisition costs. Any such costs will have to be accounted for separately on completion of the 2001 review.

APPENDIX 1

Valuation bases

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Existing Use Value for Social Housing (EUV-SH):

Existing Use Value for Social Housing (EUV-SH) as defined in the RICS Appraisal and Valuation Standards UK PS 1.13 is

> "the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, in an arm's-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following further Assumptions that:
>
> - the property will continue to be let by a body pursuant to delivery of a service for the existing use;
> - 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 organisations intending to manage their housing stock in accordance with that regulatory body's requirements;
> - properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession; and
> - any subsequent sale would be subject to all of the above Assumptions."

Market Value (MV):

Market Value (MV) as defined in the RICS Appraisal and Valuation Standards at PS 3.2 is:

> "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Depreciated Replacement Cost (drc) approach:

For certain properties no EUV or MV can be determined, owing to their specialised nature and because they are rarely sold on the open market, except as part of a sale of the business in occupation. Such specialised properties are therefore valued on the depreciated replacement cost approach.

RICS Appraisal and Valuation Standards Appendix 3.1 and UK Appendix 1.5 9.1

APPENDIX 2

Sample Beacon Record Sheets

Beacon Record Sheet Number 1	
Address	15 Smith Road, Townley YY3 2PX
Date of Inspection	1st May 2005
Valuation date	1st April 2005
Accommodation	kit, Lr, 2 beds, bath, w/c
Floor area	optional
Type	1930's semi detached
Asset Group	Riverside Estate
Archetype	2 bed semi
Number within Archetype	500 (includes 10 linked properties)

COMPARABLE EVIDENCE

(exact address should not be quoted, but sufficient information on location to allow an assessment of the quality of the comparable)

open market sales on adjacent estate within last 6 months at

A) £55,000 for 3 bed semi with new kitchen and bathroom
B) £45,000 for 2 bed semi similar condition
C) £40,000 for 3 bed terrace poorer location

ADJUSTMENT TO COMPARABLE

Comparable A deduct £5000 for bedroom, £5000 for kit and bath £45,000
Comparable B deduct £2000 as better location than beacon £43,000
Comparable C add £7000 as poorer location than beacon and terrace, deduct £5000 for extra bedroom £42,000

Beacon Value	% variation across	Variants	Remarks
£43,000	£40,000-£45,000	10 units at £40,000	

Quality Indicator Box	V Good	Good	Adequate	Limited/Poor
Comparables	**			
Condition of Beacon		**		
Quality of locality		**		

Archetype Valuation				
Property types	**No**	**Value of Beacon Property**	**VP of group based on beacon assumptions**	**Adjustment Factor 50% to EUV-SH**
beacon properties	490	£43,000	£21,070,000	£10,535,000
variant 1	10	£40,000	£400,000	£200,000
Total value of archetype			£21,470,000	£10,735,000

Variants are located at 1-19 John Street

Beacon Record Sheet Number 2 (final stages of decline)	
Address	Deanside Square properties
Date of Inspection	1st May 2005
Valuation date	1st April 2005
Accommodation	250 flats with kit, l/r, 2 beds, bath and w/c
Floor area	Optional
Type	Five 1960's 10 storey tower block
Asset Group	Riverside Estate
Archetype	vacant property (Deanside Square)
Number within Archetype	250

COMPARABLE EVIDENCE

No owner occupied sales, no RTB sales or applications, properties not being re-let, 95% properties vacant, remaining tenants on transfer list, likely to be declared surplus and demolished within next 3 years but no definite plans. Lifts need replacing.

a) cash sales for terrace houses nearer centre of town with letting demand £3,000 per unit

b) nearest flats with owner occupied market half a mile away market sell for £25,000 for 3 bed

ADJUSTMENT TO COMPARABLE

Comparable sales are for properties where there is an identifiable demand. Subject properties so poor and in poor location that no letting demand.

Beacon Value	% variation across the archetype	Variants	Remarks
Value of whole archetype is NIL	N/A	N/A	

ADJUSTMENT TO COMPARABLE

Quality Indicator Box	V Good	Good	Adequate	Limited/Poor
Comparables			**	
Condition of Beacon				**
Quality of locality				**

Archetype Valuation				
Property types	**No**	**Value of Beacon Property**	**VP of group based on beacon assumptions**	**Adjustment Factor 65% to EUV-SH**
vacant properties	250	Nil	Nil	N/A
Total value of archetype			Nil	Nil

Beacon Record Sheet Number 3 (second stage of decline)	
Address	5 Charles Square
Date of Inspection	1st May 2005
Valuation date	1st April 2005
Accommodation	3 bed semi detached
Floor area	optional
Type	1970s terrace and s/d houses
Asset Group	Riverside Estate
Archetype	difficult to let property (Charles, Russell and James Square)
Number within Archetype	100

COMPARABLE EVIDENCE

No owner occupied sales, no RTB sales or applications, estate of last resort for tenants on waiting list, used as temporary accommodation in emergency re housing cases, tone of rents equivalent to private sector, long term voids in excess of 40%. Anticipated that unless major regeneration of the area takes place all the properties will be empty in medium term (3-5 years). Current rents average £1500/unit per annum.

Valuation	
Gross Rent	£150,000
voids 60%	£90,000
management	£22,500
repairs	£22,500
Total Outgoings Net rent	£135,000 £15,000
YP 5 yrs 16%	3.2
Valuation	£48,000 (£1,200 per occupied unit)

Beacon Value	% variation across the archetype	Variants	Remarks
Value of whole archetype is £48,000	N/A	N/A	

Quality Indicator Box	V Good	Good	Adequate	Limited/Poor
Comparables				**
Condition of Beacon				**
Quality of locality				**

Archetype Valuation				
Property types	**No**	**Value of Beacon Property**	**VP of group based on beacon assumptions**	**EUV-SH Adjustment Factor 65%**
difficult to let	100	N/A		N/A
Total value of archetype			**£48,000**	**£48,000** (see record sheet for valuation)

Beacon Record Sheet Number 4 (first stage of decline)	
Address	15 Meadowburn Crescent
Date of Inspection	1st May 2005
Valuation date	1st April 2005
Accommodation	3 bed semi detached
Floor area	optional
Type	1950 two and three bed terrace and s/d houses
Asset Group	Riverside Estate
Archetype	difficult to let property (Meadowburn Rd, Cres and Square)
Number within Archetype	150

COMPARABLE EVIDENCE

No owner occupied sales, no RTB sales or applications, one of the less attractive estates for tenants on waiting list but properties re-let although slower than for better estates. Characterised by pockets of boarded up units awaiting re-let. Group will remain as part of authorities lettable stock and in long term envisaged refurbishment may take place. Private sector rents and affordable rents show little difference in tone.

a) cash sales for terrace houses nearer centre of town with letting demand £5,000 per unit

b) ex-council house sold as investment on adjacent estate for £3500

c) nearest council property with owner occupied market half a mile away market sell for £22,000 with VP for 2 bed house

Adjustment to comparables/valuations
Comparable investment sales suggest £3,000-£5,000 a unit for similar accommodation
Letting demand unlikely to improve but stable over last 2 years
Long term the estate will have a future following refurbishment

Valuation	
150 units	150
letting units	150
value/unit	£2,500 (to allow for longer void periods than with comparables)
Valuation	£375,000

Beacon Value	% variation across the archetype	Variants	Remarks
Value of whole archetype is £375,000	N/A	N/A	

Quality Indicator Box	V Good	Good	Adequate	Limited/Poor
Comparables				**
Condition of Beacon				**
Quality of locality				**

Archetype Valuation				
Property types	**No**	**Value of Beacon Property**	**VP of group based on beacon assumptions**	**EUV-SH Adjustment Factor 65%**
difficult to let	100	£2,500		N/A
Total value of archetype			**£375,000**	**£375,000** (see record sheet for valuation)

Asset Group Valuation Sheet

Asset Group – Riverside Estate			
Archetype	**VP of group based on beacon assumptions**	**Stock number**	**Valuation EUV-SH**
2 bed semi	£21,470,000	500	£10,735,000
Vacant properties (Deanside Square)	Nil	250	Nil
difficult to let (Charles, Russell, and James Square	£48,000	100	£48,000
difficult to let (Meadowburn Rd, Cres and Square	£375,000	150	£375,000
Total	**£21,893,000**	**1,000**	**£11,158,000**

APPENDIX 3

Departures from the RICS Appraisal and Valuation Standards 5th Edition and Assumptions and Limitations in the Valuation Certificate

1. Departures from the RICS Appraisal and Valuation Standards 5th Edition

1.1 ADDITIONAL MV VALUATIONS FOR OPERATIONAL ASSETS

Existing Standard

Where there is a significant difference between either EUV, EUV-SH and the DRC approach and MV a valuation on the basis of MV must also be prepared and the report state the reasons for the difference. RICS Appraisal and Valuation Standards PS 5.6 and UK PS 1.4.

FRS 15 requires where the MV is materially different from EUV, EUV-SH ordrc, the MV and reasons for the difference should be disclosed in a note to the accounts.

Departure

Unless specifically required by the authority, MV for properties affected by the above are not required.

Reason for Departure

The beacon approach has been adopted for the majority of the properties in the HRA. This valuation approach is not site specific as it averages the valuation of the subject properties. An alternative use value for these properties that form the bulk of the assets in the HRA is of little value.

1.2. LAND AND BUILDINGS IN COURSE OF DEVELOPMENT – ONE OF TWO BASES TO BE ADOPTED

Existing Standard

Assets in the course of development should be valued either to MV of the land and buildings in their existing state at date of valuation;

or

MV as a cleared site with the benefit, inter alia, of the planning permission for the development plus, stated separately, the costs of development incurred by the valuation date. RICS Appraisal and Valuation Standards UK PS 1.2 3.8

Departure

Existing property in the course of development, subject to conditions set out in chapter 9 of this guidance, will be valued assuming the current contract work has been completed.

Reasons for departure

To avoid the necessity for local authorities to identify the costs of every refurbishment programme, however small.

1.3. EXISTING USE VALUE

Existing Standard

The definition of existing use value assumes that vacant possession will be provided on completion of the sale of all those parts of the property occupied by the business.

Departure

Properties classed as operational and subject to leases have been valued subject to the terms of the lease.

Reasons for Departure

The property although leased is carrying out the function of the business as the legal obligations under the lease must be recognised in the valuation.

2. Assumptions and Limitations to be included in the Report

2.1 INSPECTIONS AND INVESTIGATIONS – MUST BE ADEQUATE AND THEIR LIMITS MADE CLEAR

Existing Standard

An inspection and investigations must always be carried out to the extent necessary to produce a valuation which is professionally adequate having regard to its purpose, the circumstances of the case and whether and when the valuer has inspected the property previously RICS Appraisal and Valuation Standards PS 4.1.

Agreed Procedure

An inspection of the beacon property is considered adequate for the valuation of the operational housing assets.

Inspections and investigations on properties not valued on the beacon approach should have regard to RICS Appraisal and Valuation Standards 5th Edition PS 4.1.

Reasons for agreed procedure

The full inspection of properties additional to the beacon is not necessary because of the similarity of the property types covered by the beacons.

2.2 VERIFICATION – THE VALUER MUST JUDGE THE QUALITY OF INFORMATION PROVIDED AND NECESSITY FOR VERIFICATION

Standard

The valuer will obtain information from the inspection and other sources, which may require verification as to accuracy and completeness. The valuer must state what information has been relied upon and what Assumptions have been made RICS Appraisal and Valuation Standards Appendix 2.2.

Agreed Procedure

The authority will supply all the necessary information for adopting the beacon method of valuation. The valuer will verify the information in respect of the beacon property only.

Information supplied for assets not valued by the beacon approach will be supplied by the authority. In the absence of information to the contrary, from inspections etc., the valuer will rely on the information provided.

The report must specify the sources, responsibility for and nature of the information relied upon and whether the valuation has been carried out without the definitive information normally available when carrying out the valuation. RICS Appraisal and Valuation Standards PS 2.5

Reasons for procedure

It is assumed that the information provided by the authority is of sufficient veracity for the purposes of the valuation.

2.3 CONTAMINATION/RADON/MINING SUBSIDENCE REPORTS

Existing Standard

For valuations to EUV it may be appropriate to ignore the costs of decontamination of a site known to be contaminated where the continued occupation of the buildings for existing use is not prejudiced and there is no current duty to remedy such pollution during the continued occupation (RICS Appraisal and Valuation Standards PS 5.7).

Other environmental issues usually have regard to the needs of the client, the history of the specific site and the location in general with the valuer alerting the client to any issues that may arisde and have a material effect on the valuation. RICS Appraisal and Valuation Standards UK GN 1, 5 et al

Agreed Procedures for all environmental issues

A standard approach should be adopted to cover all these environmental issues. Unless the authority have provided reports covering mining subsidence, contaminated sites, and areas of radon risk the properties should be assumed to be not so affected and the final report worded accordingly. This approach is appropriate if the valuer, having carried out the valuation exercise has no evidence to the contrary, either historical or current that the assets are so affected.

Where the valuer has reason to suspect properties are located in areas so affected, a note to this effect should be included in the report with a recommendation to the authority to obtain the necessary specialist advice.

Valuations based on comparable sales where the same factors arise will reflect, to the extent the market would do so, the known risks associated with any of these issues. This should be noted in the final report.

Where the valuations are based on comparable evidence not so affected by these environmental issues, a note in the report should indicate that no adjustments have been made to the valuations for any potential costs of remediation.

2.4 DEPRECIATED REPLACEMENT COST VALUATIONS – TEST OF ADEQUATE POTENTIAL PROFITABILITY

Existing Standard

DRC valuations should be qualified as being subject to the adequate potential profitability of the business having due regard to value of the total assets employed and the nature of the operation. (RICS Appraisal and Valuation Standards, PS 5.5)

Agreed Procedure

In the case of specialised properties in public ownership, or not occupied primarily for profit, where the test adequate potential profitability is not available, DRC valuations should be expressed as subject to the prospect and viability of the continuance of the occupation and use.

APPENDIX 4

Adjustment Factor Technical Details

1. Existing Use Value – Social Housing (EUV-SH) is a valuation for a property assuming it will continue to be let by a body for the delivery of a service for the existing use. In the case of local authority housing, service for the existing use means the delivery of appropriate housing to those who are unable to obtain suitable housing through the wider housing market. This value can be obtained by taking the cost of buying a vacant dwelling of a similar type, based on the beacon values, and applying an adjustment factor according to the type of tenancy and regional factors to reflect the fact that the property is used as social housing.

2. The adjustment factors provided in the original guidance for valuations carried out in 2000 have been reviewed given the significant changes in the housing market over the last five years. Over the period there has been significant growth in vacant possession values, falling yields in the private rented market and rent restructuring in the public sector.

3. The revised adjustment factors are based on the ratio of private and public sector rents and yields. Rental ratios were established on a regional basis using Administrative data from ODPM in the case of local authority rents and data from the Survey of English Housing and the Family Resources Survey for private sector rents. The data set used in 2000 for private sector rents is no longer published.

4. Information on yields indicated that although there was a difference at a national level between the two markets there was insufficient evidence to suggest any material regional variations. A net yield of 6% was adopted for the local authority sector and 5% for the private sector for all regions.

5. Based on the above information capital values for each sector were calculated on a regional basis and the resulting ratios are detailed in paragraph 3.4.2 of this Guidance.