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Department of Health

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To: Regional General Managers
District General Managers
General Managers of Postgraduate
Special Health Authorities
Capital Charges Contact Officers

Your reference

Our reference EL(90)MB/132

Date 3 July 1990

Dear General Manager/Contact Officer

CAPITAL CHARGES UPDATE 90/6

I enclose a copy of Capital Charges Update 90/6, which provides guidance on land and buildings valuations - functional suitability.

Yours sincerely



R J PETERS

Head of the Capital Charges Unit.

Julie Hoory

Chairman	DGM	As DGM	Chief Exec	Prov Mgt	Op Plan	HGM Acute	HGM Gen	HGM Psych	Works	Impr ment	ERC	VEC
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■ CAPITAL CHARGES ■

Update

CAPITAL CHARGES UPDATE 90/6

LAND AND BUILDINGS VALUATIONS - FUNCTIONAL SUITABILITY

1. The basis of valuation being used by District Valuers in the current exercise takes no account of the functional suitability of buildings in terms of delivery of health care. This approach has led to difficulties where firm plans exist to terminate the use of a building before the end of its assessed remaining life.

2. Where such a situation arises the decision to terminate the use of a building becomes a valid measure of its functional suitability to its users. Such buildings may have previously been given longer remaining lives and therefore higher valuations than would then appear reasonable in the revised circumstances.

3. The problem manifests itself in the case of an NHS Trust which will inherit an originating debt matching the valuation. If the building when taken out of use has an alternative use value significantly below the existing use value (because for example, there is little potential development value in the building) the NHS Trust will suffer a substantial loss on disposal. This amount of originating capital debt will remain unchanged and hence an NHS Trust would need to continue to pay interest on the interest bearing element of its capital. DMUs in the same situation will not suffer a loss in the same way but will nevertheless have assets listed in their asset register with valuations in excess of their true worth to the NHS and will be paying higher capital charges.

4. In order to overcome this problem Regional Health Authorities may agree adjustments to valuations of land and buildings in any situation in which the RHA has agreed a plan which encompasses the disposal or redevelopment of a building. The selection of such plans will be a matter for each RHA to determine but should be consistent with the strategic proposals for the unit concerned and with the RHA's capital expenditure programme. Where Department of Health

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AIP is required, no adjustment should be made until that AIP is obtained. Adjustments should not be made in respect of any buildings for which District Valuers have assessed an existing use value of less than £5 million or in any case in which the functional life as assessed by the region is 50% or more of the remaining life as assessed by the District Valuer.

5. These adjustments should affect only the remaining lives of buildings and related plant, resulting in lower valuations for these elements than their current valuations. RHAs must assign realistic remaining lives recognising that replacement plans are often over-optimistic. Accordingly remaining lives should be not less than double the period planned for termination of use.

6. The procedure to be followed by regions is explained in the Annex to this Update.

7. The operation of these adjustments must be carefully recorded. The Department will require summarised returns from RHAs of any adjustments to valuations that they have agreed. The adjustments must also be explained in notes to the accounts of the health authority or NHS Trust concerned and will be available for examination by auditors.

7. Queries concerning this Update should be directed to the Capital Charges Unit (Rob Peters 071-972-3406, Jenny Thorburn 071-972-3524, Sian Thomas 071-972-3525) at
Room 435
Friars House
157-168 Blackfriars Road
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ADJUSTMENTS TO VALUATIONS

1. Adjustments should only be made in respect of buildings for which the RHA has previously agreed a plan which encompasses disposal or redevelopment. The nature of such plans is a matter for RHA discretion but plans should satisfy certain criteria:
 - i. the disposal should be consistent with strategic proposals for the unit concerned;
 - ii. any expenditure necessary to implement the disposal must be contained in capital expenditure programmes;
 - iii. firm plans should exist for the alternative provision of services, if necessary;
 - iv. if Department of Health AIP is required, no adjustment should be agreed until this is obtained.
2. Adjustments should not be made in respect of any building for which District Valuers have assessed an existing use value of less than £5M.
3. Equated lives as assessed by the RHA for the purposes of these adjustments must be double the period planned for disposal; e.g. if disposal of a building is planned in 5 years, the minimum assessed equated life should be 10 years.
4. No adjustments should be made where the assessed equated life of buildings and engineering plant would be 50% or more of the equated life provided by the District Valuer; e.g. if the equated life assessed by the District Valuer is 20 years and the equated life assessed by the district and region in accordance with 3. above is 10 years, no adjustment should be made.
5. Both rules 3 and 4 must be satisfied before implementing an adjustment. Proper records of adjustments agreed must be maintained by regions.

6. The method of adjusting the valuations of each element of the building will be as follows:

$$\left(\text{value (as assessed by DV)}^1 \times \frac{\text{Age} + \text{remaining life assessed by DV}}{\text{remaining life assessed by DV}} \right)$$

x
$$\frac{\text{remaining life agreed by district and region}}{\text{age} + \text{remaining life agreed by district and region}} =$$

Adjusted valuation

7. Capital charges will be calculated by reference to the adjusted valuations and assessed remaining lives.

Column 9 of the Block Inspection form, adjusted by the DV.