Trust Board paper C

University Hospitals of Leicester NHS Trust

To:	**Trust Board**
From:	
Date:	**5 April 2012**
CQC regulation:	

Title:	**Revaluation of land and buildings**

Author/Responsible Director: Andrew Seddon, Director of Finance and Procurement

Purpose of the Report: To seek board **approval** to adopt the independent valuation of the Trust's land and buildings as at 31 March 2012.

The Report is provided to the Board for:

Decision	X	Discussion	
Assurance		Endorsement	

Summary / Key Points:

1. A valuation of the trust's land and buildings has been performed by Gerald Eve, independent valuers.
2. The valuation is in accordance with modern equivalent asset value (MEAV) principles.
3. Land values have been reduced by £11.2m (18%) and buildings reduced by £35.6m (12%).
4. The diminution in value is absorbed by the Trust's revaluation reserve (£24m) with the balance of £24.8 million taken as a "below the line" impairment in the current year's income & expenditure account. This does not affect the annual control total.
5. The trust will benefit from a reduction in PDC dividend payable of £1.6m pa. Future depreciation charges are expected largely to be unchanged duty a reduction in asset lives.

Recommendations:
The board is asked to **approve** the results of the independent valuation.

Previously considered at another corporate UHL Committee ?
At Finance & Performance Committee on 28 March 2012.

Strategic Risk Register	**Performance KPIs year to date**
NA	NA

Resource Implications (eg Financial, HR)
These changes in asset valuations do not affect the Trust's cashflow, with the exception of the impact on PDC dividend.

Assurance Implications
Gerald Eve are independent valuers and the valuation principles will be reviewed by the trust's external auditors.

Patient and Public Involvement (PPI) Implications
None

Equality Impact
NA

Information exempt from Disclosure

Requirement for further review ?

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

REPORT TO: TRUST BOARD

DATE: 30 MARCH 2012

REPORT FROM: ANDREW SEDDON – DIRECTOR OF FINANCE AND PROCUREMENT

SUBJECT: REVALUATION OF LAND AND BUILDINGS

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1. Introduction

1.1 Trust policy is to obtain an external valuation of its land and buildings every 3 years. The last valuation was carried out in 2009.

1.2 This paper informs the Trust Board of the impact of a valuation of the Trust's land and buildings carried out as at 31 March 2012.

2. Method

2.1 For previous valuations, the trust has used the District Valuer, a public sector valuation service. Virtually all Foundation Trusts, and an increasing minority of NHS trusts, have chosen to use commercial valuers.

2.2 Gerald Eve LLP, chartered surveyors and property consultants, have experience in valuing the assets of NHS foundation trusts and were therefore appointed to carry out the valuation in late 2011. Gerald Eve carried out inspections of all the trust's sites and worked with the facilities teams to get an understanding of the issues affecting the properties and the sites.

2.3 In line with International Financial Reporting Standards (IFRS), NHS trusts now value tangible fixed assets under the Modern Equivalent Asset (MEA) methodology. Under this methodology, asset values are based on the depreciated replacement cost (DRC) of an equivalent modern facility that provides the same function as the existing asset.

2.4 Having established the appropriate cost of the modern equivalent asset, valuers assess the remaining useful asset life to determine the new net book value and annual depreciation charge.

2.5 Assets with "light" utilisation will be valued based on the space required to deliver the service, not on the space currently occupied by that service.

2.6 Clinical land has been valued at a cost per hectare based on commercial "brown-field" land values. Accommodation land has been valued using residential land values.

2.7 We have now received the full draft valuation report from Gerald Eve and we are validating a small number of queries regarding the principles as they apply to specific buildings. In particular, the following asset values are being reviewed:

- Unutilised former medical wards at the LGH

- Accommodation assets at the LGH and Glenfield.
- The multi-storey car park at the LRI.

2.8 The initial valuation results, both the net book value and the revised remaining asset life, have then been compared to existing asset value/asset lives, to “sense-check”, the valuation results. This process is largely complete, and will have been fully completed in the next two weeks.

3. Valuation results

3.1 The results of the valuation may be summarised:

Summary of Revaluation Exercise

		Forecast Valuation 31/03/12	New Valuation 01/04/12	Change: Reduction (-), Increase (+)	Change	Absorbed by Revaluation Reserve	Impairment
		£'000	£'000	£'000	%	£'000	£'000
Land	LGH Clinical	17,315	15,340	-1,975	-11%	-1,871	-104
	GGH Clinical	25,306	15,700	-9,606	-38%	-371	-9,235
	LRI Clinical	13,096	10,930	-2,166	-16%	-2,056	-110
	LGH Accommodation	3,731	4,550	819	22%	0	0
	GGH Accommodation	2,611	4,330	1,719	66%	0	0
	LRI Accommodation	128	128	0	0%	0	0
		62,187	50,978	-11,209	-18%	-4,298	-9,449
Buildings	LGH Clinical	80,731	69,343	-11,388	-14%	-7,870	-3,518
	GGH Clinical	68,222	57,899	-10,323	-15%	-4,861	-5,462
	LRI Clinical	128,322	118,293	-10,029	-8%	-3,911	-6,118
	LGH Accommodation	8,911	7,189	-1,722	-19%	-1,689	-33
	GGH Accommodation	7,349	5,155	-2,194	-30%	-1,947	-247
		293,535	257,879	-35,656	-12%	-20,278	-15,378
Total		**355,722**	**308,857**	**-46,865**		**-24,576**	**-24,827**

3.2 Note that buildings are valued individually (e.g. Windsor block), and values are not “pooled” across a hospital site. Where buildings have been previously revalued, any diminution in carrying value is first charged against the remaining balance on the revaluation reserve relating to that asset. Any reduction in the carrying value below the depreciated historical cost is charged to the income and expenditure account in the year on a line below the Trust’s annual control total.

3.3 The impact on the Trust's annual depreciation charge is shown below.

Depreciation Impact

		Current Forecast 2012/13	New Forecast 2012/13	Change: Reduction (-), Increase (+)	Current Remaining Life	New Remaining Life
		£'000	£'000	£'000	Yrs	Yrs
Buildings	LGH Clinical	4,029	4,144	115	19.1	16.7
	GGH Clinical	2,826	2,798	-28	23.2	20.7
	LRI Clinical	7,453	7,503	50	17.5	15.8
	LGH Accommodation	301	268	-33	29.6	26.8
	GGH Accommodation	214	185	-29	34.3	27.9
Total		**14,823**	**14,898**	**75**		

4. Matters arising

4.1 Gerald Eve concluded that some of the Trust's hospital sites occupied more land than needed under the MEA methodology. Combined with the use of commercial land values, this has resulted in a reduction in the clinical land valuation of £13.7 million (25%). Of this, £4.3m has been absorbed by the existing revaluation reserve, with the balance of £9.3 million charge to I&E account.

4.2 Residential land was valued using residential land values and this resulted in increases in the values of accommodation land. As noted above, this element is currently under review, and we are looking at the returns generated by these assets.

4.3 Values of a number of the buildings were written down following the inspection and meetings with the facilities department. The remaining lives of these buildings were also reduced with a result that the future annual depreciation charge remains substantially unchanged.

4.4 Note also that the Trust's annual Public Dividend Capital (PDC) dividend payment is based on the average of opening and closing balance sheet values. Hence, a reduction in the closing value of assets at 31 March 2012 will generate a part year benefit for the Trust's PDC dividend of £0.8m in 2011/12 and a full year benefit of circa £1.6m in 2012/13.

4.5 The reduction in values has led to a forecast impairment of £24.8m. This will give UHL a technical deficit in 2011/12 but this will have no adverse impact on delivery of the Trust's control total.

4.6 The revaluation will be subject to review by KPMG as part of the external audit process.

4.7 Gerald Eve LLP have proposed carrying out annual updates to the valuation with a full valuation to be carried out every 5 years. This would be a change to our current policy of carrying out valuations on a 3 yearly basis.

5. Conclusion

5.1 The board is asked to **approve** the 31 March 2012 MEA valuation of the Trust's land and buildings assets, as prepared by Gerald Eve, for use in the trusts 2011/12 annual accounts.