



Major Repairs Allowance

A Common Problem in Mixed Tenure Appraisals in ProVal XL

Appraisal errors commonly arise from incorrectly setting the Major Repairs allowance when there are units for rent and shared ownership in the same appraisal. The issue can be further complicated when some of the units are flats.

Typically the rules are:

- Lessees of shared ownership units have to meet the cost of major repairs themselves, either directly (houses) or through a service charge (flats).
- Major repairs for rented tenure units are paid for by the landlord.

The most common default setting for major repairs is to use a sinking fund in Year 1 based on 0.8% of the works cost, usually deferred for a number of years.

Applying this default in Option 1 of Section I results in a cost applicable to **all** units and **all** tenures.

Major Repair Sinking Fund Options

Option 1

% Selection	% Wks ex VAT	Year 1 to 45	0.80%	on 1,800,000
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Option 2

Per Unit, Per Annum, Com. Rented Units Only	Year 1 to 45			
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Option 3

Per Unit, Per Annum, Res. Rented Units Only	Year 1 to 45			
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Sinking Fund at Year 5 15,957

Defer the Start of the Sinking Fund to Year

5

Where the shared ownership units are flats, this cost is incurred by the landlord and recovered from the lessee. It is therefore necessary to set a Service Charge for the shared ownership flats, equivalent to the cost. This will need to be calculated first as Service Charges (i.e. income) are input as a sum per week.

See below for a further comment on service charges.

This potential for 'double counting' the cost is easily missed and making the correct inputs is not particularly easy, so ProVal provides some alternative approaches.

At Option 1 the '*% Selection*' can be changed to a percentage of a user-defined sum. This can be set equivalent to the works cost of the rented units alone. That too however will have to be calculated first. Now there is no need to set a Service Charge for the shared ownership units.

Major Repair Sinking Fund Options

Option 1

% Selection	% User Input	Year 1 to	45	0.80%	on 1,000,000
		User Input	1,000,000		

Option 2

Per Unit, Per Annum, Com. Rented Units Only	Year 1 to	45	

Option 3

Per Unit, Per Annum, Res. Rented Units Only	Year 1 to	45	

Sinking Fund at Year 5 8,865

Defer the Start of the Sinking Fund to Year

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There is a third option and in many ways it is preferable to using a percentage of works cost.

Before explaining this option, consider the implications of using the widely adopted default '*0.8% of works cost*'. This can have perverse results. If the works cost is increased, for example to pay for components and materials which require less maintenance, the sinking fund will increase. Similarly, if the works cost includes abnormal costs (e.g. piling, decontamination) these costs will also increase the sinking fund, yet these abnormal costs are unlikely to affect the major repairs cost.

Option 3 sets a sinking fund sum per unit and is applied to rented units only.

Major Repair Sinking Fund Options

Option 1

% Selection	% Wks ex VAT	Year 1 to	45		on 1,800,000

Option 2

Per Unit, Per Annum, Com. Rented Units Only	Year 1 to	45		

Option 3

Per Unit, Per Annum, Res. Rented Units Only	Year 1 to	45	720	on 10 units

Sinking Fund at Year 5 7,979

Defer the Start of the Sinking Fund to Year

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In the above example the sum of £720 has been calculated by using a standard build cost of say £1,200/m² and then a typical average floor area of say 75m². This example is based on a scheme of 20 units but only 10 are rented, hence the sinking fund is calculated for these units only. Again this avoids the necessity of setting a service charge. You may wish to refine this method by using a different cost per unit, depending on the average floor area of the scheme. No input for service charges is required. When the mix of tenures is amended, the repairs allowance will show the correct position.

Service Charges

Before leaving this subject, remember that in ProVal the cost of providing a service has to be input as a Services Cost (Section I) and the equivalent income input as a Service Charge (Section L). These are set separately because they may differ.

However, it is common practice to omit service costs and charges, as they are widely expected to be the same and therefore neutral on the appraisal results.

With shared ownership units it is important to look at the purchaser's affordability position. This is shown in the *Shared Equity Report*. For this purpose any service charge should be included. You may therefore prefer to set a service cost (either as a separate allowance, or as a major repair cost) and set an equivalent service charge. Where a service charge has been set, this will be included in the affordability report.

Flats often have other service costs (buildings insurance, lift maintenance, common parts maintenance, warden, etc.). These other costs must be input as a service cost and added to the service charge.