



# Re-instatement Cost Assessments: Protecting the client and the property manager post-Grenfell

**Michael Lee**

Michael R Lee Chartered Surveyors



# REINSTATEMENT COST ASSESSMENTS

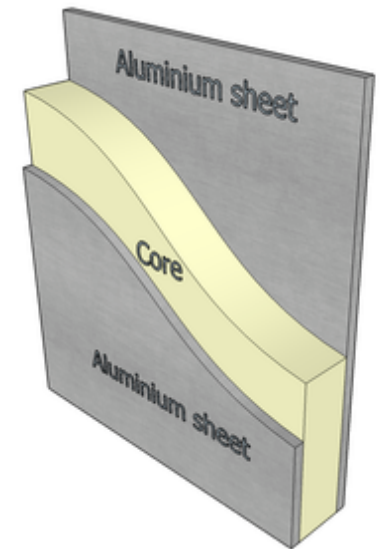
## What we will be covering

- 1 The current position regarding Grenfell and Aluminium Composite Cladding
- 2 Recommended Actions for Property Managers
- 3 Reinstatement Cost Assessments – what Property Managers need to know
- 4 How to Protect the Client and Property Manager

**See AQD in Delegate packs for detailed advice on Fire Safety Management  
'The Grenfell Tower Fire – A Time To Review'**

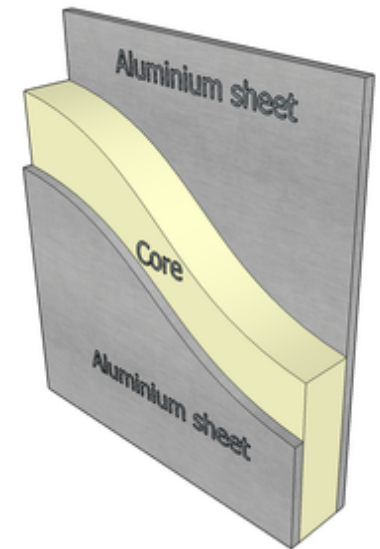
# 1 THE CURRENT POSITION REGARDING GRENFELL AND ALUMINIUM COMPOSITE CLADDING

- Overriding duty on building owners and managers to identify buildings of concern and making them safe
- What is Aluminium Composite Material (ACM): Flat panels of two thin coil-coated aluminium sheets bonded to a non-aluminium core
- Used with insulation behind to increase thermal insulation
- Both the claddings and insulations have been tested
- External surface view does not indicate the type of core or insulation
- DCLG: Screening tests – is ACM cladding is of ‘limited combustibility’



# 1 THE CURRENT POSITION REGARDING GRENFELL AND ALUMINIUM COMPOSITE CLADDING

- Seven systems tested of which 4 fell short of requirements
- By 31 August – 278 samples tested in England
  - only 62 Private Residential Blocks
- Fire and Rescue Services visited 1200 buildings (social, public, student and private)
- Findings: 266 or 95.7% were ‘unlikely to meet current Building Regulations and presented a risk’



# 1 THE CURRENT POSITION REGARDING GRENFELL AND ALUMINIUM COMPOSITE CLADDING

- Category 1: ACM with limited combustibility filler  
– can be safely used depending on fitting
- Category 2: ACM with fire retardant filler could be used with non-combustible insulation (e.g. stone wool) dependent on insulation and fitting
- Category 3: ACM with unmodified polyethylene filler with any type of insulation  
Significant hazard in building over 18m with any form of insulation  
This was the type used at Grenfell
- How many storeys is 18m – needs to be measured from ground floor level to upper floor surface of the top storey (tends to be between 5-6 storeys including ground).



## 2 RECOMMENDED ACTIONS FOR PROPERTY MANAGERS

- **Identify which buildings have cladding**
  - ‘Government is confident that all social housing blocks over 18m with ACM have been identified’  
What about Private Residential Blocks?
- **Take professional advice:**
  - On ALL claddings including small areas of panelling which also need to meet Building Regulations
- **Other claddings:**
  - DCLG also investigating heightened risks with other claddings (which complied with Building Regulations) – more to come?

## 2 RECOMMENDED ACTIONS FOR PROPERTY MANAGERS

- **Funding:**
  - DCLG ‘Our expectation is that building owners will fund measures to make buildings safe’
    - i.e. service charges
- **Local authorities tasked with ensuring all private blocks with ACM are identified**
  - Where Building Owners (...& agents?) refuse to co-operate – Residents advised to contact Environmental Health Dept.
- **Keep informed!**
- ARMA Circulars and updates
- DCLG website – register for updates



## 2 RECOMMENDED ACTIONS FOR PROPERTY MANAGERS

- [www.gov.uk/government/organisations/department-for-communities-and-local-government](http://www.gov.uk/government/organisations/department-for-communities-and-local-government)
- **Further guidance awaited:**
  - **Remedial works:** DCLG to issue further guidance on remedial works
  - **Interim fire safety measures:** National Fire Chiefs Council (FFCC) to issue updated guidance
  - **Building regulations** Independent Review of Building Regulations and fire safety  
To identify changes needed to make buildings safe in future  
Interim report November 2016  
Final report Spring 2018



# 3 REINSTATEMENT COST ASSESSMENTS – WHAT PROPERTY MANAGERS NEED TO KNOW

- Why are they required?
  - Ensure buildings/estate are adequately insured in the event of a claim
  - Avoids over insurance, e.g. based on capital value
  - Avoids distortion through index linking
  - Comply with the lease and best practice
- RICS Residential Management Code
  - valuations for insurance purposes should be considered on a regular basis and instructed conveniently before renewals
  - valuations must be carried out by qualified valuers with appropriate skill and experience in the type of properties being assessed, with their fees normally being regarded as a service charge item where allowed

# 3 REINSTATEMENT COST ASSESSMENTS – WHAT PROPERTY MANAGERS NEED TO KNOW

## ARMA Standards (and base for Audit – Scope 3)

- Ensuring that the appropriate cover is in place and that it meets the requirements set out in the lease – **ARMA Standard 4.5(a)**
- At renewal, should ensure the extent of cover, sum insured and the level of premiums are reviewed – **ARMA Standard 4.5(c) and RICS Residential Management Code 15.13**

## RICS Guidance Note

- Reinstatement cost assessments of buildings (2nd edition) GN 4/2011
- Para 5.5 ‘a major review and reassessment every three years or if extensions or significant alterations’. The only reference in guidance notes to frequency.

## Best Practice

- Full revaluation every 10 years with desktop re-assessment every 3 years
- By Qualified Surveyor

# 3 REINSTATEMENT COST ASSESSMENTS – WHAT PROPERTY MANAGERS NEED TO KNOW

- **‘Declared Value (DV)’** provided by valuer
  - Required by insurer/broker to assess the insurance premium
  - Basis of premium
  - Total loss cost of rebuilding i.e. fixed price tendered sum plus fees
- **‘Sum Insured’** provided by broker/insurer
  - They add 15-30% for cost inflation over the period of a total claim/reinstatement
  - The premium is based on the Declared Value
- **‘Condition of Average’**
  - Where DV deemed under assessed (usually by more than 15%)
  - Claim reduced by same ratio i.e. insured DV:correct DV
  - Potential claim against valuer

# 3 REINSTATEMENT COST ASSESSMENTS – WHAT PROPERTY MANAGERS NEED TO KNOW

- Two types of calculation
  - BCIS Online – web based calculator for simple low rise up to 4 storeys
  - Elemental Cost Assessment – larger or complex buildings calculates rate for each component  
BUT – limited information on costings for residential blocks
- Provide Information
  - Floor plans – advise surveyor when quoting as this should reduce the fee
  - A copy of the existing insurance schedule – states extent of estate covered
  - Check that insurance schedule is correct
- Mid Term Adjustment
  - If revaluation is after renewal – get a mid –term adjustment – do not wait for next renewal
  - Inform insurer and valuer if significant changes or extensions etc

# 4 HOW TO PROTECT PROPERTY MANAGER AND CLIENT

- **‘Condition of Average Waiver’**

- The insurer may offer to include a waiver where the DV is provided by **Chartered Surveyor**
- Valuation valid for 3 years with annual index applied to DV
- Not automatically included in insurance terms – has to be requested
- No duty of care owed to insurer by valuer – it is owed to the client
- Removes clients risk of under assessment

- **VAT**

- For residential, DV excludes VAT except on fees
- VAT is not payable in event of total claim – Maybe payable on part claim (more frequent)
- The client should be advised to confirm whether the VAT needs to be insured (most residential block insurers require VAT to be added)
- A gross figure should be requested from the valuer
- It is not just +20% as VAT on fees already included – plus c17.6%

# 4 HOW TO PROTECT PROPERTY MANAGER AND CLIENT

- **Qualified Surveyors with suitable PI cover**
  - Instruct experienced qualified surveyors – revaluation every 3 years
  - Check level of PI cover – no official guidance
  - The potential loss if proved negligent and a potential claim can be enormous on large estates can be
  - Push to raise standards in Residential Management to make sure qualified surveyors with adequate PII and experience
  - If surveyors PI inadequate, the client may look to Property Manager for instructing them
- **Higher Risk Construction**
  - Timber floors/frame – approx. 350%
  - Aluminum Composite Material (Grenfell) – no info on loading but many insurers wont insure
  - Significantly increases the premium (not necessarily the DV)
  - Get Surveyor to confirm where possible
  - Notify insurer – otherwise claim may be rejected!



ANNUAL CONFERENCE 2017

# MANAGING the FUTURE



#ARMAConf2017