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OXFORD CITY COUNCIL

To:	**Cabinet**
Date:	**12 June 2024**
Report of:	**Head of Corporate Property**
Title of Report:	**Contract for Rebuild Cost Assessments**

Summary and recommendations	
Purpose of report:	To seek approval to enter into a contract for Rebuild Cost Assessments of the Council's property assets to assist with placing the property insurance policy.
Key decision:	No
Cabinet Member:	Councillor Ed Turner, Deputy Leader – Finance and Asset Management Councillor Linda Smith, Cabinet Member for Housing and Communities
Corporate Priority:	Enabling an Inclusive Economy
Policy Framework:	Council Strategy 2020-24

Recommendations: That Cabinet resolves to:

1. **Recommend to Council** the provision of a revenue budget in the General Fund for the sum of £128,000 per annum for the next 3 years and in the HRA for the sum of £55,000 per annum;
2. **Give project approval** to tender a contract to undertake the rebuild cost assessments across all assets in both the General Fund and the HRA;
3. **Delegate authority** to the Head of Corporate Property to finalise the tender documents; and
4. **Delegate authority** to the Head of Corporate Property, in consultation with the Head of Law and Governance; the Head of Financial Services; and the Deputy Leader (Statutory) - Finance and Asset Management to agree the cost and final terms of, and enter into and make any necessary amendments to, a contract with the preferred supplier.

Appendices	
Appendix 1	Risk Register

Introduction and background

1. The Council has a residential portfolio, which provides housing to a significant number of residents across the City. In addition, The Council has a significant number of historic commercial investment properties, which bring in much needed income to fund core services; as well as a number of operational properties used by the Council and its subsidiaries to provide services to residents in the City. There are also a number of heritage assets such as bridges, monuments and parks.
2. The Council insures most of these property assets, but there are also some properties that are let on very long leases (99 years or longer) where the Tenant is required to insure the property. The insurance premium is linked to the cost it would take to repair the property if it were damaged or destroyed; this rebuild cost includes not only the cost of reconstructing the building, but also the cost of any professional fees that are incurred in reconstructing the building as well as removing debris and clearing the site.
3. In general terms the insurance market has faced significant underwriting pressures over the last few years having seen an increase in the number and severity of claims that are being made. This has led to insurers becoming more risk averse and premiums have increased substantially. In addition to this there have been significant cost increases within the construction industry; according to the Building Cost Information Service between 2020 and 2023 the cost of construction has increased by 24%.
4. During the recent tender for insurance only one insurer was prepared to offer terms; a number of other insurers had expressed an interest, but we were unable to satisfy the questions around the portfolio during the clarification stage. The annual premium (including Insurance Premium Tax) for property during 2023 was £476,636; following the tender the revised annual premium will increase to £1,061,851. The biggest increase will be seen in the HRA, where the premium is increasing from £97,240 to £424,407. Based on the current insured values the revised insurance premium is equivalent to 0.02% of the insured value. We have been working with the insurer to agree a programme to provide the information they are requesting if they are to continue providing us with insurance.
5. Given the link between the insurance premium and the rebuild cost it is important to ensure that the rebuild costs are accurate. If the cost assessments are not accurate it creates two possible issues:
    a. If the rebuild cost values are too low: in the event a claim is made the payout from the insurer may not cover the cost of rebuilding the property or making good the damage to the property. From an insurer perspective, they will want the rebuild costs to be priced accurately to ensure that they are charging the correct premium for their risk.
    b. If the rebuild cost values are too high: whilst this will not lead to a shortfall in the amount the insurer would pay out in the event of a claim it will lead to us paying a higher than necessary premium.
6. The insurance policy in place for all the property assets is an "all risks" policy and covers damage caused by a range of perils including: fire, lightning, explosion, store, flood, and escape of water.

7. In respect of the commercial investment properties the Council insures the properties against a range of perils and is able, in the majority of cases, to recover the cost of insuring the properties from the Tenants. This covers not only the insurance premium, but also the cost of assessing the cost to rebuild the property in the event it is either damaged or destroyed.
8. In respect of the operational portfolio and heritage assets the Council insures the properties against a range of perils. It is unable to recover the cost of insuring the properties or the cost associated with assessing the cost to rebuild the property in the event it is either damaged or destroyed.
9. In respect of the residential portfolio the Council insures the properties against a range of perils and due to legislation is generally not able to recover the cost of insuring the properties from the Tenants, the only exception to this is in relation to the 700 leasehold and shared ownership properties. This covers not only the insurance premium, but also the cost of assessing the cost to rebuild the property in the event it is either damaged or destroyed.

Current Practice

10. To date, the Council have undertaken an annual desktop assessment to calculate the rebuild cost. In all cases these assessments were based on an industry standard pricing guide known as the Building Cost Information Service. A number of allowances were included in these assessments to take into account the location of the property and the construction type. These assessments were done in-house.
11. By only carrying out desktop assessments using a pricing guide it is likely that the assessments will not fully appreciate any non-standard conditions such as site access, or complex construction methods; the pricing guide provides prices for a large geographic area and this may not take into account the unique attributes to the properties in Oxford. This could lead to either under-insuring or over-insuring our portfolio. As outlined above in the event we are under-insured this would lead to a budget pressure in the event the property is significantly damaged. In the event we are over-insured we would pay a higher premium than necessary.
12. .In respect of the investment properties, operational properties and heritage assets an individual rebuild cost assessment is prepared. There are just over 360 properties within this grouping.
13. The residential portfolio extends to in excess of 8,000 dwellings, as such it is not practicable for the Council to undertake assessments of each dwelling. Instead, the Council uses a system of Beacon Properties, with each Beacon Property being representative of a number of similar properties. At the moment there are 140 Beacon Properties.

Best Practice

14. Preparing rebuild cost assessments is an area of specialism and we do not have the level of experience or technical expertise in-house to undertake these assessments.
15. The Council’s insurers have requested that rebuild cost assessments are prepared in-line with industry best practice. This would be the RICS guidance note “Reinstatement cost assessment of buildings”.

16. Best practice is that each building is inspected by an RICS qualified surveyor every three years to enable an accurate calculation of the rebuild cost assessment, and in intervening period a desktop valuation is undertaken.

Proposal

17. The proposal is to appoint a firm which specialises in undertaking rebuild cost assessments and have the appropriate range of experience and skills that match with the portfolio's range of property and construction types. It will be a three year contract.
18. Consideration was given to recruiting and undertaking this work in-house. This was discounted on the basis that given the range of property types we would not be able to find someone with a suitable breadth of experience to undertake the work. In addition, by outsourcing the work, we will benefit from indemnity insurance in event the assessment is deemed to be manifestly incorrect.
19. It is likely that the cost of the contract over the initial three years will be approximately £550,000.
20. For the General Fund we are able to recover the cost of the inspection from the majority of our commercial tenants.
21. For the HRA we are able to recover the cost of the inspection from the shared ownership and leasehold properties.

Financial implications

22. The cost of this contract has not been budgeted for and will result in a budget pressure in both the General Fund and HRA of £385,000 and £165,000 respectively (excluding any income from recharged costs) to be financed from reserves over the three year period. Some of the cost will be recoverable from Tenants where their leases allow. It should be noted that further work, involving intrusive surveys, will be required to enable us to provide detailed responses around construction methodology and building materials used in the HRA properties. This work has not yet been fully scoped.

Legal issues

23. Part 19 of the Constitution details how the tender will be run due to the contract cost being in excess of the Find a Tender Service threshold.

Level of risk

24. Please see appendix 1.

Equalities impact

25. An Equalities Impact Assessment is not required.

Carbon and Environmental Considerations

26. There are no Carbon and Environmental considerations in respect of the recommendations made in this report.

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Background Papers: None

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