



# Insurance Cost Tracker Report

## Q1 Winter 2012

- INTRODUCTION



*Welcome to the latest edition of Charterfields' Insurance Cost Tracker [ICT] report.*

In this Winter edition of ICT, we provide information on the latest trends that influence declared values and report on the issue of schools converting to academy status, and the valuation support needed to help them.

Despite the last year being challenging for British business, I am pleased to report Charterfields hit another valuation milestone, having valued in excess of £3bn of buildings and £2bn of plant and machinery in the last seven months, with our valuation teams bidding and undertaking international assignments on behalf of clients in Belgium, China, France, Germany, Honduras, Hungary, Poland, Puerto Rico, Trinidad, the UAE and North America.

We continue to expand our advisory teams with new staff scheduled to join our property and equipment divisions over the coming months to maintain our position as a leading, independent, insurance valuation practice.

Thank you for using our services.

**Neil Warburton, Managing Director**

- KEY DATA – BUILDINGS

### ***Building Tender Price Inflation***

Current building tender price inflation data published by the RICS Building Cost Information Service forecasts a modest increase in tender prices in 2012 as new work orders reduce. The projected general trend is for tender prices to



rise in 2013 and 2014 owing to increases in input costs (energy, fuel, building materials and raw materials) being passed on in pricing.

An analysis of recent data shows the current guide to UK building tender price movements as:-

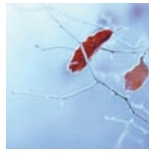
Year	Forecast %
2012	+1.3
2013	+2.6
2014	+2.6

It is not unusual for clients to use incorrect inflation indices when updating declared values. One common error is the use of consumer or retail price indices, which are the headline rates of inflation typically quoted in the media. Use of these indices may lead to errors – both under or, potentially, over insurance, if used over long periods of time.

The tender price index is the standard industry measure for monitoring current and forecasted contracted building price movements, and should be used in the vast majority of cases when tracking cost movements.

***“An analysis of recent Charterfields cases showed that 80% of clients were under-insured by an average of 30%!”***

Charterfields' standard insurance valuation service includes free desk-top cost monitoring to ensure correct declared values are maintained for two years following a survey.



# Insurance Cost Tracker Report

## Q1 Winter 2012 – P.2

- **KEY DATA - PLANT AND EQUIPMENT**

### *Currency Movements Continue To Need Watching*

Inflation rates for the UK, the Euro-zone and the USA all hit three year highs during 2011, although there were slight falls for the UK and USA as we progressed through Q4. Japan continued to fare better than most economies, posting negative inflation in Q4 and for the year overall.

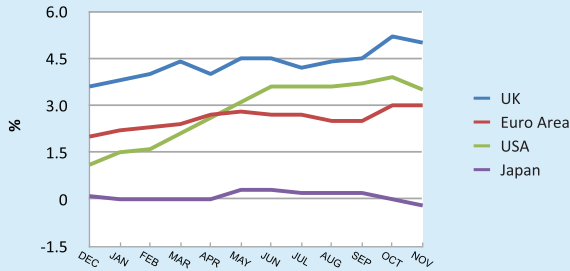
### *Cost and Exchange Rate Fluctuations*

A study of exchange rates since Q4 2010 shows that, whilst there have been significant fluctuations in the value of Sterling against the major currencies, the overall year end position for the Euro and US\$ pretty much replicates that at the start of the period, although the value of Sterling has fallen by approximately 8% against the Yen, making Japanese imports more expensive.

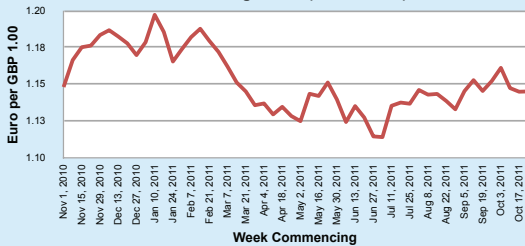
Significant cost and exchange rate fluctuations can impact on declared values and it is important for clients with assets sourced from around the world that appropriate trends are regularly monitored to avoid the potential risk of over, or more damaging, under-insurance.

As part of Charterfields' valuation service, we provide clients with two years of annual updates, tailored to their individual asset base, to ensure that accurate declared values are maintained.

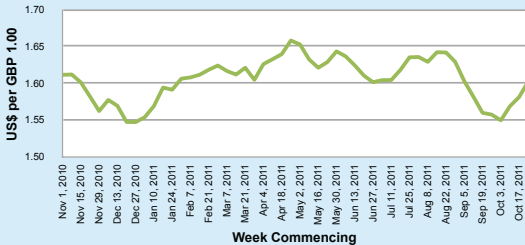
**Inflation Rates Dec 2010 - 2011**



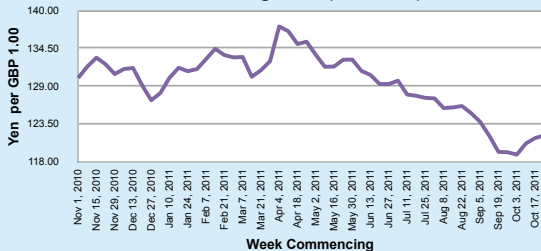
**Exchange Rate (GBP : Euro)**



**Exchange Rate (GBP : US\$)**



**Exchange Rate (GBP : Yen)**



- **ACADEMY STATUS SCHOOLS**

### *Valuation Gaps Put Clients At Risk*



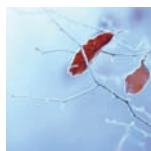
### *Insurance Position Reveals Risk of Clients Understating Declared Values*

The current trend for schools to convert to academies moves

responsibility for insurance to a Governing Body or Trustees.

Charterfields' exposure in this market shows there is a common misconception that values for property can be assessed in-house, utilising costs from recent school projects, generic cost guides, or by updating legacy values.





## Insurance Cost Tracker Report

### Q1 Winter 2012 – P.3

Figures produced using these methods are often inaccurate for a number of key reasons:-

- declared values using modern construction data can be significantly lower than actual costs to reinstate older buildings of a more substantial construction. This is particularly an issue in the event of a partial loss, where the damaged part of a building may need to be rebuilt in the same style as that remaining;
- using modern construction cost data will not take account of any additional cost factors incurred when reinstating historic or listed buildings that may form the whole or part of a risk; and
- guide estimates of reinstatement cost may not take account of additional costs required to be reflected, owing perhaps to the topography of a site, professional fees to be incurred during the construction process, debris removal needed to leave a clear site in the event of a loss, and external works such as sports pitches, circulation areas and car parks.

Similarly, assessing suitable values in-house for contents can be fraught with pitfalls as:-

- recent cost information may reflect discounts that may not be available in the future;
- costs may include for items which should more sensibly be included within the assessment of property interests, such as laboratory benching, sprung flooring or under-floor heating;

- generic cost guides which provide a 'rate per student' will not take account of any 'over and above' facilities that may exist due to the nature of the academy, such as an extensive library, IT suites or musical instruments, nor third party or 'gifted' assets; and
- the accuracy of legacy values may be questionable owing to the lack of recent assessments having been undertaken.

#### ***VAT Headache Could Lead To Under-Insurance***

Generally, even non-VAT registered academies are able to reclaim VAT incurred on elements of expenditure when it relates to the provision of free education under the provisions of the VAT Act 1994.

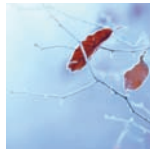
However, the issue of tax recovery becomes complicated, and exemptions may not apply, if a school building or asset is also used for a business purpose (i.e. not relating to the provision of free education).

Therefore, not all buildings or facilities may be exempt in the event of a loss and an allowance might need including within a declared value to reflect this potential liability for non-VAT registered entities.

Where buildings or assets have mixed uses, (used for both business and non-business use), only the portion of the cost relating to the non-business use is exempt. Examples of cases falling under a VAT review would be sports halls rented out for public use, the shared use of swimming pools or income generating car parks.

For academies that are VAT registered, full tax recovery should be possible under normal accounting procedures. However, to protect an insured's position, we review VAT exposure when undertaking insurance valuations to help recognise and eliminate potential under-insurance.





# Insurance Cost Tracker Report

## Q1 Winter 2012 – P.4

### **Financial Valuation – Advice Is Often Needed**

As well as becoming responsible for insurance cover, many new academies need to prepare financial accounts for the first time, reporting market based values for balance sheet purposes for land, buildings and contents.

Through our team of qualified and RICS registered valuers, Charterfields is one of the few insurance valuation consultants able to offer this additional support, providing Governing Bodies, Trustees and their accountants with a combined service, avoiding the need to engage multi advisers and generating cost savings on professional fees.

### **Free Initial Advice – VHC Academia**

We are pleased to offer our valuation healthcheck (VHC) service to academia clients. This enables issues of value to be quickly spotted at no initial cost and can be designed to cover all material risks and elements of BII. For more information please contact us.

### • PERSONNEL



Congratulations to Amy Thelwell, a member of our insurance property team, who has recently completed her APC and is now qualified as a MRICS.

### • SPRING EDITION OF ICT

In our next edition of ICT, we will be releasing the results of Charterfields under insurance review. With 80% of clients found to be under insured by an average of 30%, which sectors are at greatest risk, which group performs best and what are the key reasons for cover levels falling short?

### • COMPETITION

Thank you to all who entered our last competition. The lucky winner was Simon Loughran at Bluefin in Bristol, who won £150 of theatre tickets. We had many entries and the answer was the top glazing panel in the roof of the Gherkin in London.

**Our competition teaser for this issue is to identify this famous location:-**



The winner will receive a £150 gardening voucher in readiness for Spring! Closing date for entries is 12 March 2012. Please email your answers to [alison.lewington@charterfields.com](mailto:alison.lewington@charterfields.com).



For enquiries and service advice, please contact:-

**Neil Warburton** FRICS IRRV (Hons)

**T:** 0870 0434170 ext 1023

**M:** 07836 359835

**E:** [neil.warburton@charterfields.com](mailto:neil.warburton@charterfields.com)

**Alison Lewington**

**T:** 0870 0434170 ext 1021

**E:** [alison.lewington@charterfields.com](mailto:alison.lewington@charterfields.com)

Visit us at [charterfields.com](http://charterfields.com)

or you can follow us on Twitter:

 [@Charterfields](https://twitter.com/Charterfields)