

RCL AGM 13 June 2023 Chair of Finance Committee Commentary

In my comments at the AGM this time last year, I said the Finance Committee's two top priorities were mitigating the impacts on the Service Charge of rising inflation and the continuing high cost of energy. The two were, of course linked and I am sorry to say that the consensus in the short to medium market forecasts that I see in my day job is that this will remain the case for at least the next 12 months.

Given that the Rivermead Court Finance Committee has even less chance of managing the UK economy than the Government (but only just), the focus has been to moderate as far as practicable the amount that you as Leaseholders have to pay in by way of Service Charge in this time of Global financial crisis.

Therefore, conscious of the burden of high energy costs, the Board in May of last year agreed if there were to be a shortfall in the Service Charge Budget figure for energy resulting from the continuing rise in energy costs, exceptionally, the shortfall would be met out of the Reserve Fund, rather having a supplementary Service Charge for 2022 being tacked on to the 2023 first half Service Charge demands.

As it turned out there was a shortfall of around £122,000, - this amounts to an average around £580 per flat - and you will find this as a contribution from the Reserve Fund on page 3 of the 2022 Service Charge account.

Turning to the cost of energy for the now current year, at the time of forecasting the 2023 Budget numbers for energy, there were fixed cost contracts in place, with the one for gas terminating at the end of this month and at the end of December for electricity.

The major part of the energy cost in the Service Charge is for gas for communal heating and hot water. We are still finalising the rate for the gas contract for the next 12 months beginning 1st of July, but market indications are that we will be able to secure a better rate than last year and the Board when it met last week, it agreed that there will be no increase in the service charge for the second half year's demands that will shortly be sent out to you.

The other two big ticket items in the 2022 Budget are employment costs and insurance.

On employment costs, the Finance Committee recommended to the Board that for 2022, Rivermead Court Ltd should increase its contribution to the employment costs in the 2022 Service Charge. The details are in the Chairman's Statement in the Company's Annual report and Financial Statements.

So far insurance costs are concerned, because of a combination of market forces and a major claim on the Buildings insurance late in 2021, we already had a significant increase in cost of insurance in the renewal for 2022.

The renewal date for our Buildings insurance is 29 November. In the autumn the last three years, the Finance Committee have used an independent specialist broker to get quotes for Buildings and Terrorism insurance. The result was that because of a number of external factors ranging from the aftermath of Grenfell to the cost of capital in the global insurance and reinsurance markets coupled with recent Rivermead Court water escape claims, only two insurers were willing to quote for the 2023 Buildings insurance and one of these was contingent on conditions that were not practicable for us to meet.

The only other insurer willing to quote was the incumbent provider, Ecclesiastical. However, because of the major water escape claim in 2021 and the continuing significant number of lesser claims in 2022, Ecclesiastical would only renew on condition of us accepting an excess of £25,000 on any single water escape claim.

It has always been the case that water escape damage to a flat owner's own flat or contents was not covered by the Buildings insurance but our current Buildings insurance policy document expressly says that cover for third party losses does not apply where the plumbing and appliances involved are not the responsibility of the Landlord, in this case Rivermead Court Ltd. The Lease also provides that it is the flat owner's responsibility to keep the internal plumbing of their flat in good order and repair.

Given the terms of the Buildings insurance and the Lease, the Board therefore sought advice from a leading firm of solicitors specialising in leasehold and insurance law about how Rivermead Court Ltd should now deal with water escape claims from one flat to one or more other flats. The advice was received at the end of last month.

The short answer is these claims are not a matter for Rivermead Court Ltd to become involved in. It is solely a matter to be resolved between flat owners. This is why already the Board has urged flat owners to make sure their Home Contents or Landlords' Insurance policies include Public Liability cover.

As result of the legal advice we have received, the Board will be issuing a guidance note to all Leaseholders about the legal position on water escapes and the need for having Public Liability insurance in place as part of their Home Contents insurance. We suggest an appropriate level of third party cover is £2 million, which is usually the minimum amount offered with Home Contents insurance.

Turning to the financial position of Rivermead Court Ltd, you will see from the Annual Accounts and Financial Statements that largely as a result of the receipt of the lease extension premiums, the net assets were at the year-end around £1.5 million more than year-end 2021. Before you get too excited though, since the year end, as expected, we have seen a further outflow of cash on the pipeworks project and a good proportion of the remaining balance of lease extension premiums is earmarked for the purchase of HIUs for those of you whose flats have still to have one fitted.

This is all I wish to cover but I would be happy to try to answer any questions you have on the finance side.

Keith Bedell-Pearce
13 June 2023