

# Lynden Gate Residents Ltd

## **Accounts to 30<sup>th</sup> June 2007 and service charge projections**

In a year's time, at the 2008 AGM, we will probably be considering a sizeable increase in service charges. This is because the 2012 redecoration is likely to cost substantially more and because we will probably want to do some work on road repairs. There are many issues and alternative approaches and this note introduces the debate we need to have over the next 12 months in order to come to a reasonable consensus on how we wish to proceed.

The format of this note is similar to that of previous years but the content has changed somewhat as we begin to consider increasing service charges. I attach the accounts for the year to 30 June 2007. I explain our expenditure and financial position, both now and for a few years into the future. I also aim to relate these to the level of service charges with indications of where we have choices that the residents and/or the directors will have to make.

### ***The Basics***

In very simple terms the annual service charge covers two types of expenditure:-

- There are **operating costs** of which typically £80,000 pa is **normal** operating cost – such things as salaries, garden maintenance and insurance. In some of the last few years there have also been **abnormal** operating costs, mainly legal expenses, relating to the conduct of the cases against Mr & Mrs Brain and Mr Frost
- And there are periodic or one-off **maintenance costs**, of which the “triennial” redecoration at around £600,000 is by far the largest.

The annual accounts always show a surplus in the years when there is no redecoration. The whole surplus is transferred to a redecoration reserve, recognising the future liability to redecorate, so we never make any profit or loss. The balance of cash builds up in the balance sheet but is offset by the corresponding (future liability of the) redecoration reserve leaving shareholders' funds/share capital at a constant £3,501. In the year of the redecoration we spend the money creating a deficit in the year, the reserve reduces by that deficit and we start all over again.

Appendix 1 shows the accounts in summary over the last 5 years. Note that the format of the accounts has changed this year since our auditors have changed their software. I have re-cast the figures in order to present them in the same format as our 5-year record. The notes to Appendix 1 explain the differences. Next year we hope that the auditors will include the 5-year record in the formal accounts rendering my presentation of it unnecessary.

### ***Operating costs***

Appendix 2 gives a summary of the last 5 years' operating costs and shows a fairly consistent normal annual cost of around £80,000. Costs rose in 2006/7 to £83,980 - the main increases being in salaries/labour and in gardening. Salaries were increased over the previous year and, in addition, Russ went full time partly in order to do the refuse collection work previously carried out by contractors. There were more hours worked as the hosepipe ban required us to instigate hand watering procedures. We increased the gardeners' hourly rate from £16 to £19 after negotiating and comparing with market rates. In addition we laid out new beds and had the trees in Portsmouth Road lopped.

There are no major financial issues relating to normal operating costs. Residents may wish to quiz directors over their profligacy or parsimony and, in a balanced community, we would hope to get an equal level of criticism for each.

### ***Redecoration and maintenance costs***

Routine maintenance (of the gates and pumps for example) is included in normal operating costs. In addition we incur larger amounts of one-off redecoration and maintenance costs. These account for about 65% of the service charges. The annual cost of redecoration is the single most expensive item (although we only spend the money every 3 or 4 years). In 2006/7 we spent £106,602 on the redecoration. The remainder (of the total this time of around £600,000) will be spent in 2007/8.

We occasionally incur smaller one-off maintenance costs and, as the estate ages, we can expect such expenditures to become more frequent. Although there were no such one-off maintenance costs in 2006/7, there certainly will be in 2007/8, and probably in future years, as we get to grips with the gradual repair of the road surfaces.

There are several choices that we have to make in managing these costs and these should be discussed among the residents to ensure that the directors are following consensus opinion. The views taken by the directors on the two main issues are set out below.

#### ***Redecoration frequency, scope and cost***

The £600,000 estimated cost of the current redecoration is a substantial increase over the £400,000 of 2003. There was no major change in specification and the contract was, as always, put out to competitive tender. The best value for money contractor was selected. The increase is therefore a reflection of changed market conditions and inflation for building works which, at 8.5% per annum since the last redecoration, was considerably above RPI.

We need to be duly concerned about inflation before the next redecoration. The RICS long term forecast is that tender prices will rise by 34% by 2012. This would indicate a

redcoration cost of £800k in 2012. This works out at a rather alarming £700 pa *increase* for each house in each of the next 4 years. And, of course, it could be more.

Another of the key drivers of cost is the frequency of redecoration.

In the 2003 redecoration we inaugurated a policy that aims to set a high technical standard that will improve the fabric of the estate faster than it deteriorates. This policy has many benefits, notably that it should:-

- extend the period during which the houses look their best
- extend the period between redecorations
- minimise the repairs needed at consecutive redecorations
- permit gradual improvement of the estate
- achieve the best value for money in the long term
- provide more consistent support to the house prices.

As long term residents will be aware, the 2003 redecoration held up much better than previous works. The covenants of Lynden Gate require, in principle, that the estate should be redecorated every three years. Because the higher technical standard of work has lasted better, it has been possible to extend the period in between redecorations, as agreed by residents at the 2006 AGM. This means that we have a longer time to save up for the work so we can absorb higher costs - due both to inflation and to the higher standard of work - without having to increase the service charges. This has been key in enabling us to keep service charges unchanged since 2003/4.

We have continued this policy in the 2007 redecoration which will cost around £600,000 but will not need to be done again until 2011 or perhaps 2012. We hope that residents continue to approve of this approach, which is intended to use your money carefully and effectively in maintaining both the quality of the estate and the value of the properties. But do please let us know if you have any comments or alternative views. In particular it should be noted that increasing the period before the next (say £800,000) redecoration from 4 to 5 years would be the equivalent (in impact upon service charges) of reducing annual costs from £200,000 to £160,000. Residents may feel that this is desirable particularly in light of the comments below on future road repair costs.

#### *Future major maintenance costs for the estate*

As the estate ages, we can expect increasing costs of required repairs, modifications or improvements to the common areas. Minor repairs are included in normal costs but anything over £2,500 is shown as major maintenance. So far such costs have been rare and quite low - we spent £13,000 in 2002/3, £5,000 in 2003/4 and £3,000 in 2005/6 but nothing in 2006/7.

The key such issue for the future is that the roadway is showing signs of wear. While most of the visible cracking was the result of the initial settlement of the concrete many years ago, there are now several areas where the surface is worn and some broken

patches. The board has made no decision as to how far and how fast we should carry out this road repair work. We need to understand residents' wishes on this matter before we commit ourselves.

As a start, in the second half of 2007 (financial year 2007/8) we carried out the first such repair work in the garage area at the south west corner of Seaton. This is an area where severe damage required us to carry out remedial works anyway. But it also gave us an opportunity to investigate the issues that we are likely to encounter in carrying out such repairs throughout the estate and to inform the debate among residents in formulating our longer-term approach.

In preparation for this, acting on the advice of King Sturge, we appointed Beers, a specialist firm of consulting engineers, to steer us through the process and to ensure that we proceed properly. Under their guidance we selected a surfacing technique and a specification of materials which could allow us to repair the roadway in sections over future years. We will be investigating carefully the below ground conditions since this will be crucial to our longer-term plans for replacement of the surface. In particular this is a once-in-a-generation opportunity to ensure that the services that run around the estate – such as drainage, cables, water supplies – are put in good condition to meet our needs for perhaps a quarter of a century.

At the time of writing the works have been completed in Seaton and poor sub-surface conditions were indeed encountered. In order to form conclusions Beers are planning to repair another, much smaller, area in Beaufort and investigate sub-surface conditions there. They will then make recommendations as to how we should proceed.

These are decisions that we need to make carefully but we do not need to make them urgently. We will have to take a view for the purposes of projecting the level of service charges but we do not need to take that view until we have further information.

There are other maintenance issues that have been discussed in previous years. These should be continually reviewed and residents should make the Board aware of possible projects. We cannot plan for these projects with any precision since there are too many unknowns but it is the Board's view that we should accumulate a cushion of cash to try to avoid the need to make a substantial emergency demand at some time in the future.

### ***Balance Sheet***

Trade creditors were unusually high at year-end – the £56,371 was a stage payment on the redecoration owed to Hendersons. Other creditors of £13,548 were payments made by residents in advance of private work being done to their houses by the redecoration contractor.

Trade debtors of £3,200 were payments of service charge outstanding at the year end but which have been subsequently received.

### *Service charges*

Service charges have been held at £3200 since 2003/4 and we intend to keep them at this level for 2007/8. But we will need to review the position for 2008/9.

An £800,000 redecoration in 4 years requires us to accumulate around £200,000 a year (although interest earned helps a little). Normal operating costs are about £80,000 pa. To these we have to add an as yet unknown amount for road repairs. So total costs are likely to be in the range £280,000 to £330,000 (say) pa. A service charge of £3200 raises £224,000 pa – we would need to increase it to £4000 - £4700 pa if we wanted to provide for this degree of redecoration and road repairs. Of course, these are very rough figures, possibly prudent and we have some surplus already.

We expect to make the important decision on future levels of service charges at the AGM of December 2008. This gives us a year to absorb the information from the 2007 road repairs and to determine residents' views on the important issues, particularly whether or not to go for a 5 year period between redecorations.

Of course, there is no fundamental reason for service charges to be roughly regular. We could issue supplementary, or temporarily increased, charges whenever there is a particularly heavy cost to bear. However it is our view that residents in general prefer regular charges. There are many ways to skin these various cats and if you feel that the Board is going in the wrong direction then please let us know.

Neil Chisman  
1 Beaufort Close  
020 8789 9680

18 October 2007

## Appendix 1

### 5 year summary of the accounts

	Year to June 2003 - £	Year to June 2004 - £	Year to June 2005 - £	Year to June 2006 - £	Year to June 2007 - £
Annual service charge	3,000	3,200	3,200	3,200	3,200
<b>Profit &amp; Loss Account:</b>					
Service charges	210,000	224,000	224,000	224,000	224,000
Normal operating costs	(75,058)	(79,665)	(75,233)	(74,399)	(83,980)
Legal (fees)/recovery	(41,283)	(474)	-	43,848	(4,559)
Redecoration	(385,731)	-	(12,870)	-	(106,602)
Major maintenance	(13,403)	(5,203)	-	(3,031)	-
Interest earned	3,276	3,208	8,942	16,490	25,062
Tax	-	-	-	(1,938)	(4,829)
<b>Surplus/(deficit) to/(from) redecoration reserve</b>	<b>(302,199)</b>	<b>141,866</b>	<b>144,839</b>	<b>204,970</b>	<b>49,092</b>
<b>Balance Sheet:</b>					
Cash and debtors	127,606	222,156	372,083	572,211	696,809
Creditors	(54,400)	(7,084)	(12,172)	(7,330)	(82,836)
Redecoration reserve	(69,705)	(211,571)	(356,410)	(561,380)	(610,472)
<b>Shareholders' funds – share capital</b>	<b>3,501</b>	<b>3,501</b>	<b>3,501</b>	<b>3,501</b>	<b>3,501</b>

Notes:

1. Figures in brackets – ( ) – represent negative numbers, a cost or a liability
2. The change in format of the formal accounts means that some items for the year to June 2007 are not immediately comparable between the accounts and the 5-year record. These items are explained as follows:-

- Sub-totals of items are different
- “Sundry” in Appendix 2 is the sum of “Printing, postage and stationery” and “Sundry expenses” in the Detailed Profit and Loss Account
- “Audit, account’cy & admin” in Appendix 2 is the sum of “Accountancy and management fees” and “The audit of the company’s annual accounts” in the Detailed Profit and Loss Account

## Appendix 2

### Normal operating costs and total administrative expenses for the last 5 years

	Year to June 2003 - £	Year to June 2004 - £	Year to June 2005 - £	Year to June 2006 - £	Year to June 2007 - £
Salaries/labour	26,240	28,978	28,549	30,913	35,093
Rates	322	454	540	324	507
Electricity	2,091	2,788	3,117	2,926	3,511
Video & gate maintenance	2,216	716	1,831	1,075	2,117
Insurance	2,323	1,444	1,378	1,801	1,842
Gardening	14,004	17,201	16,115	14,624	19,743
Other maintenance	9,789	11,616	12,512	10,279	8,682
Telephone	315	583	1,082	1,037	1,279
Paladin rent	899	931	973	1,036	1,068
Sundry	2,509	1,971	1,358	2,611	1,836
Audit, account'cy & admin	3,894	9,799	7,795	8,106	8,387
Provision for bad debts	3,000	1,600	-	-	-
Management fees	7,184	2,600	-	-	-
Bank interest and charges	319	113	93	101	105
Interest on late service charges	(47)	(1,129)	(110)	(434)	(190)
<b>Normal operating costs</b>	<b>75,058</b>	<b>79,665</b>	<b>75,233</b>	<b>74,399</b>	<b>83,980</b>
Legal and professional	41,283	474	-	(43,848)	4,559
Major Maint'ce	13,403	5,203	-	3,031	-
Operating costs as in the accounts	129,744	85,342	75,233	33,582	88,539

Note: Figures in brackets – ( ) – represent income - a negative cost

Lynden Gate accounts 07