

Lynden Gate Residents Ltd

Accounts to 30th June 2008 and service charge projections

The auditors have produced the “Directors’ Report and Financial Statements” which has been circulated with the AGM papers. In this note I explain our expenditure and financial position, both now and for a few years into the future. I also discuss the level of service charges that we will need to levy – outlining the unknown factors that we have to contend with and the choices that we 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 £90,000 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 litigation;
- 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 profit in a year when there is no redecoration. This profit is transferred to the “Redecorating and major maintenance reserve” recognising the future liability to redecorate. And the balance of cash builds up in the balance sheet. In a year in which we carry out a redecoration we make a loss which reduces the balance of that reserve and, obviously, the balance of cash in the balance sheet. And then we start all over again.

There are 70 houses on the estate and in recent years annual fees have been £3200. In very rough terms £1200 of this has covered operating costs and £2000 has been “saved” to provide for the periodic decoration and other one-off maintenance.

The last few pages of the Directors’ Report and Financial Statements show the accounts in summary over the last 4 years.

Operating costs

There are no major issues relating to normal operating costs although residents may wish to quiz directors over their stewardship. The summary of the last 4 years’ operating costs shows a fairly consistent normal annual cost of around £80,000 - £90,000 except that salaries/labour costs rose in 2006/7 and again in 2007/8. This was due to the increase in numbers of staff from 2 to 3 in the middle of 2006/7.

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. The total cost of the most recent redecoration was £572,000 of which £107,000 was spent in 2006/7 and £465,000 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 particularly as we get to grips with the gradual repair of the road surfaces. The £22,574 of "Other major maintenance" costs (see note 3 to the accounts) was for the repairs to the road surface in the garage area at the south west corner of Seaton Close. The more recent road and pavement patch repairs will cost about £18,000 in the 2008/9 accounts.

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 main issues are discussed below.

Redecoration frequency, scope and cost

The £572,000 cost of the recent 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 was therefore a reflection of changed market conditions and inflation for building works.

We need to be duly concerned about market conditions for the next redecoration which, unless we decide otherwise, is due in 2012. The Olympics in 2012 will create a shortage of contractors and consequent high prices and it might, therefore be prudent to defer for a year or even more. The frequency of redecoration is therefore an issue and the pressures are to extend the period to 4, 5 or even 6 years. Clearly, a longer gap allows lower annual fees.

We can also vary the scope of the redecoration if we choose. In particular, if we go for a longer period between major redecoration we might decide to have a minor interim clean-up to keep the estate fresh.

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. Until recently such costs were rare

and quite low but we have recently been spending money on the roads and one of the key issues is whether we need to (or want to) accelerate such spending. A patch repair can cost anything – the most recent exercises have each been around £20,000. A comprehensive replacement of the roads and sub-surface services would cost several hundreds of thousands of pounds.

Service charges

Service charges have been held at £3,200 since 2003/4 and we intend to keep them at this level for 2008/9 while we consider our options.

However we need to address the issues identified above of timing and scope of the redecoration and the scale of required road works. To this purpose we have instructed Kevin Morgan of King Sturge and he has commenced work on a comprehensive 10 year maintenance plan including redecoration, roadways and subsurface equipment of sewers and electrics. It is intended that he consider alternative approaches to come up with the best option both in terms of effectiveness and cost.

When he has completed the work we will run a comprehensive consultation in early 2009 with ample time for residents to consider and debate the alternatives. Final decisions will be incorporated in the recommendation for fees put to the AGM in December 2009.

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