

# Lynden Gate Residents Ltd

## **Accounts to 30<sup>th</sup> June 2012 and service charge projections**

At the AGM in December 2011 we proposed that service charges should rise by £100 to £4,000 for the year to 30th June 2013 and that they could be held broadly at that rate for the foreseeable future. We remain of that view. This is largely because we now anticipate a future 5 year cycle for the redecoration in place of the previous 3 or 4 year cycle.

The “Directors’ Report and Financial Statements” 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 with which we have to contend and the choices that we will have to make.

### ***The Basics***

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

- Normal Administrative Expenses of typically £100,000 pa – such things as salaries, garden maintenance and insurance.
- Exceptional Items – mainly periodic or one-off maintenance costs, of which the periodic redecoration (expected to be around £900,000 each time in future) is by far the largest. In some years there have also been abnormal, non-recurring, Administrative Expenses, mainly legal expenses relating to litigation.

The annual accounts always show a profit in a year when there is no redecoration. This profit is added to the “Redecorating and major maintenance reserve” which recognises the future liability to redecorate. And the balance of cash that we will eventually use for the redecoration builds up in the balance sheet. In a year in which we carry out a redecoration we make a loss which reduces both the balance of that reserve and, obviously, the balance of cash in the balance sheet. Then we start all over again.

There are 70 houses on the estate and last year annual fees were £3,900. In very rough terms £1450 of this covered normal operating costs, £200 was on non-recurring items and £2250 was “saved” to provide for the periodic redecoration and other one-off maintenance.

The last few pages of the Directors’ Report and Financial Statements show the accounts in summary over the last 5 years.

### ***Administrative Expenses***

There are no major issues relating to normal Administrative Expenses although residents may wish to quiz directors over their stewardship. The summary of the last 5 years' shows a fairly consistent annual cost of around £100,000. In 2011/12 there were some non-recurring expenses – around £8,000 on legal fees, £5,000 on gardening (tree-logging) and £2,000 on website development.

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

Routine repairs and maintenance (of the gates and pumps for example) is included in normal Administrative Expenses. In addition we incur larger amounts of one-off redecoration and maintenance costs. These account for about 60% of the service charges.

The annual cost of redecoration is the single most expensive item although we only spend the money every 5 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. In 2007/8 “Other major maintenance” costs of £22,574 were spent on repairs to the road surface in the garage area at the south west corner of Seaton Close, in 2008/9 road and pavement patch repairs cost £16,601, in 2009/10 we incurred costs of £37,967 on “mid-term” redecoration, surveyor’s fees and drain investigation and in 2010/11 £31,182 on interim redecoration. In 2011/12 there were no unusual maintenance costs but there was exceptional expenditure of £1,896 on the golf buggy used for rubbish collection.

There are several choices that we have to make in managing these costs and these are discussed below in the context of a review of our long term maintenance requirements which was carried out for us in 2009 by King Sturge.

#### *The key cost drivers*

The King Sturge review identified 4 main areas which will drive our costs:-

- Continual one-off repairs such as road patching or drain repairs;
- The periodic redecoration;
- Replacement of the total road surface;
- Replacement or repair of all underground services – drains and electricity.

*Continual one-off repairs* have been increasing in recent years particularly as the road surface ages and we carry out patch repairs. But these repairs are not only for roads – for example the King Sturge survey determined that we needed to carry out a repair to the

drains at the top end of Seaton. This does not cover routine and minor maintenance which are included in Administrative Expenses.

It is impossible to forecast the level of continual one-off repair costs with any accuracy. For the purposes of fee calculations we have assumed £20,000 pa for the foreseeable future.

*The periodic redecoration* is likely to cost a lot more next time and we are assuming £900,000. This is partly because building costs have been rising faster than general inflation (to some extent driven by the Olympics, to some extent by raw material cost rises) and partly due to an enhanced specification. The specification is driven by redecoration frequency – we judge that residents have no appetite for redecoration every 3 years and believe that the consensus is that we should go for a 5 year gap, perhaps even 6 years – and this demands a somewhat more extensive specification. So the specification, the means of execution and the market costs for such works are all key factors in driving our service charges. And the gap between redecorations has a substantial impact on annual fees since it reflects the number of years over which we can save up the required funds.

*The replacement of the total road surface* would cost about £900,000. It would be a major logistical exercise, probably involving the demolition of some garages to allow alternative access to the site. Something of a nightmare but, as has been discussed in previous years, we do not believe that this work actually needs to be done. The subject was first raised as a cosmetic exercise – increasing the value of our properties by having a better looking road. Time has passed and economic circumstances have changed and we do not believe there would now be any consensus of residents' opinion in favour of such a project unless it became absolutely necessary. And the King Sturge review leads us to believe that to be unlikely.

We might well face the need to carry out underground repairs or replacement of substantial *parts* of the road surface but we would do this using our patching methodology and not as a total surface replacement.

*Replacement or repair of all underground services* would only arise if we were to undertake the replacement of the total road surface. In those circumstances it would be foolish NOT to replace the underground services. However, since we do not believe we will go for total surface replacement, we are similarly unlikely to go for total replacement of underground services although we might well have to deal with them piecemeal.

All in all a picture still with a lot of uncertainties and variables. Let us now turn to the level of maintenance fees that is appropriate given these uncertainties.

### ***Service charges***

We believe that residents do not wish to be faced with demands out of the blue to deal with emergencies or unforeseen circumstances and that, given the degree of uncertainty in requirements, it is better to build reserves and prepare for generously estimated costs.

It was therefore agreed at the AGM in December 2011 that we would raise service charges to £3,900 for 2012/13 and, on the assumption of a 5-year redecoration cycle, probably to £4,000 for the foreseeable future thereafter. The word “probably” was inserted because although this feels like a long-term commitment, in practice we only make the decision for one year at a time and all assumptions can be reviewed again before setting the charges for the next year.

The effect of all these assumptions, as shown in the financial projections in the attachment, is:-

- Service charges reach £4,000 pa in the year to June 2013 but do not rise thereafter
- There is one redecoration in the period - starting in 2013 and ending in 2014 with an interim “touch-up” in 2015/16
- We have allowed £20,000 pa for one-off repairs.
- There is no allowance for any substantial road resurfacing or underground work in the period.
- The Redecoration Reserve at June 30<sup>th</sup> 2017 would be about £600,000 and increasing by about £150,000 per year. This would be just about enough (but it might be a bit tight) for another £900,000 redecoration starting in 2018 and being largely paid for in early 2019, but .....
- ..... there is no building of reserves for future road resurfacing or underground works so, if our assumptions here prove to be wrong, it might be necessary in the future to increase service charges.

These projections are very similar to those made last year, We believe that they remain reasonable (although, as I am bound to say, we might have to face unforeseen circumstances). Therefore it will be proposed at the 2012 AGM that service charges for 2013/14 be kept at £4,000 pa as discussed above.

Neil Chisman  
1 Beaufort Close

11 November 2012

**Attachment**  
**Accounts in summary: Last year and 5 year forecast**

| Year ending 30th June         | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| Annual service charge £/house | £3,900 | £4,000 | £4,000 | £4,000 | £4,000 | £4,000 |

**Profit and Loss Account - £000s**

|                                    |      |      |      |      |      |      |
|------------------------------------|------|------|------|------|------|------|
| Turnover                           | 273  | 280  | 280  | 280  | 280  | 280  |
| Administrative expenses            | -114 | -101 | -104 | -107 | -109 | -112 |
| Operating Profit                   | 159  | 179  | 176  | 173  | 171  | 168  |
| External decorating                |      | -200 | -700 |      | -40  |      |
| Other maintenance / exceptional    | -2   | -20  | -20  | -20  | -20  | -20  |
| Profit before interest and tax     | 157  | -41  | -544 | 153  | 111  | 148  |
| Interest receivable                | 6    | 8    | 7    | 2    | 4    | 5    |
| Tax                                | -1   | -2   | -1   | 0    | -1   | -1   |
| Profit trans'd to redecc'n reserve | 162  | -35  | -538 | 155  | 114  | 152  |

**Balance Sheet**

|                         |     |     |     |     |     |     |
|-------------------------|-----|-----|-----|-----|-----|-----|
| Debtors and cash        | 774 | 739 | 202 | 358 | 472 | 625 |
| less Creditors          | -15 | -16 | -17 | -17 | -18 | -19 |
| Net Assets              | 759 | 724 | 186 | 341 | 454 | 606 |
| Called up share capital | 4   | 4   | 4   | 4   | 4   | 4   |
| Redecc'n reserve        | 755 | 720 | 182 | 337 | 450 | 602 |
| Net assets              | 759 | 724 | 186 | 341 | 454 | 606 |