

# Lynden Gate Residents Limited

## Accounts for the year to 30 June 2018 and service charge projection

### Summary

The financial position of the company remains strong with funds available to meet the expected administrative and redecoration costs in 2019. An increase in the service charge is necessary commencing July 2019 primarily to accumulate funds for the redecoration of the estate planned for 2025.

The important points to note are:

- administrative expenses in the financial year to June 2018 were £121k (budget £125k)
- one-off costs were £83k (budget £95k) being the redecoration of the gatehouse (£79k), improvements to the estate and the pollarding of trees
- cash surplus for the financial year was £78k (budget £62k)
- cash on hand as at 31 December 2018 exceeds £1,000k
- the company has the target of £900k, plus a contingency, in funds available for the 2019 redecoration
- the service charge has been held at £4k per year since 2012 i.e. for 7 years and is significantly lower than residential estates in the area
- maintaining the service charge at this rate is no longer sustainable
- the Board proposes a service charge increase of £400 from 1 July 2019
- while the level of the service charge is reviewed annually, shareholders should expect an annual increase in the order of £500 per year in both 2020 and 2021
- **Amended to 4 x £400 in presentation at AGM**
- the accumulated cash reserve is an asset of each shareholder that is of value when selling the house

### The Basics

The company's financial year runs from 1<sup>st</sup> July to 30<sup>th</sup> June. The annual accounts always show a profit and cash surplus in a year when there is no major redecoration. This surplus cash is accumulated and is periodically spent on the redecorating the estate. In the years when we carry out a redecoration the accounts show a loss and reduction in cash. Then the cycle repeats.

### Income

There are 70 houses on the estate and in the financial year to 30 June 2018 the annual fees were £4k per property. The total income was therefore £280k.

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#### **Expenses**

The service charge covers two types of expenditure, administrative expenses and exceptional items.

There are no major issues relating to normal *administrative expenses* although residents may wish to quiz directors over their stewardship. Actual costs in the financial year to June 2018 were £121k (budget £125k). Salaries account for approximately half the expense and these were increased in line with London's living wage rate. The other items include the usual gardening, audit, accountancy, maintenance and general running costs.

Overall administrative expenses are projected to increase in line with inflation plus there will be fluctuations in the amount of repair and maintenance work required in any one year.

*Exceptional items* occur in the normal running of the estate but are one-off costs above the normal recurring expenses and benefits are realised over more than one year. The periodic redecoration is by far the largest exceptional item, others include upgrades to the security system, maintenance of utility services, walls, roads or any parts of the common estate and pollarding trees.

In 2018 major renovation works were undertaken to improve the gatehouse including the redecoration of external walls, weather-proofing of the building and enhancing security at a cost of £79k.

Annually £10k is budgeted for exceptional items because as the estate ages we need to be prepared for such expenditures.

#### **Balance Sheet**

In the balance sheet the outstanding debtor balance represents service charges due from shareholders plus pre-payments e.g. amounts paid on the proportion of long-term contracts after the end of the financial year. The amounts due to creditors comprise pre-payment of services fees, outstanding contractors' invoices plus Corporation Tax due on interest earned as at the accounting year-end.

#### **Treasury**

The main bank used for daily transactions and investment is Barclays Bank. We have undertaken a programme of investment diversification with sums deposited in each of the following financial institutions; Nationwide Building Society, HSBC and Metro Bank. In part this is to improve our rate of return on investments where possible, albeit the current low rates of interest available limit opportunities to increase interest income. Diversification also allows us to take advantage of the Financial Services Compensation Scheme (FSCS) providing capital protection for £85k held at each institution. All investments are in zero risk investment accounts on a fixed term or instant access basis.

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### The Key Cost Drivers

The primary driver of our costs is the periodic redecoration of the estate.

The **periodic redecoration** cost of £900-1000k that we are anticipating for the redecoration in 2019 is considerably higher than the £654k cost of the redecoration in 2013, due largely to inflation in construction prices in line with RICS forecasting. We forecast that costs for the next redecoration in 2025 may increase by similar proportions to approximately £1,200k.

After the construction of the estate in the 1980s the redecoration was initially held every 3 years. The improvements in paint technology over the past 35 years have allowed us to increase the period between redecoration to 6 years and we believe the current consensus among residents is that we should continue with that period. Increasing the gap between redecoration has a substantial impact on keeping the annual service charges low. The more years between redecoration allows a longer time over which we can save the required redecoration funds.

Other potentially large cost drivers could include:

- replacement of the road surface; and
- replacement or repair of underground services.

The **replacement of the total road surface** was first raised a decade ago prior to the recession as a cosmetic exercise, possibly increasing the value of our properties by having a better-looking road. It would cost at least £1m and would be a major logistical exercise, probably involving the demolition and rebuilding of a number of garages to allow access to the site. We do not believe that this work actually needs to be done. It is not clear that the work would add value. 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. We might need to carry out repairs to parts of the road surface but we would do this using our existing patching methodology and not as a total surface replacement.

**Replacement or repair of underground services.** Since 2016 Thames Water has taken over responsibility for the operation, servicing, repairs and maintenance of the pumping stations and associated underground drainage. This has significantly reduced the financial risk associated with repairs to this utility service. We are responsible for the electricity infrastructure to the common parts of the estate i.e. the street lighting and gatehouse. Electric cabling issues are dealt with as they arise with piecemeal repairs. There are neither plans nor financial provisions for any significant upgrade to the electrical infrastructure.

Now, let us now turn to the level of service charge that is appropriate given the current situation, foreseeable anticipated expenses and the uncertainties.

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### **Service Charges**

We believe that residents do not wish to be faced with cash demands out of the blue to deal with emergencies or unforeseen circumstances therefore it is best to build a financial reserve and prepare for realistically estimated costs.

It was agreed at the AGM in December 2011 that we would set service charges at £4k from July 2012. We have been successful in being able to hold the service charges steady for seven years from July 2012 to June 2019.

The long-term financial forecast indicates that while sufficient funds are available to meet the anticipated administrative expenses and exceptional costs including planned redecoration costs in 2019 the financial reserves will need to be replenished prior to the next planned redecoration in 2025.

As indicated in last year's financial report the Board's proposal is to increase the service charge from £4,000 to £4,400 from 1 July 2019.

By way of illustration of longer term expectations, if the redecoration costs in 2025 were to be £1,200k, with a provision of £75k in 2023 for interim work, plus administrative expenses increase by 3% per year then, in addition to an increase in the service charge of £400 in 2019, further increases of £500 in 2020 and £500 in 2021 would be required to provide sufficient funds to cover anticipated costs (see Attachment 1).

This is just one of many potential scenarios regarding the timing and amount of future service charges. Clearly much can change between now and 2025 and service charges will be under regular annual review as financial obligations are clarified.

It is not always appreciated that the money paid through the service charge that is held in the reserves retains value to the shareholder, even if one sells a house before the redecoration in 2025, as it is an asset that can be included in the valuation of the property. This means that saving for the redecoration in advance rather than closer to the redecoration in 2025 is both more prudent and accumulates value for each shareholder.

It is the policy of the Board to provide information prior to any service charge increase to provide time to absorb the information and to determine residents' views. The Board certainly welcomes comments and observations on all financial matters, both expenditures and service charges.

The impact of all the current assumptions, as shown in the financial projections in the attachment, is:

- service charges increase to £4,400 per annum from 1 July 2019
- general administrative expenses are assumed to increase on average at 3% per year
- the redecoration in 2025 for budget purposes is expected to cost £1.2m

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- we have allowed £10k per annum for one-off repairs and £75k in 2023 for interim decoration or repairs
- there is no specific building of reserves for future road resurfacing or underground works

If the assumptions here prove to be wrong, or if residents choose to increase the level of services provided, it might be necessary in the future to increase service charges.

These projections are similar to those made last year. We believe that they remain reasonable.

Therefore it will be proposed at the AGM in January 2019 that service charges for 2019/20 (i.e. 1 July 2019 through to 30 June 2020) will be £4,400 per annum.

Peter Brazier

16 Beaufort Close

30 December 2018

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### Attachment 1: Financial Forecast

<b>Financial Plan</b>	<b>Actual</b>		<b>Forecast</b>						
Year ending 30th June	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
Annual service charge £/house	4,000	4,000	4,400	4,900	5,400	5,400	5,400	5,400	
<b>Profit and Loss Account</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2020 - 2015</b>
	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£'000</b>
Turnover	280	280	308	343	378	378	378	378	2,163
Administrative expenses	-121	-126	-130	-134	-138	-142	-146	-150	-840
Operating Profit	159	154	178	209	240	236	232	228	1,323
External decorating	-80	-900				-75		-1,200	-1,275
Other maintenance / exceptional	-4	-10	-10	-10	-10	-10	-10	-10	-60
Profit before interest and tax	75	-756	168	199	230	151	222	-982	-12
Interest receivable	4	2	1	1	2	3	3	4	15
Tax	-1	-1	0	0	0	-1	-1	-1	-3
Profit trans'd to redecc'n reserve	78	-755	169	200	232	154	225	-979	0
<b>Balance Sheet</b>	<b>2018</b>	<b>2019</b>	<b>2,020</b>	<b>2,021</b>	<b>2,022</b>	<b>2,023</b>	<b>2,024</b>	<b>2,025</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
Debtors and cash	978	223	392	593	826	981	1,206	426	
Less Creditors	-23	-23	-23	-24	-25	-26	-26	-227	
Net Assets	955	200	369	569	801	955	1,180	200	
Called up share capital	4	4	4	4	4	4	4	4	
Reserve for redecoration	951	196	365	565	797	951	1,176	196	
Shareholders' funds	955	200	369	569	801	955	1,180	200	