

# **Lynden Gate Residents Limited**

## **Accounts for the Year to 30 June 2020 and Service Charge Projection**

### **1. Summary**

The financial position of Lynden Gate Residents Limited (the “Company”) remains sound and on plan. The results for the financial year to 30 June 2020 are:

- revenue £318k (budget £308k) comprises service charges of £308k plus a £10k Covid grant
- administrative expenses £151k of which annual operating costs were £142k (budget £147K) plus £9k of the COVID grant spent upgrading office and estate equipment
- estate decorating costs £701k (budget £700k)
- net assets £213k (budget £207k) i.e. the funds that remain after all creditors have been paid

In the coming years administrative expenses are expected to increase in line with inflation. Funds will also be needed in the short term to improve the electrical infrastructure for street lighting, to enhance security and to rejuvenate the gardens. In the longer term, investment is expected for infrastructure to facilitate charging of electric vehicles and funds will be needed to re-decorate the estate.

The service charge is set annually to provide adequate funds to meet anticipated future administrative expenses and investments. Given the current financial reserves, and in recognition of forecast expenditures, the proposal is to increase the service charge by £200 to £5,000 from 1 July 2021.

Details of the Company’s current and forecast financial position are presented below.

### **2. The Basics**

The Company’s financial year runs from 1 July to 30 June. The financial statements show the position of the company as at 30 June 2020.

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, including the current financial year to 30 June 2020, the accounts show a loss and reduction in cash.

### **3. Income**

There are 70 houses on the estate and in the financial year to 30 June 2020 the annual fees were £4,400 per property. The total income from service charges was £308k. In addition the Company received a Covid £10k grant. Total income for the financial year was £318k.

**Lynden Gate Residents Limited**  
**Accounts for the Year to 30 June 2020 and Service Charge Projection**

**4. Expenses**

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

*4.1 Administrative Expenses*

There are no major issues relating to normal administrative expenses although residents may wish to quiz directors over their stewardship. Annual operating costs of £142k (budget £147k) include salaries, gardening, audit, accountancy, maintenance and general running costs. Staff on furlough during the spring/summer lock-down were paid their full salary with 80% rebated through the Coronavirus Job Retention Scheme.

The £10k COVID grant was largely spent on upgrading office and estate equipment used to facilitate operations during the summer months of lock-down. Expenditures included the installation of new safety features for the front gates, an office computer also used for remote working, new hoses around the estate plus a mower, strimmer and a power washer for garden maintenance.

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.

*4.2 Exceptional Items*

Exceptional items are significant noteworthy expenses incurred in the normal course of business. The 2020 financial statements show £701k of exceptional items representing the cost of repairs and decoration of the common areas of the estate. The total cost of the redecoration was £1,067k (budget £1,000k) the incremental cost being additional work identified and commissioned during the project, for example, remedial work to common walls.

**5. Balance Sheet**

As of 30 June 2020 net assets i.e. the funds remaining after all monies received and creditors paid were £213k (budget £207k).

The assets comprise outstanding service charges due from shareholders plus amounts pre-paid for the proportion of long-term contracts continuing after the end of June.

The amounts due from creditors comprise early receipt of services fees, monies held on behalf of residents for individual property repairs, outstanding contractors' and suppliers' invoices plus Corporation Tax due on interest earned as at the accounting year-end.

**6. Treasury**

The main bank used for daily transactions and investment is Barclays Bank. We have undertaken a programme of investment diversification in other banks/building societies to take advantage of the Financial Services Compensation Scheme (FSCS) that provides capital protection for £85k held at each institution.

All investments are in zero risk investment accounts on a fixed term or instant access basis.

**Lynden Gate Residents Limited**  
**Accounts for the Year to 30 June 2020 and Service Charge Projection**

## **7. Financial Planning**

Annually a 10-year financial forecast (see Appendix A below) is prepared to plan for future costs and to determine an appropriate service charge. 10 years is the preferred timeframe so at least one estate decoration project will be covered given the significance and magnitude of the expense.

A longer redecoration cycle allows more time to accumulate the required redecoration funds. The improvements in paint technology over the past 35 years have allowed us to increase the interval between redecorations from originally 3 years to most recently 6 years. The current plan assumes the next redecoration project will be in the summer of 2026, an interval of 7 years.

Other projects currently under evaluation that are anticipated to be implemented within the financial planning timeframe include:

- an upgrade to the above ground **street lighting** and associated electrical services
- enhancing **security**, both physical infrastructure to inhibit unauthorised access and remote monitoring during out of office hours
- **garden renovation** including a new elegant and stylish design that complements the estate's architectural character
- installation of additional **electrical infrastructure** for charging electrical vehicles

For planning purposes a financial provision of £245k has been made for these four projects. Further details of actual plans and significant expenses will be shared with shareholders as they become available.

The **replacement of the road surface** was initially considered 20 years ago as a cosmetic exercise. However it would cost over £1m, be unlikely to add value and be extremely disruptive. Therefore no financial provision has been made for any extensive road surface replacement. If repairs were needed to sections of the road surface this would be carried out by patching the areas concerned.

**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.

In addition to the above-ground electrical infrastructure, covered by the projects noted above, we are also responsible for the below-ground electrical cabling. There are neither plans nor financial provisions for any significant upgrade to the below-ground electrical infrastructure; issues are dealt with as they arise with piecemeal repairs.

## **8. 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.

**Lynden Gate Residents Limited**  
**Accounts for the Year to 30 June 2020 and Service Charge Projection**

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

The service charge is reviewed and the amount set annually. It was agreed by shareholders at the AGM in January 2020 that we would set service charges for the current financial year at £4,800, an increase of £400 from 1 July 2020.

Given the current financial position and in recognition of future anticipated costs the current proposal is to increase the service charge by £200 to £5,000 from 1 July 2021 and steadily increase the service charge by a similar amount in subsequent years to meet future financial obligations.

<b>Annual Service Charge</b>			
	<b>Last year</b>	<b>This year</b>	<b>Next year</b>
<b>Financial Year</b>	<b>July 19 - June 20</b>	<b>July 20 - June 21</b>	<b>July 21 - June 22</b>
Service charge £	4,400	4,800	5,000*
Annual increase £	400	400	200*

\*Proposed

The proposed increase in service charge for next year is less than the increase in recent years primarily because the next decoration of the estate is anticipated to be in 2026, an interval of 7 years, rather than the previous assumption of a 6-year interval.

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 2026, as the money held in reserve on behalf of the shareholder is an asset that can be included in the valuation of the property at the time of sale.

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 welcomes comments and observations on all financial matters, both expenditures and service charges.

## **9. Conclusion**

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

- service charges increase by £200 to £5,000 per annum from 1 July 2021 with a similar increase in subsequent years
- administrative expenses are assumed to increase on average at 3% per year with an incremental annual £10k from 2021 to cover additional security and gardening expenses
- a budget of £10k per annum for office and estate equipment
- £245k project expenses; street lighting, security, gardening and electric vehicle infrastructure,
- £1m for estate decoration in 2026

**Lynden Gate Residents Limited**  
**Accounts for the Year to 30 June 2020 and Service Charge Projection**

- there is no specific accumulation 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 beyond the levels discussed herein.

**Appendix A: 10-Year Financial Forecast**

Financial Year	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
<b>Service charge per property</b>	4,400	4,800	5,000	5,200	5,400	5,600	5,600	5,600	5,800	6,000	6,000
<b>Profit and Loss Account</b>	£	£	£	£	£	£	£	£	£	£	£
Income	318	337	350	364	378	392	392	392	406	420	420
Administrative expenses	(142)	(152)	(167)	(171)	(177)	(182)	(188)	(194)	(200)	(206)	(212)
Office and estate equipment	(9)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Gross profit	167	175	173	183	191	200	194	188	196	204	198
Exceptional items											
Project expenses		(35)	(110)	(50)	(50)	-	-	-	-	-	-
Estate decoration	(701)	-	-	-	-	-	(300)	(700)	-	-	-
Profit before interest and tax	(534)	140	63	133	141	200	(106)	(512)	196	204	198
Net interest income	3	1	1	1	2	2	2	1	1	2	2
Profit transferred to reserves	<b>(531)</b>	<b>141</b>	<b>64</b>	<b>134</b>	<b>143</b>	<b>202</b>	<b>(104)</b>	<b>(511)</b>	<b>197</b>	<b>206</b>	<b>200</b>
<b>Balance Sheet</b>											
Debtors and cash	279	372	439	573	706	906	850	289	485	690	888
Creditors	(66)	(19)	(23)	(23)	(16)	(16)	(67)	(17)	(17)	(18)	(19)
Net assets	<b>213</b>	<b>353</b>	<b>416</b>	<b>549</b>	<b>690</b>	<b>890</b>	<b>783</b>	<b>272</b>	<b>468</b>	<b>672</b>	<b>869</b>
Share capital	3	3	3	3	3	3	3	3	3	3	3
Reserves	210	350	413	546	687	887	780	269	465	669	866
Shareholders' funds	<b>213</b>	<b>353</b>	<b>416</b>	<b>549</b>	<b>690</b>	<b>890</b>	<b>783</b>	<b>272</b>	<b>468</b>	<b>672</b>	<b>869</b>