

# **Lynden Gate Residents Limited**

## **Accounts for the Year to 30 June 2021 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 2021 are:

- revenue £340k (budget £338k) comprises service charges of £336k plus a £4k Covid furlough rebate
- administrative expenses £129k of which annual operating costs were £126k (budget £152K) plus £3k spent on one-off items (budget £10k) upgrading the CCTV and on office equipment to allow for remote working
- net assets at the financial yearend were £424k (budget £353k) i.e. the funds that remain after all creditors have been paid

At the end of the financial year i.e. by 30 June 2021 the funds set aside for the maintenance of the estate, primarily the next major decoration due in the summer of 2026, amounted to £424k, that is £70k more than expectations. Our financial position is therefore stronger than anticipated. There were three main reasons for this; administrative expenses were less than budget largely due to inactivity as a result of Covid-related restrictions, the deferment of improvement projects both gardening and electrical upgrades, also because of Covid-related limitations, and there were fewer than expected purchases of office and estate equipment.

While having an extra £70k in the bank is a good position to be in, a proportion of this saving will be spent in the coming year as tasks were deferred rather than avoided. In the coming years administrative expenses are expected to increase in line with inflation. The project to improve the gardens will be undertaken during the Autumn and Spring of 2021/22. Maintenance of the aboveground electrical systems, and eventual upgrade, will occur in 2021/22. In the longer term, funds will be needed to re-decorate the estate and investment may be desired for infrastructure to facilitate charging of electric vehicles.

The service charge is set annually to provide adequate funds to meet anticipated future administrative expenses and investments. Last year the annual service charge increased by £200 from £4,800 to £5,000 commencing 1 July 2021, with guidance that a similar increase would be likely in the following years. The Board is proposing to continue with this plan, i.e. an increase in the annual service charge by £200 to £5,200 from 1 July 2022.

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 of 30 June 2021.

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 redecorating the estate.

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**3. Income**

There are 70 houses on the estate and in the financial year to 30 June 2021 the annual service charge was £4,800 per property. The total income from service charges was £336k. In addition, the Company received £4k in Covid furlough rebates. Total income for the financial year was £340k.

**4. Expenses**

The service charge covers two types of expenditure, administrative expenses and other operating charges.

*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 administrative expenses of £126k (budget £152k) include salaries, gardening, audit, accountancy, maintenance and general running costs. Staff on furlough during the lock-down were paid their full salary with 80% rebated through the Coronavirus Job Retention Scheme.

Overall administrative expenses are projected to increase in line with inflation albeit from pre-Covid levels given the unusual, reduced level of activity during the last financial year. Furthermore, there will be fluctuations in the amount of repair and maintenance work required in any one year.

*4.2 Other Operating Charges*

Expenditure of £3k (budget £10k) included the installation of new CCTV cameras and office equipment to facilitate remote working.

**5. Balance Sheet**

As of 30 June 2021, net assets i.e. the funds remaining after all monies received and creditors paid were £424k (budget £353k).

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 yearend.

**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.

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## **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 redecoration projects from originally 3 years to most recently 6 years. The current plan assumes a budget of £70k for a mini decoration in the summer of 2023 with £1,000k provided for the main redecoration of the estate 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:

- ***garden renovation*** (budget £40k) including a new elegant and stylish design that complements the estate's architectural character
- an upgrade to the aboveground ***electrical infrastructure*** (budget £100k) primarily for street lighting and associated electrical services
- a financial provision in case additional ***electrical infrastructure*** (budget £100k) is required for charging electrical vehicles
- a contingency budget of £100k for ***general infrastructure repairs***

For planning purposes a financial provision of £340k 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 these 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 aboveground electrical infrastructure, covered by the projects noted above, we are also responsible for the belowground electrical cabling. There are neither plans nor financial provisions for any significant upgrade to the belowground 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 and therefore it is best to build a financial reserve and prepare for realistically estimated costs.

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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 virtual AGM in January 2021 that we would set service charges for the financial year commencing 1 July 2021 at £5,000.

Given the current financial position and in recognition of future anticipated costs the proposal is to increase the service charge by £200 to £5,200 from 1 July 2022 and steadily increase the service charge by a similar amount in subsequent years to meet future financial obligations.

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 £5,200 per annum from 1 July 2022 with a similar increase in subsequent years
- administrative expenses are assumed to increase on average at 3% per year (pegged to the 2020/21 budget) with a one-off addition of £10k in 2021/22 to cover additional security and gardening expenses
- a budget of £10k per annum for office and estate equipment
- £340k project expenses: street lighting, security, gardening and potentially electric vehicle infrastructure
- £70k for estate decoration in 2023 and a further £1m for estate decoration in 2026
- 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.

Peter Brazier  
Finance Director & Company Secretary

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

Financial Year	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Service charge per property	4,800	5,000	5,200	5,400	5,600	5,600	5,600	5,800	6,000	6,000	6,000
<b>Profit and Loss Account</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Income	340	350	364	378	392	392	392	406	420	420	420
Administrative expenses	(126)	(156)	(161)	(166)	(170)	(176)	(181)	(186)	(192)	(198)	(204)
Office/estate equipment	(3)	(10)	(10)	(10)	(12)	(12)	(12)	(14)	(14)	(14)	(16)
<b>Gross profit</b>	<b>211</b>	<b>184</b>	<b>193</b>	<b>202</b>	<b>210</b>	<b>204</b>	<b>199</b>	<b>206</b>	<b>214</b>	<b>208</b>	<b>200</b>
Exceptional items											
Estate decoration		-	(70)	-	-	(300)	(700)	-	-	-	(70)
Project expenses		(40)	(100)	(100)	(100)	-	-	-	-	-	-
<b>Profit before interest and tax</b>	<b>211</b>	<b>144</b>	<b>23</b>	<b>102</b>	<b>110</b>	<b>(96)</b>	<b>(501)</b>	<b>206</b>	<b>214</b>	<b>208</b>	<b>130</b>
Net interest income	-	1	1	1	2	2	-	1	1	2	2
<b>Profit transferred to reserves</b>	<b>211</b>	<b>145</b>	<b>24</b>	<b>103</b>	<b>112</b>	<b>(94)</b>	<b>(501)</b>	<b>207</b>	<b>215</b>	<b>210</b>	<b>132</b>
<b>Balance Sheet</b>											
Debtors and cash	445	590	628	720	832	780	238	437	653	864	997
Creditors	(21)	(21)	(34)	(23)	(24)	(66)	(24)	(17)	(17)	(18)	(18)
<b>Net assets</b>	<b>424</b>	<b>569</b>	<b>593</b>	<b>697</b>	<b>808</b>	<b>715</b>	<b>214</b>	<b>421</b>	<b>636</b>	<b>846</b>	<b>979</b>
Share capital	3	3	3	3	3	3	3	3	3	3	3
Reserves	421	566	590	694	805	712	211	418	633	843	976
<b>Shareholders' funds</b>	<b>424</b>	<b>569</b>	<b>593</b>	<b>697</b>	<b>808</b>	<b>715</b>	<b>214</b>	<b>421</b>	<b>636</b>	<b>846</b>	<b>979</b>