

# Lynden Gate Residents Ltd

## Accounts to 30<sup>th</sup> June 2009 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** Administrative Expenses – such things as salaries, garden maintenance and insurance. In some of the last few years there have also been **abnormal** Administrative Expenses, mainly legal expenses relating to litigation;
- And there are Exceptional Items - periodic or one-off **maintenance costs**, of which the “triennial” redecoration historically 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 5 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 5 years’ operating costs shows a fairly consistent normal annual cost of around £80,000 - £100,000 – the increase in the later years was largely in Employment Costs due to the increase in numbers of staff from 2 to 3 in the middle of 2006/7. There has also been some variability in Legal and Professional Fees over the years.

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

Routine 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 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 in 2007/8 was for the repairs to the road surface in the garage area at the south west corner of Seaton Close and in 2008/9 the road and pavement patch repairs cost £16,601.

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 has been carried out for us 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 need 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 are 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 we anticipate

the consensus being that we should go for a 5 year gap, perhaps even 6 years – and this demands a somewhat more extensive specification.

*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 the good news is that we do not believe that it 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 and economic circumstances have changed and we do not believe there would 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 clearer picture than we had at this time last year but 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***

Service charges have been held at £3,200 since 2003/4 but this is no longer tenable. 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 is therefore proposed that we raise service charges to £3,550 for 2010/11 and by £350 a year for at least the subsequent 3 years. 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 overleaf, is:-

- There is one redecoration in the period starting in 2012 and ending in 2013 although we could decide to do it one year later
- We have allowed £20,000 for one-off repairs.
- There is no allowance for any substantial road resurfacing or underground works.
- The Redecoration Reserve at the end of the period would be about £270,000 – less than at June 2009 which was also the end of the year after a redecoration – so there is no building of reserves for road resurfacing or underground works.

## Lynden Gate 5 year financial forecast (£350 a year increase)

Year ending 30th June	2009	2010	2011	2012	2013	2014
Annual service charge £/house	£3,200	£3,200	£3,550	£3,900	£4,250	£4,600

### Profit and Loss Account - £000s

Turnover	224	224	249	273	298	322
Administrative expenses	-98	-100	-103	-106	-108	-111
Operating Profit	126	124	146	167	189	211
External decorating				-200	-700	
Other major maintenance	-17	-20	-20	-20	-20	-20
Profit before interest and tax	109	104	126	-53	-531	191
Interest receivable	6	10	13	16	15	2
Tax	-1	-2	-3	-3	-3	0
Profit trans'd to reddec'n reserve	114	111	136	-40	-519	193

### Balance Sheet

Debtors and cash	394	506	642	602	84	278
less Creditors	-7	-7	-8	-8	-9	-9
Net Assets	387	498	634	594	76	269
Called up share capital	4	4	4	4	4	4
Redec'n reserve	383	494	630	590	72	265
Net assets	387	498	634	594	76	269

Neil Chisman  
1 Beaufort Close

1 November 2009

## Lynden Gate 5 year financial forecast (£400 a year increase)

Year ending 30th June	2009	2010	2011	2012	2013	2014
Annual service charge £/house	£3,200	£3,200	£3,600	£4,000	£4,400	£4,800

### Profit and Loss Account - £000s

Turnover	224	224	252	280	308	336
Administrative expenses	-98	-100	-103	-106	-108	-111
Operating Profit	126	124	149	174	200	225
External decorating				-200	-700	
Other major maintenance	-17	-20	-20	-20	-20	-20
Profit before interest and tax	109	104	129	-46	-520	205
Interest receivable	6	10	13	16	15	3
Tax	-1	-2	-3	-3	-3	-1
Profit trans'd to redecc'n reserve	114	111	139	-33	-508	207

### Balance Sheet

Debtors and cash	394	506	645	613	106	313
less Creditors	-7	-7	-8	-8	-9	-9
Net Assets	387	498	638	605	97	304
Called up share capital	4	4	4	4	4	4
Redecc'n reserve	383	494	634	601	93	300
Net assets	387	498	638	605	97	304

## Lynden Gate 5 year financial forecast (£300 a year increase)

Year ending 30th June	2009	2010	2011	2012	2013	2014
Annual service charge £/house	£3,200	£3,200	£3,500	£3,800	£4,100	£4,400

### Profit and Loss Account - £000s

Turnover	224	224	245	266	287	308
Administrative expenses	-98	-100	-103	-106	-108	-111
Operating Profit	126	124	142	160	179	197
External decorating				-200	-700	
Other major maintenance	-17	-20	-20	-20	-20	-20
Profit before interest and tax	109	104	122	-60	-541	177
Interest receivable	6	10	13	16	15	2
Tax	-1	-2	-3	-3	-3	0
Profit trans'd to redec'n reserve	114	111	132	-47	-529	178

### Balance Sheet

Debtors and cash	394	506	638	592	63	242
less Creditors	-7	-7	-8	-8	-9	-9
Net Assets	387	498	631	584	54	233
Called up share capital	4	4	4	4	4	4
Redec'n reserve	383	494	627	580	50	229
Net assets	387	498	631	584	54	233