**Budget & Service Charges 2020**

Following on from notes issued in 2019 this note has been produced to help dwelling holders understand how Budgets are drawn up and how Service Charges are calculated.

**Budget**

Each year, a budget is drawn up for the Estate, Leisure Suite and Apartment Blocks. As with your domestic budget, these endeavour to capture the regular, recurring costs of running the development; they may also include planned, known costs such as a roof repair.

The starting point is the previous year’s budget with some recurring items, such as electricity.

The costs for each block vary according to its particular needs (e.g. Sheaf 2 has a lift) and they are shared between the residents of that block.

The costs for the Estate & Leisure Suite are shared by all dwelling holders.

The Budget, which is published on the NEMC website indicates how much spending is anticipated in each area.

**Reserves**

The Reserves page shows the current anticipated reserves, however these may be adjusted when the final year end accounts are produced.

It also shows the contributions made in previous years (Original Budget) and the revised contributions (Revised Contrib.). The revisions are intended to begin ironing out the discrepancies between the Block Reserves, which will be easier to do given the recent site survey (see below).

In addition to the budgeted costs, a contribution is made to Reserves for the Estate, Leisure Suite and Apartment Blocks. Reserves are used to cover the cost of unexpected repairs and one-off expenditure, such as an improvement, which have not been budgeted for but has since been approved by the Board. To enable the Board to better plan for short, medium and long-term expenditure, a Planned & Preventative Maintenance Site Survey was carried out in 2019.

This gives a clearer idea of how large reserves need to be to cover, not only the short-term unexpected costs, but also medium and long-term costs such as replanting the gardens, and replacing roofs, and road surfaces. This will inform budget contribution to Reserves for the next 5, 10 + years and beyond and when funds are likely to be required.

**Service Charge Calculations**

The Budget is used to determine the Service Charges required of each dwelling and comprises of 3 factors:

**1 - Estate Charge**

Each dwelling pays a ‘Room Charge’ (£327.76 in the current year) multiplied by the number of Habitable Rooms for that Dwelling.

The room charge is the total budget for the Communal Management & Administration and the Leisure Suite divided between the total number of Habitable Rooms on the estate (635).

Habitable Rooms are those other than kitchens, bathrooms, toilets, utility rooms, etc. i.e. bedrooms, living and dining rooms. For the calculation of service charges, the **maximum** number of Habitable Rooms for any given property is **4**.

**2 - Insurance**

The Insurance charge for each dwelling is based on the number of square feet per Dwelling.

The charge per square foot (£0.17 approx.) is calculated by dividing the total insurance budget by the total number of square feet on the estate (238,490).

**3 - Block Charge**

The Block Charge is the budget for each Block equally divided between the number of dwellings in that block. The exceptions are Alexandra and Sheaf 3. Because some of the dwellings in these blocks have communal space and others don’t, there is one budget only for the former, and a second budget for all dwellings, which covers things such as the roof.

**Adjustment to Service Charges 2020**

In recent years, Service Charges have not increased in line with inflation nor the anticipated costs of running the estate, for example the Budget for 2018 was 8.64% greater than that for 2017, yet Service Charges were only increased by 1%. Because of this, although the 2019 budget was only slightly larger than the 2018 budget, the increase over what was actually charged in 2018 was 9.45%.

This was felt to be an unacceptable increase, therefore the Board decided to **spread it over 2 or more years**, depending on actual spending in 2019.

To accomplish this fairly, while ensuring that the Service Charges still related to the actual Budgets, the Room Charge for 2019 was reduced by 5.5% to £308.33, resulting in an overall **average** Service Charge increase of 5.44%.

The 2020 Total Budget across the whole site is £9547 higher than that of 2019.

To accomplish a fair percentage increase in Service Charges, a closer alignment with the actual budget is required to meet the challenges of an aging estate e.g. major repairs and general good maintenance etc.

These have been dealt with in 2018 and 2019 and will continue to be dealt with in 2020, in line with the Recent Site Survey recommendations.

To take account of the 5.5% reduction in 2019 this will be recovered in 2020 service charges (based on the 2019 figures). The overall average increase across the site equates to approximately £7.16 per month or £85.92 annual increase.

**Methodology**

The Board undertook an exercise in 2018 to compare the current methodology with that given in a sample of leases. It found that while the methodology produces smaller charges (which is to be expected given the increase in the number of properties, they are broadly in line with the proportions given in the leases). The Board is therefore satisfied that the methodology is comparable with the proportions given in the leases.

NEMC Board

21st January, 2020