

NOTES ON THE APPROVED SERVICE CHARGE BUDGET FOR 2021

These notes should be read in conjunction with the published final Service Charge Budget for 2021.

Insurance renewal 01 January 2021

Following a market review by our insurance broker we have now received and approved the insurance renewal for 2021.

In October 2020 we undertook a desk top review of the Re-instatement Cost Assessment for the whole site, the last one being February 2017. This is required for insurance purposes and the October 2020 review saw an increase in the re-instatement costs of over £4m to £47,704,000 for the whole site. This has had an impact on the insurance premium renewal for 2021.

The first draft insurance budget figure provided for an estimated increase in all premiums of c.10%. The current insurer, Travellers, were wanting to impose an increase of c.52% on two of our policies and apply a significant increase to the excesses payable on Escape of Water and Storm and Flood claims to up £2,500 and £1,500 respectively.

As a result of this a market review we are pleased to report that we have secured an alternative provider and we will be switching two of our biggest policies from Travellers to Aviva at renewal. The excesses under the Aviva policy will remain as per our current insurer being £500 including Escape of Water, Storm and Flood increasing to £1,000 in respect of subsidence (as per current policy).

Premiums across all policies for 2021 have unfortunately increased by just under £8,000 before IPT and VAT over the 2019 budget figure. The insurance related figures have now been updated in the Budget 2021 final draft which is now uploaded onto the Residents section of the website.

Details of the policies will also be uploaded on the website.

Reviews in 2021

Transfer Fee Fund Policy: For property resale fees received during 2020, these will be distributed in line with the existing policy in place (dated 2016) upon completion of the year end 2020 service charges accounts. As a result of this no transfer fee monies have been utilised for the purposes of calculating the 2021 contribution to reserve levels.

However, a wholesale review of this policy and its application will be undertaken in 2021. The results of which will be communicated with Residents when finalised.

Contribution to reserve/sinking fund: The 10 year Planned Preventative Maintenance external survey which is published on the NEMC website highlighted that a significant investment is required by residents over the coming years (to 2030). Given the aging nature of this site, the Board has carefully considered the anticipated spending levels for each block for 2021 and the consequential impact to the contribution to reserves required by residents. To address the significant investment levels required over the coming years The Board is going to approach this in a phased way, as follows:

1. The Reserves are now split into two elements:
 - a) Emergency unplanned expenditure* and
 - b) Planned preventative maintenance (based on the external survey).

*emergency spend figures has been based on an average of the expenditure incurred for the period 2017-2020. Where no expenditure occurred in this period a budget figure has been allocated.

2. Some maintenance spends (relating to mortar correction) scheduled for 2021 has been deferred to future years to allow for more accurate and competitive quotations to be obtained during 2021.
3. 2021 Reserve levels: The Board reviewed each block individually taking into account the level of planned maintenance to be incurred, the emergency unplanned budget figure and the estimated Reserve position as at 01.01.2021. A decision was then reached to the levels of Reserves required per block.

4. 2021 Reserves have increased overall, the Board have been conscious of these increases but believe it has struck a fair balance between increasing costs and the requirement for investment in an ageing site.
5. As a result of the continual need to raise levels of contribution to Reserves from Residents for the next 9 years, the Board will hold a series of meetings, by residential blocks, during the first half of 2021 to discuss specifically with residents the longer term investment plans for their particular block, how this is going to be managed and planned increases due to Service Charge years 2022 and beyond. More details of these meetings will follow in the new year.

Service Charge Calculations - 2021

In recent years, Service Charges have not increased in line with 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, at the time, 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.

In 2021 the Service Charges increases are now alignment with the actual budget required to meet the challenges of an aging estate e.g. major repairs and general good maintenance etc.

Each year, a budget is drawn up for the Estate, Leisure Suite and Apartment Blocks. As with your domestic budget, these endeavor 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.

Specific details of increases/decrease in the 2021 day to day expenditure is shown at the end of this document.

Reserves

The Reserves page shows the amount of contribution to reserves for 2021. However, these may be adjusted when the final year end accounts (2020) are produced.

In addition to the budgeted costs, a contribution is made to Reserves for the Estate, Leisure Suite and Apartment Blocks.

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' 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.

The room charge for 2021 is £365.30 (2020 - £327.76).

2 - Insurance

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

The charge per square foot (£0.19 approx. (2019 -c.£0.17)) 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 as 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.

Notes on day to day expenditure where significant increases/decreases have been applied:

Area:	Budget 2021:	Budget 2020 increase / decrease	Explanation for increase/decrease
Communal Management and Estates			
Staff salaries	£100,973	£91,074 / +£9,899	increase allows for a full 12 months (c.£20K) for the new role of Finance Manager. A reduction of c.£8.9k for bookkeeper costs has been applied.
Gardening	£22,670	£14,680 / +£7,990	See note below:
<p>Two new benches for gardens Monthly garden maintenance to increase from January 2021 and fixed for a 3 year period. 2021 project work c.£2k as follows: Pruning work (excluding trees) identified in recent inspection including waste removal/ chipper hire. New planting in the border adj Alexandra car park and replacement tree for Alexandra formal garden Removal of Hebe bushes from one border on Union Drive and replanting with assorted low growing shrubs, to be used as a test area before extending to other Hebe borders in the gardens. Installing simple pathways to meter housings rear of Victoria, Rear of Muxlow, front of Edward, using stepping stones, or timber edging and gravel Budget includes of £5k to cover recommendations from Tree consultant</p>			
Council bin rental	£1,560	£50 / +£1,510	New charges introduced by SCC, full budget allocated in 2021
Security	£1,300	£400 / +£900 (currently overspent in 2020)	Allows £300 for annual key holder service & £1,000 for potential cctv repairs
Electricity	£2,500	£5,000 / - £2,500	Budget to better reflect actual costs post recharging.
Ombudsman scheme	£500	£234 / +£171	Price increase announced for 2021.
HR/staffing etc	£500	£200 / +£300	To allow for additional HR advices from Serenti
Office equipment:	£750	£200 / +£550	Allows for new equipment required due to additional member of staff in office.
Leisure Suite			

Pool maint/repairs	£2,750	£3,774 / -£1,024	Budget reduced – new contract in place with Leisure Safe Sols.
Spa maint/repairs	£600	£2,000 / -£1,400	Budget reduced new contract in place/new filter
Gas	£10,800	£7,750 / +£3,050	Costs increased to reflect leisure center open all year (not partial year – Covid closures). 2020 budget was not enough to cover actual expenditure incurred.
Day to day maint.	£500	£1,500 / -£1,000	Budget reduced as no expected additional work
Health & Safety	£1,500	£600 / +£900	Increased to cover legionella testing required for balance tank clean x 3
Covid Costs	£2,000	£655 / +£1,345	Budget includes for any additional costs due to Covid-19 in 2021
Alexandra Apartments			
Electricity	£650	£114 / +£536	Allows for the installation of a new sub electricity meter
Kingswood			
Electricity	£1,150	£880 / +£270	Allows for the installation of a new sub electricity meter
Peveril			
Electricity	£800	£449 / +£351	Budget increased to better reflect actual spend in 2020 after re-allocation
Sheaf 1			
Day to day maint.	£200	£500 / -£300	Budget reduced no expected additional work
Fire alarm maint.	£250	£500 / -£250	Budget reduced no expected additional work
Sheaf 2			
Day to day maint.	£500	£1,536 / -£1,036	Budget reduced no expected additional work
Victoria			
Day to day maint.	£200	£500 / - £300	Budget reduced no expected additional work

Individual Service Charge Demands will be issued before the Christmas break for payment as from 1 January 2021.

NEMC Board
17 December 2020