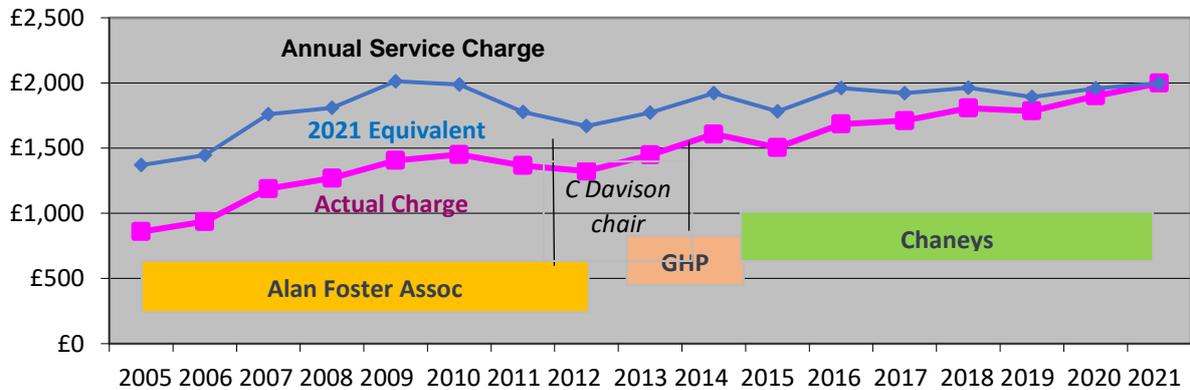


## To All Leaseholders

I want to share with you some facts about how the Directors and Chaney's have been managing our estate at Winterthur Way. A few members have raised 3 hot topics:

### **Is the Service Charge reasonable?**

Below is a time series of the service charge since 2005 for one of the large blocks.

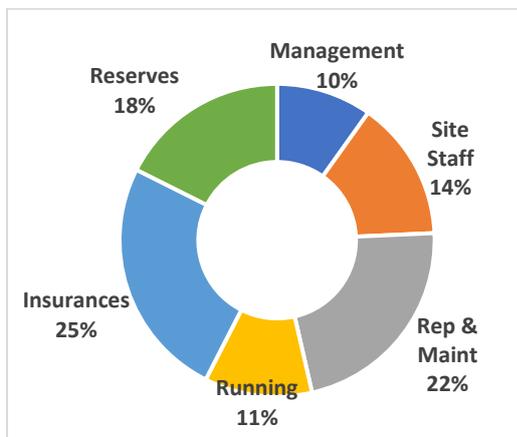


From 2005 Alan Foster were grappling with a service charge set by Rialto that was inadequate to service the estate and they had to increase it year on year until it became sustainable in 2009.

Using 2021 prices, (the blue line) it is striking that today's level of service charge is the same as it was in 2009. In an attempt to cut costs, Colin Davison dismissed AFA in 2012, took services into his own hands and cut the service charge. The results were disastrous. Leaseholders had to pay compensation to AFA, with legal costs, the estate went without basic maintenance, no planning for future eventualities was made, debt recovery stalled and there was no transparency of accounting.

The lesson is that the service charge has to be sufficient to deliver sustainable services at market value. We must not risk a return to the chaos of 2012 brought about by Colin Davison. The current level of the Winterthur Way charge, representing about 2 months of rental income, is on par for large residential estates in the South of England and allows for efficient upkeep of the Estate.

### **Where does the Service Charge go?**



One quarter of the charge – the insurances - is set by the Landlord and is not within our control. We have re-negotiated Chaney's management fee (now 10%) and re-organised the site staff to address the real needs on site. Direct Running costs such as cleaning, energy, water and waste management represent 11%. As the estate ages, Repair and Maintenance costs are increasing: they are now at

22%. All these costs are kept under close scrutiny and we are constantly re-tendering or re-negotiating with service providers to ensure value for money and quality.

The remaining major element is your contribution to the Reserve Fund, which is held to cover costs of expensive long term planned maintenance and any unforeseen repairs or replacements to buildings and infrastructure.

### How is the Reserve Fund managed?

VHMC has a rolling 10-year planned maintenance programme (PMP), reviewed every 5 years by external building surveyors, that is used to forecast costs. Each Block has its own reserve fund. Contributions are set annually based on a review of actual historic spend and the PMP forecast for each Block. As the Estate ages, expenditure increases and the Reserve Fund becomes more important. The Lease states that the annual contribution is to be set taking into account the next 3 years of forecast expenditure. However, if we only consider 3 years we do not always capture the big-ticket long-term cyclical expenses such as exterior cleaning and renovation which typically are required on a 7 to 10 year cycle. The annual reserve charge would have to fluctuate, which is inconvenient and in some cases inequitable to leaseholders, because everyone should be contributing to the long-term upkeep of the estate, not just the leaseholders who happen to be incumbent at the time.

Following a vote at the 2016 AGM, the Reserve contributions have been increased annually. At the close of 2020 the overall balance accumulated from leaseholders' contributions to cover the Estate and all Blocks was £345,904. In addition, we hold a reserve deposited by Rialto in 2004 specifically for the MSCP: this sum is £211,561. Here is a tabulation of the Reserve balances for the last 6 years.

<b>VHMC Reserve Balances 2015 -2020</b>		<b>* Subject to Accounts finalisation</b>					
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019*</b>	<b>2020*</b>	
<b>Estate</b>	£ 102,115	£ 67,847	£ 101,238	£ 51,667	£ 54,660	£ 14,998	
<b>Block B</b>	£ 34,218	£ 22,176	£ 16,243	£ 26,243	£ 12,190	£ 14,561	
<b>Block C</b>	£ 60,633	£ 45,701	£ 51,930	£ 72,930	£ 61,995	£ 58,842	
<b>Block D</b>	£ 64,074	£ 51,892	£ 41,722	£ 65,722	£ 62,668	£ 60,844	
<b>Block E</b>	£ 63,727	£ 47,542	£ 45,054	£ 59,054	£ 55,794	£ 54,430	
<b>Block F</b>	£ 43,554	£ 27,641	£ 31,400	£ 46,400	£ 44,148	£ 44,056	
<b>Block W</b>	£ 14,757	£ 9,182	£ 10,340	£ 13,740	£ 17,490	£ 20,444	
<b>Block X</b>	£ 7,207	£ 4,371	£ 5,366	£ 7,866	£ 9,991	£ 12,222	
<b>Block Y</b>	£ 9,638	£ 6,657	£ 8,527	£ 11,427	£ 13,427	£ 15,527	
<b>Block Z</b>	£ 12,447	£ 4,769	£ 6,082	£ 9,132	£ 14,132	£ 18,890	
<b>MSCP</b>	-£ 29,648	-£ 13,877	-£ 3,877	-£ 6,728	£ 13,272	£ 30,780	
<b>Whole Estate</b>	£ 382,722	£ 273,901	£ 314,025	£ 357,453	£ 359,767	£ 345,904	

The reserve balances for large blocks Birch, Cherry, Holly, Elm and Fir have actually reduced since 2015 as expenditure has increased. Contrary to some statements, the Planned Maintenance Programme (PMP) has not been suspended: a total of £175,142 was expended in 2020. You can find more detailed information about the Reserves on the VHMC website.

Presently, the large Blocks all have Reserves equivalent to about 3 years of annual expenditure, which is reasonable. However, we can never be complacent, as the current crisis on replacement of cladding has shown. Whilst we are confident that the cost of cladding replacement will be

recovered from the Government fund, there are other potential areas of remediation which may appear at any time that might have to be financed by Leaseholders.

At the forthcoming EGM of 22<sup>nd</sup> February 2021 the Directors are proposing to amend the clause governing Reserve contributions from a 3 year to a 10 year horizon. Such a change would not necessarily mean that contributions must increase. It doesn't mean we want to hold 10 years' worth of reserves. It would simply serve to strengthen the financial planning for Estate upkeep and help to safeguard your investment and for some of us, our home.

### **The EGM of 22<sup>nd</sup> February 2021**

The current Directors of VHMC are committed to good and responsible governance. If you have been approached by anyone claiming they can do better, please direct those people to come forward at the coming EGM on 22<sup>nd</sup> February and we will happily engage with them if they share our values.

Martin Edge *Chair of VHMC 2014 to 2019*

January 2021