



JOHNSON FELLOWS
CHARTERED SURVEYORS

51-63 Elm Grove

Southsea

PO5 1JF

Service Charge Budget Report

25th March 2018 to 24th March 2019



Contents

Introduction

The Property

Service Charge Objectives

Residential Service Charge Obligations

VAT

Voids and Concessions

Banking

Management Team

Service Charge Apportionment

Major Works Update

Budget Commentary

Appendices

- A. Service Charge Apportionment Schedule
- B. Service Charge Variance Schedule
- C. The Service Charges (Summary of Rights and Obligations, and Transitional Provision) (England) Regulations 2007



Introduction

This report has been prepared by Johnson Fellows on behalf of the landlord Tesco Stores Limited. It is intended to provide details of the planned expenditure for the service charge period 25 March 2018 to 24 March 2019.

Enclosed within this report is a copy of the Service Charge Variance Schedule and Service Charge Apportionment Schedule.

The service charge is administered having regard to Service Charges in Commercial Property; RICS Code of Practice, 3rd Edition and the Service Charge Residential Management Code; RICS Code of Practice, 3rd Edition.

The Property

The property comprises a large mixed use development located on a major thoroughfare in Southsea, Hampshire. The property is located approximately 1km from the coast and is surrounded by a mixture of retail, leisure and residential users. The property is believed to have been constructed in the early 1900's and comprises traditional masonry and structural steelwork construction over three floors with a basement. The development has been progressively extended to the rear, forming larger ground floor retail space and additional residential accommodation at first and second floor levels.

The property has been extensively altered to create two large retail premises at ground floor level and a smaller single retail unit to the far right hand side. The residential accommodation at first and second floor levels has also been altered to create student accommodation consisting of 3 and 4 bedroom flats. Access to the flats is via doors to the front elevation, with secondary access to the rear elevation from Belmont Place.

Service Charge Objectives

The objective of Johnson Fellows as Managing Agents is to provide a high quality management service. In so doing we aim to provide a well maintained environment, delivering value for money for the service charge expenditure.

The objective of the budget report is to provide a clear explanation of the service charge expenditure on a not for profit/not for loss basis. It is also to promote clarity and transparency and to allow the tenants to budget accurately for the forthcoming year.

Should any occupier have comments on the format or the information contained in this report that would assist in the report being improved for the benefit of all concerned, these comments would be welcomed. We would also welcome constructive feedback on the communal services provided at the property.



Residential Service Charge Obligations

In accordance with the Landlord & Tenant Act 1987, Section 48 we can confirm that the Landlord is Tesco Stores Ltd and their address for the service of notices is Highwoods (2nd Floor), 2 Falcon Way, Shire Park, Welwyn Garden City, Hertfordshire, AL7 1GA.

In order to comply with Residential Service Charge legislation, if any planned works are anticipated to exceed £250 plus VAT per long leaseholder, we will carry out a tendering exercise and consult the residential long leaseholders prior to instruction.

For the residential long leaseholders we have enclosed herewith a copy of 'The Service Charges (Summary of Rights and Obligations, and Transitional Provision) (England) Regulations 2007'.

VAT

The VAT on the service charge expenditure attributable to the residential part of the property cannot be recovered by the Landlord, so the gross expenditure is applied to the residential long leaseholders. The VAT on the commercial expenditure can be recovered, consequently the net costs plus VAT are applied, enabling the commercial leaseholders to recover the VAT charged to them.

Voids and Concessions

The landlord is responsible for the service charge contribution for void units and to pay any shortfall where there are service charge caps. Presently there are no void units at the property.

Banking

Due to the general level of service charge funds, they are not maintained within a discrete bank account. The funds are held within the Johnson Fellows Clients Account which is maintained with Barclays Bank plc. As a consequence the service charge is not credited with any interest, neither are any bank charges allocated to the service charge.

Interest charged on late payment of service charge by tenants is to be credited to the service charge.

There is no sinking fund or reserve fund.



Management Team

Facilities Manager:

Chris Monteith

Johnson Fellows, Charter House, 163 Newhall Street, Birmingham, B3 1SW

Direct Dial: 0121 234 0409

Mobile: 07786 072 755

Email: chris.monteith@johnsonfellows.co.uk

Chris Monteith is responsible for the repair and maintenance of the property and statutory compliance.

Management Surveyor:

Ian Starbuck

Johnson Fellows, Charter House, 163 Newhall Street, Birmingham, B3 1SW

Direct Dial: 0121 234 0462

Mobile: 07887 745 635

Email: ian.starbuck@johnsonfellows.co.uk

Ian Starbuck is responsible for the overall management of the property.

Service Charge Accountant:

Rebecca Glover

Client Accounts

Johnson Fellows, Charter House, 163 Newhall Street, Birmingham, B3 1SW

Direct Dial: 0121 234 0405

Email: rebecca.glover@johnsonfellows.co.uk

Rebecca Glover is the client accountant responsible for this property.



Service Charge Apportionment

The service charge has been apportioned over three schedules.

The service charge apportionment for each schedule is noted within the Apportionment Schedule as detailed in Appendix A.

Schedule 1 Residential Leaseholders - Internal - 100% (Gross)

Schedule 2 Residential Leaseholders - External - Split 50% with Commercial Leaseholders (Gross)

Schedule 3 Commercial Leaseholders - External - Split 50% with Residential Leaseholders (NET)

The rationale behind splitting the shared costs for the residential and commercial leaseholders is purely due to VAT. Residential leaseholders are not able to recover VAT, therefore the expenditure detailed is inclusive of VAT (Gross). The commercial leaseholders are able to recover VAT, therefore the expenditure for the commercial element is net of VAT.

For expenditure that relates purely to the residential internal areas we have applied 100% to Schedule 1.

For expenditure that relates to the external parts and the fabric of the building, the costs have been split 50:50 between Schedules 2 & 3.

For expenditure that relates to the internal and external parts, the costs have initially been split 50:50 and then apportioned again as above.

The service charge costs are apportioned in line with the terms of the lease and provide for each tenant to pay a due proportion of the service charge which is attributable to each tenant's premises; this is shown in Appendix A.



Major Works

Since 2013 we have been resolving the ongoing historical issues with water ingress into the building. On 22nd October 2014 Johnson Fellows instructed an in-depth survey to be carried out on the building to fully understand the cause of the problems. From this we have been able to allocate costs for the completion of a programme of works.

The works have been broken down into key stages to be completed over three phases. Funds will be available to complete all phases by the year ending 24th March 2017. The phases are summarised below.

Phase 1

- Remove existing lantern lights to No's 53, 55, 57, 61 and 63 and surrounding timber flat roof. Construct new timber roof deck and install skylight. Weather deck with insulation and high performance felt membrane and dress upstands with Code 4 lead flashings.
- Prepare and over coat asphalt roof covering between the pitched first floor extension with liquid applied membrane. Include for non-slip sacrificial top coat to designated walkways.
- Replace flashing above ground floor shopfront with new powder coated pressed steel flashing.
- Remove all redundant cabling, fixings, brackets and the like from the front elevation and make good.

Phase 2

- Prepare and overlay flat roof area to the rear of No's 57, 59 and 61 with single layer of high performance felt. Remove all existing concrete copings, remove remnants of the lead flashings and Flashband repair and re-bed. Supply and fix lead free flashing.

Phase 3

- Erect scaffolding to the front elevation, provide lighting, intruder alarm and erect 2.4m hoarding at low level. Bridge over entrance doors to 3no retail properties.
- To the front elevation only, undertake isolated brickwork and stonework repairs at first and second floor level including stitching cracked sections of brickwork with Helibar repair system, replacement of defective sections of brickwork, rake out replace all loose and friable mortar, stone repairs and fill open joints to stonework.
- Rake out replace all existing sealed joints between PVCu window frames and surrounding brickwork and replace with silicone sealant.
- Undertake adhoc repairs to the rear pitched sections of slate covered roofs.
- Increase size of rainwater outlet to No 59 rear flat roof including new pipework and connection to SVP.
- Remove 5 no. decayed timber doorsets at second floor level and replace with new external grade flush panel doors and hardwood frames.

Tesco Stores Ltd agreed to forward fund the works. These costs will be repaid back to the Landlord from the service charge as detailed below:

March 2015 - March 2016 - £5,000
March 2016 - March 2017 - £5,000
March 2017 - March 2018 - £10,000
March 2018 - March 2019 - £10,000



Budget Commentary

SCHEDULE 1

This schedule details the budget headings that benefit the internal communal parts to the residential flats only. All figures on this schedule are inclusive of VAT (Gross).

- **Cleaning** **£5,000**

The services will be for the twice weekly cleaning of all internal/external common areas. The budget has been reduced as a result of a contract re-tender.

- **Internal Decoration** **£5,000**

The cost heading is for the internal decoration of the communal areas, including the replacement of carpets.

- **Electrical Repair** **£1,000**

The budget provides for the installation of PIR sensors to the communal lighting, where these have not already been completed. The budget also allows for any unforeseen ad-hoc works and re-lamping.

- **Internal Repairs** **£3,000**

The budget allows for ad-hoc general maintenance to the communal areas throughout the year. It has been increased due to the level of expenditure in the previous year.

- **Electricity Supply** **£1,500**

The budget figure is based on last year's actual consumption for the communal lighting. It has been maintained at the same level.

- **Security Equipment** **£300**

The above cost heading is for the annual maintenance of the CCTV equipment around the internal and external communal areas. The total cost of £500 has been split between the schedules.

- **Fire Prevention** **£11,500**

This budget heading provides for the annual maintenance/service contract for quarterly inspections and testing of the fire alarm system and emergency lighting. The budget also includes a figure for emergency call-outs and ad hoc repairs that may be required. However, the main item for the year, which has resulted in the budget being significantly increased, is the requirement under the Fire Risk Assessment for the installation of a new fire alarm panel.



- **Health and Safety** **£450**

The proposed expenditure is for the completion of a Health and Safety Audit for the communal areas in order to identify any risks and ensure compliance. The total cost of £750 has been shared across the three schedules.

- **Audit Fee** **£240**

The RICS Service Charge Code of Practice states that service charge accounts for residential & commercial properties are to be independently certified on an annual basis. This cost covers the fee raised by the Accountants for certifying the year end service charge accounts. The total fee of £400 has been shared across the three service charge schedules.

- **Management Fee** **£3,847**

The budget figure represents the cost incurred to manage the property, prepare the service charge budget and carrying out periodic inspections. The overall Management Fee is £6,411 and is a fixed fee in accordance with the RICS Service Charge Code and subject to annual review or indexation. The Retail Price Index has increased by 3.61% and this increase has been applied to this year's management fee. The fee is split amongst all three schedules.

- **Facilities Management** **£1,243**

The cost heading is for the Facilities Manager to organise the maintenance contracts and supervise the works. The total cost of £2,072 has been split between the schedules. The fixed fee has been increased for the current year in line with the Retail Price Index, which has increased by 3.61%.

Total

Schedule 1 **£33,080**

SCHEDULES 2 & 3

These schedules detail the budget headings relating to the external communal areas that benefit both the residential and commercial leaseholders. The costs are split 50:50 with Schedule 2 being gross of VAT and Schedule 3 net of VAT.

	Sch 2	Sch 3
• Cleaning	£600	£500

The budget figures represents the cost for the quarterly deep clean of the service yard area, together with anticipated fly tipping and rubbish removal to the external communal areas.

• Building Repairs	£7,200	£6,000
---------------------------	---------------	---------------

All major pre-funded works have been completed. However, the budget includes the annual repayment instalment (£10,000) due to the Landlord following their forward funding, together with a contingency (£2,000) for any unforeseen items that may be required.



- **Security Equipment** **£150** **£125**

The above cost heading is for the annual maintenance of the CCTV equipment around the internal and external communal areas. The total cost of £500 has been split between the schedules.

- **Health and Safety** **£225** **£188**

The proposed expenditure is for the completion of a Health and Safety Audit for the communal areas in order to identify any risks and ensure compliance. The total cost of £750 has been shared across the three schedules.

- **Audit Fee** **£120** **£100**

The RICS Service Charge Code of Practice states that service charge accounts for residential & commercial properties are to be independently certified on an annual basis. This cost covers the fee raised by the Accountants for certifying the year end service charge accounts. The total fee of £400 has been shared across the three service charge schedules.

- **Management Fee** **£1,923** **£1,603**

The budget figure represents the cost incurred to manage the property, prepare the service charge budget and carrying out periodic inspections. The overall Management Fee is £6,411 and is a fixed fee in accordance with the RICS Service Charge Code and subject to annual review or indexation. The Retail Price Index has increased by 3.61% and this increase has been applied to this year's management fee. The fee is split amongst all three schedules.

- **Facilities Management** **£622** **£518**

The cost heading is for the Facilities Manager to organise the maintenance contracts and supervise the works. The total cost of £2,072 has been split between the schedules. The fixed fee has been increased for the current year in line with the Retail Price Index, which has increased by 3.61%.

<u>Total</u>	Sch 2	Sch 3
	£10,840	£9,034

.....
Management Surveyor

Dated 22nd March 2018

.....
Facilities Manager

Dated 22nd March 2018



Appendix A

51-63 Elm Grove, Southsea, PO5 1JF

Service Charge Apportionment Schedule

25th March 2018 to 24th March 2019

Flat/Unit	Schedule	Percentage
1	1	6.25%
2	1	6.25%
3	1	6.25%
4	1	6.25%
5	1	6.25%
16	1	6.25%
17	1	6.25%
18	1	6.25%
19	1	6.25%
20	1	6.25%
51	1	6.25%
51a	1	6.25%
57	1	6.25%
57a	1	6.25%
59	1	6.25%
59a	1	6.25%
1 Total		100.00%
1	2	5.94%
2	2	5.94%
3	2	5.50%
4	2	5.48%
5	2	5.48%
16	2	5.50%
17	2	5.94%
18	2	5.94%
19	2	5.48%
20	2	5.48%
51	2	8.96%
51a	2	5.48%
57	2	8.96%
57a	2	5.48%
59	2	8.96%
59a	2	5.48%
2 Total		100.00%
51/55	3	48.14%
57/61	3	42.24%
63	3	9.62%
3 Total		100.00%



Appendix B

51-63 Elm Grove, Southsea, PO5 1JF

Service Charge Variance Schedule

25th March 2018 to 24th March 2019

Service Charge Item	Schedule	Budget 2017/2018	Budget 2018/2019	Budget v Budget Variance %	Budget v Budget Variance £
Cleaning	1	£ 6,000	£ 5,000	-16.67%	-£ 1,000
Decoration - Internal	1	£ -	£ 5,000	N/A	£ 5,000
Electrical Repair	1	£ 1,000	£ 1,000	0.00%	£ -
Repairs - Internal	1	£ 1,000	£ 3,000	200.00%	£ 2,000
Electricity Supply	1	£ 1,500	£ 1,500	0.00%	£ -
Security Equipment	1	£ 3,600	£ 300	-91.67%	-£ 3,300
Fire Prevention	1	£ 1,300	£ 11,500	784.62%	£ 10,200
Health and Safety	1	£ 450	£ 450	0.00%	£ -
Audit Fees	1	£ 240	£ 240	0.00%	£ -
Management Fees	1	£ 3,713	£ 3,847	3.61%	£ 134
Facilities Management	1	£ 1,200	£ 1,243	3.58%	£ 43
1 Total		£ 20,003	£ 33,080	65.38%	£ 13,077
Cleaning	2	£ 600	£ 600	0.00%	£ -
Building Repair	2	£ 7,200	£ 7,200	0.00%	£ -
Security Equipment	2	£ 1,800	£ 150	-91.67%	-£ 1,650
Health and Safety	2	£ 225	£ 225	0.00%	£ -
Audit Fees	2	£ 120	£ 120	0.00%	£ -
Facilities Management	2	£ 600	£ 622	3.67%	£ 22
Management Fees	2	£ 1,856	£ 1,923	3.61%	£ 67
2 Total		£ 12,401	£ 10,840	-12.59%	-£ 1,561
Cleaning	3	£ 500	£ 500	0.00%	£ -
Building Repair	3	£ 6,000	£ 6,000	0.00%	£ -
Security Equipment	3	£ 1,500	£ 125	-91.67%	-£ 1,375
Health and Safety	3	£ 188	£ 188	0.00%	£ -
Audit Fees	3	£ 100	£ 100	0.00%	£ -
Management Fees	3	£ 1,547	£ 1,603	3.62%	£ 56
Facilities Management	3	£ 500	£ 518	3.60%	£ 18
3 Total		£ 10,335	£ 9,034	-12.59%	-£ 1,301



Appendix C

The Service Charges (Summary of Rights and Obligations, and Transitional Provision) (England) Regulations 2007

- (1) This summary, which briefly sets out your rights and obligations in relation to variable service charges, must by law accompany a demand for service charges. Unless a summary is sent to you with a demand, you may withhold the service charge. The summary does not give a full interpretation of the law and if you are in any doubt about your rights and obligations you should seek independent advice.
- (2) Your lease sets out your obligations to pay service charges to your landlord in addition to your rent. Service charges are amounts payable for services, repairs, maintenance, improvements, insurance or the landlord's costs of management, to the extent that the costs have been reasonably incurred.
- (3) You have the right to ask a leasehold valuation tribunal to determine whether you are liable to pay service charges for services, repairs, maintenance, improvements, insurance or management. You may make a request before or after you have paid the service charge. If the tribunal determines that the service charge is payable, the tribunal may also determine:
 - a. who should pay the service charge and who it should be paid to;
 - b. the amount;
 - c. the date it should be paid by; and
 - d. how it should be paid.

However, you do not have these rights where:

- e. a matter has been agreed or admitted by you;
 - f. a matter has already been, or is to be, referred to arbitration or has been determined by arbitration and you agreed to go to arbitration after the disagreement about the service charge or costs arose;
 - g. or a matter has been decided by a court.
- (4) If your lease allows your landlord to recover costs incurred or that may be incurred in legal proceedings as service charges, you may ask the court or tribunal, before which those proceedings were brought, to rule that your landlord may not do so.
 - (5) Where you seek a determination from a leasehold valuation tribunal, you will have to pay an application fee and, where the matter proceeds to a hearing, a hearing fee, unless you qualify for a waiver or reduction. The total fees payable will not exceed £500, but making an application may incur additional costs, such as professional fees, which you may also have to pay.
 - (6) A leasehold valuation tribunal has the power to award costs, not exceeding £500, against a party to any proceedings where:
 - a. it dismisses a matter because it is frivolous, vexatious or an abuse of process; or
 - b. it considers a party has acted frivolously, vexatiously, abusively, disruptively or unreasonably.

The Lands Tribunal has similar powers when hearing an appeal against a decision of a leasehold valuation tribunal.

- (7) If your landlord:
 - a. proposes works on a building or any other premises that will cost you or any other tenant more than £250, or



- b. proposes to enter into an agreement for works or services which will last for more than 12 months and will cost you or any other tenant more than £100 in any 12 month accounting period,

Your contribution will be limited to these amounts unless your landlord has properly consulted on the proposed works or agreement or a leasehold valuation tribunal has agreed that consultation is not required.

- (8) You have the right to apply to a leasehold valuation tribunal to ask it to determine whether your lease should be varied on the grounds that it does not make satisfactory provision in respect of the calculation of a service charge payable under the lease.
- (9) You have the right to write to your landlord to request a written summary of the costs which make up the service charges. The summary must:
 - a. cover the last 12 month period used for making up the accounts relating to the service charge ending no later than the date of your request, where the accounts are made up for 12 month periods; or
 - b. cover the 12 month period ending with the date of your request, where the accounts are not made up for 12 month periods
- (10) The summary must be given to you within 1 month of your request or 6 months of the end of the period to which the summary relates whichever is the later.
- (11) You have the right, within 6 months of receiving a written summary of costs, to require the landlord to provide you with reasonable facilities to inspect the accounts, receipts and other documents supporting the summary and for taking copies or extracts from them.
- (12) You have the right to ask an accountant or surveyor to carry out an audit of the financial management of the premises containing your dwelling, to establish the obligations of your landlord and the extent to which the service charges you pay are being used efficiently. It will depend on your circumstances whether you can exercise this right alone or only with the support of others living in the premises. You are strongly advised to seek independent advice before exercising this right.
- (13) Your lease may give your landlord a right of re-entry or forfeiture where you have failed to pay charges which are properly due under the lease. However, to exercise this right, the landlord must meet all the legal requirements and obtain a court order. A court order will only be granted if you have admitted you are liable to pay the amount or it is finally determined by a court, tribunal or by arbitration that the amount is due. The court has a wide discretion in granting such an order and it will take into account all the circumstances of the case.