

Case Study

Wilmington Close RTM Company Limited

Watford, WD18 0AF



A mixed-use building of 103 private flats, 40 housing association flats, and 6 commercial units, situated in an 8-storey building in Watford town centre

Overview

JFM took on the management for the block in June 2016. The directors warned us that it would be a huge challenge, and that the finances in particular, were in a complete mess. How right they were. With JFM still being only one year old at the time, one of the managing partners, James Farrar, took this client under his wing. He got to work in making sweeping changes across the board, encountering all sorts of hidden 'gremlins' as time unfolded. The following is a summary of a few of the most critical issues which were resolved.

Service Charge Accounts / Budget – 3 years' accounts inside 1 year

No service charge accounts had been produced since 2011. James spent dozens of hours sorting through historic invoices for the 7-budget-schedule scheme and inside 9 months had the 2015 and 2016 accounts prepared and distributed. Two months later and the 2017 accounts were also ready and out to leaseholders – less than 2 months after the March year-end. The many inaccuracies in the financial setup were meticulously worked through with every possible improvement and fix applied. An example budget of the outcome is shown below (low resolution is due to large size of original document).

Client Ref: W03
 Client name: Wilmington Close RTM Company Limited
 Property: Wilmington Close, Watford, WD18
 Year-End: 24 Mar 2018
 File-Name: W03 SC Budget for YE 24 March 2018

SCHEDULE 1 - BUILDING COSTS - ALL UNITS	Expense Code	To 24 Mar 2017	To 24 Mar 2018
Bins / Bin Store Cleaning	5300	n/a	£1,620.00
Buildings & Terrorism Insurance	5100	£19,500.00	£14,000.00
CCTV Maintenance	5270	£4,000.00	£2,500.00
Cleaning - external (external grounds, jet-washing & frontage)	5291	£1,747.00	£2,240.00
Communal Water Supply (Fresh & Waste)	5136	n/a	£1,200.00
Company Accounts	5812	n/a	£60.00
Company Secretarial Fees & Annual Confirmation Statement (Incl. VAT)	5802	£366.00	£439.00
Directors & Officers Insurance	5103	£676.00	£350.00
Directors' Meetings	5603	£250.00	£250.00
Drainage including gutters, downpipes & soilstacks	5191	£1,550.00	£1,550.00
Dry Riser Testing	5171	£1,125.00	£420.00
Electricity - Building	5130	£10,608.00	£3,024.00
Engineering Insurance	5105	£343.00	£1,560.00
Fire Systems Maintenance Contract (Emerg lighting, AOVs & detection)	5262	£1,810.00	£972.00
Fire Systems Repairs	5192	n/a	£600.00
Gardening / Landscaping Maintenance	5320	£3,620.00	£3,480.00
Gardening Projects (new planting etc)	5323	£1,000.00	£750.00
General & Fire Risk Assessments	5271	n/a	£600.00
General Repairs & Maintenance - External	5173	£6,000.00	£5,500.00
Insurance Claims	5104	£1,000.00	£1,000.00
Legal & Professional Fees	5800	£1,000.00	£1,000.00
Lighting Conductor Repairs	5193	£4,000.00	£500.00
Lighting Conductor Testing	5194	£350.00	£350.00
Meeting Costs (Room Hire & Refreshments)	5602	£412.00	£300.00
Miscellaneous	5611	£250.00	£250.00
Parking Enforcement (Parking Eye)	5272	n/a	£3,000.00
Pest Control	5400	£1,000.00	£1,000.00
Refuse / Waste Collection	5380	£1,400.00	£1,400.00
Reinstatement Cost Assessment (Insurance Valuation)	5813	£1,500.00	£0.00
Roof Inspection	5268	£200.00	£200.00
Service Charge Accounts	5814	£600.00	£1,250.00
Sump Pump	5168	£835.00	£720.00
Telephone & Broadband (CCTV & Parking Eye)	5131	£2,030.00	£792.00
TV Aerial Repairs	5195	n/a	£300.00
Window Cleaning - Entrances / Building	5291	n/a	£1,296.00
Sub-Total:		£67,172.00	£54,473.00

SCHEDULE 1 - RESERVE FUND - ALL UNITS	Expense Code	To 24 Mar 2017	To 24 Mar 2018
Cleaning of Exterior of the Building	5301	£17,685.00	£11,000.00
SERVICE CHARGE SCHEDULE 1 TOTAL:		£84,857.00	£65,473.00

SCHEDULE 2 - CAR PARK COSTS - CAR PARK USERS	Expense Code	To 24 Mar 2017	To 24 Mar 2018
Car Park Entry Remotes	5167	£100.00	n/a
Cleaning - Car Park	5296	£874.00	£780.00
Electricity - Car Park	5137	n/a	£2,520.00
Gate Maintenance Contract	5165	£437.00	£624.00
Gate Repairs	5164	£2,000.00	£1,250.00
General Repairs & Maintenance - Car Park	5196	n/a	£600.00
Lighting Maintenance - Car park	5197	n/a	£700.00
Sub-Total:		£3,411.00	£6,474.00

SCHEDULE 2 - RESERVE FUND - CAR PARK USERS	Expense Code	To 24 Mar 2017	To 24 Mar 2018
Vehicle and Pedestrian Gates Major Refurbishment	n/a	n/a	£0.00
SERVICE CHARGE SCHEDULE 2 TOTAL:		£3,411.00	£6,474.00

SCHEDULE 3 - PRIVATE FLATS' COSTS - 103 PRIVATE FLATS	Expense Code	To 24 Mar 2017	To 24 Mar 2018
Carpet Cleaning	5293	£711.00	£1,200.00
Cleaning - Internal	5290	£14,851.00	£13,260.00
Door Entry Fobs & Code	5169	£100.00	n/a
Electrical Repairs	5162	£1,500.00	£0.00
Electricity - Private	5138	n/a	£11,340.00
Entryphone Maintenance	5177	£1,801.00	£1,196.00
General Repairs & Maintenance - Interior	5178	£14,000.00	£10,500.00
Lift Maintenance Contract	5163	£1,123.00	£1,433.00
Lift Repairs	5166	£1,333.00	£1,333.00
Lighting Maintenance - Interior	5179	£3,000.00	£2,500.00
Management Fees (incl. VAT) - Private Flats	5804	£18,306.00	£20,023.00
Telephone & Broadband - Internal	5139	n/a	£1,188.00
Window Cleaning - Private Flats	5292	£250.00	£0.00

Sub-Total:		£56,975.00	£63,973.00
SCHEDULE 3 - RESERVE FUND - PRIVATE FLATS			
	<i>Expense Code</i>		
Carpet / Flooring Replacement	5198	£6,864.00	£4,000.00
Internal Redecoration	5199	£4,368.00	£7,000.00
Lifts Refurbishment	5200	£6,500.00	£2,500.00
Sub-Total:		£17,932.00	£13,500.00
SERVICE CHARGE SCHEDULE 3 TOTAL:		£74,907.00	£77,473.00
SCHEDULE 4 - COMMUNAL HEATING SYSTEM - ALL FLATS			
	<i>Expense Code</i>	<i>To 24 Mar 2017</i>	<i>To 24 Mar 2018</i>
Boiler Gas Safety	5265	£300.00	£300.00
Boiler Maintenance Contract	5180	£1,839.00	£1,766.00
Boiler Repairs	5181	£3,000.00	£2,500.00
Electricity - Heating	5140	n/a	£3,780.00
Pump Maintenance Contract	5182	£512.00	£580.00
Pump Repairs	5183	£2,000.00	£1,500.00
Smart Meter Billing	5132	£3,707.00	£4,050.00
Switch2 Maintenance & Repairs Contract (incl. Smart-meter billing)	5201	n/a	£15,444.00
Water Hygiene Maintenance & Testing	5269	£1,123.00	£800.00
Water Supply	5133	£2,000.00	n/a
Sub-Total:		£14,481.00	£30,720.00
SCHEDULE 4 - RESERVE FUND - ALL FLATS			
	<i>Expense Code</i>		
Major Repair / Replacement of Boilers	5202	£2,800.00	£1,000.00
Major Repair / Replacement of Pumps	5203	£1,000.00	£500.00
Sub-Total:		£3,800.00	£1,500.00
SERVICE CHARGE SCHEDULE 4 TOTAL:		£17,281.00	£31,720.00
SCHEDULE 5 - HOUSING ASSOCIATION COSTS - FLATS 1-40			
	<i>Expense Code</i>	<i>To 24 Mar 2017</i>	<i>To 24 Mar 2018</i>
Carpet Cleaning	5297	£337.00	n/a
CCTV	5273	n/a	n/a
Door Entry Fobs & Codes	5184	£40.00	n/a
Electrical Repairs	5185	£500.00	n/a
Electricity - HA	5135	n/a	£4,536.00
Emergency Lighting Contract	5274	£0.00	n/a
Entryphone Maintenance	5186	£699.00	£600.00
General Maintenance - HA	5204	n/a	n/a
Lift Maintenance Contract	5187	£562.00	£717.00
Lift Repairs	5188	£666.00	£666.00
Lighting Maintenance	5189	£500.00	n/a
Management Fees (incl. VAT) - HA	5810	£7,109.00	£7,536.00
Window Cleaning - HA	5298	£125.00	£432.00
Sub-Total:		£10,538.00	£14,487.00
SCHEDULE 5 - RESERVE FUND - HA UNITS			
	<i>Expense Code</i>		
Carpet / Flooring Replacement	n/a	n/a	£0.00
Internal Redecoration	n/a	n/a	£0.00
Lift Refurbishment	n/a	n/a	£0.00
Sub-Total:		£0.00	£0.00
SERVICE CHARGE SCHEDULE 5 TOTAL:		£10,538.00	£14,487.00
SCHEDULE 6 - COMMERCIAL UNIT COSTS - 8 COMMERCIAL UNITS			
	<i>Expense Code</i>	<i>To 24 Mar 2017</i>	<i>To 24 Mar 2018</i>
Electricity - Commercial	5141	n/a	£17,000.00
Management Fees (incl. VAT) - Commercial	5811	£1,422.00	£1,536.00
Window Cleaning - Commercial	5299	£2,121.00	£0.00
Sub-Total:		£3,543.00	£18,536.00
SCHEDULE 6 - RESERVE FUND - 8 COMMERCIAL UNITS			
n/a	n/a	n/a	n/a
SERVICE CHARGE SCHEDULE 6 TOTAL:		£3,543.00	£18,536.00
TOTAL SERVICE CHARGE PAYABLE ACROSS ALL SCHEDULES		£205,469.00	£214,163.00

All units will pay a fair and reasonable percentage of each schedule that they contribute towards, in accordance with the leases.
At the end of the year, any over-spend or under-spend in each schedule will be charged out or credited back to leaseholders in accordance with their lease.

Demand Dates: 25 March & 29 September (half-yearly in advance)

Note: In accordance with the Upper Tribunal *Genside v RPYC Ltd Case*, we need to advise you that the Budget does not necessarily cover the costs of all works, nor does it accurately cover all of the costs of the works which are detailed here. This is a budget to estimate the likely expenditure required as best we can given our knowledge of the block/estate and our experience of managing this property or others similar to it. All service-charge payers are encouraged to be aware of the possibility that further funds may be demanded to cover any shortfall determined on production of the service charge accounts shortly after the year-end. If you have any questions regarding this statement please contact us - 0208 562 0339.

Service Charge Arrears - £45,000 reduced to £800 in 4 months

The arrears that were inherited were very high, standing at over £45,000, and this excluded thousands of pounds which had yet to be billed to several of the units due to incorrectly classified unit-types, consequent inaccurate budget percentages, and many other oversights by our predecessors. Within four months the arrears had been reduced to an almost negligible sum.

Commercial to Residential Reclassification– Recovery of £10,000

There were originally 7 commercial units. By the time JFM took over management, one of them had been turned into 9 new flats, all retained under one original lease. They had been connected to the communal heating system but had not yet been connected in such a way that they had any means to measure their usage, and therefore no legal means to be billed for it. They were still being billed service charges as a commercial unit, even though the renovation to residential flats had been completed 18 months prior. JFM quickly went about, without need for external legal assistance, changing the classification for the unit and reconfiguring the service charge percentages for all 149 units across the 7 budget-schedules. The changes were back-dated to 18 months before, and agreement made with the leaseholder to pay a reasonable estimate for their 18 months of free utilities usage. The 9 new flats were all made to have smart meters fitted and incorporated into the communal heating system at a cost of £6,500 (recharged to them) and everything put into perfect order within 9 months of taking over. The leaseholder had every right to challenge the changes in a much bigger way than they did, but through smart negotiation by JFM, this was expertly avoided.

Budget / Reserves Generally - £500 per flat saving and £10k VAT rebate received

Due to the forensic analysis of the financial setup, all the changes to the service charge accounts, budget and percentages payable, inevitably a miscellaneous array of other significant faults were found and fixed. The 7-schedule budget had been assigned a single reserve fund for a start, naturally leaving them in a precarious state and open to challenges by leaseholders. James worked backwards and split this pot into four separate ones at the ratios they ought to have been.

£45,000 of annual electricity usage had previously been overlooked and was missing from the budget. £23,000 of this sum was payable by the 6 commercial units only and yet had been paid by the building as a whole for the 6 years of the block's existence before JFM came to the rescue. This one change alone instantly shaved £500 of each of the 143 flats service charge liability!

Then there was the considerable VAT rebate successfully applied for giving the building a nice windfall of nearly £10k after years of previous agents paying the wrong rate of VAT.

Historical Gas Debt - £2,239 per flat saved

When JFM first sent over photographs of the communal heating system gas meter to the supplier, the supplier declared that the meter had been misread for the last 6 years and that an important digit from the reading had been omitted on every occasion a reading had been provided. This resulted in an unexpected £340,000 debt owing! This left JFM in a bit of a sticky spot having to break this news to the flat-owners. However, by the time the news was announced, the debt had been challenged and negotiated down to just £39,000 and terms agreed for it to be paid within a feasible timeframe. This one act alone saved every one of the flats in the building on average £2,239!