

A guide to your
Service Charge - 2022



LONDON

CITY ISLAND

110-114

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Introduction

Dear Leaseholder,

This document provides an overview and detailed explanation of your service charge for the period 1 January 2022 to 31 December 2022. We hope you find this guide informative and that it helps you to understand the structure of the service charge estimates, the rationale behind these estimates and how your proportion has been calculated.

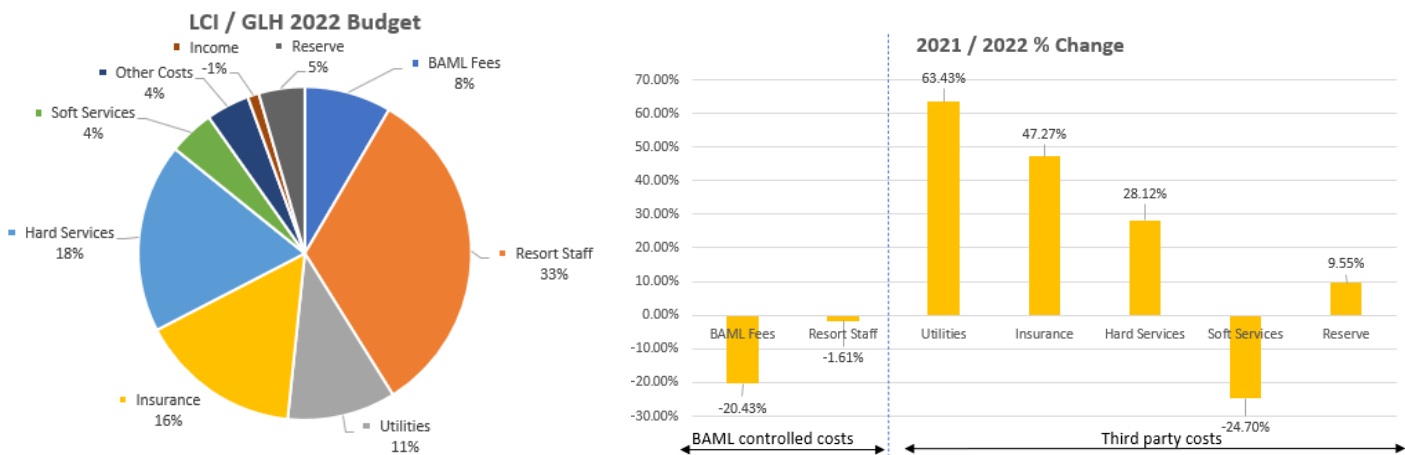
If you would like to discuss anything within this guide, please book into one of our surgeries via the concierge.

It has been another challenging 12 months with higher than planned for inflation, currently 5.1% and rising, and increasing utility costs, external insurance costs and service costs. This has been further exacerbated by recent Government increases in National Insurance contributions and the Minimum Living Wage.

We recognise that the increases to the cost of living, as outlined above, will have a considerable impact on your service charge. During this difficult period, we have undertaken a thorough review of all services and costs and identified areas within our control where we can make savings without impacting the level of service, notably fees and staff costs.

To soften the impact on those Leaseholders most affected, the Freeholder has committed to a one-off service charge contribution for one year, effectively capping any service charge increases at 5%, the annual rate of inflation. This equates to a sum of £564,653.

The pie chart below shows the proportion of each subcategory that makes up the 2022 budget, whilst the bar chart shows the percentage increase or decrease between this year and the prior year.



External market factors

Insurance

This year's insurance renewal has been negotiated amid a prolonged period of price increases in the real estate insurance market and we are experiencing significant uplifts. This is due to a substantial reduction in insurer capacity and appetite for risk, caused in part by a large increase in the number of claims being made across the industry, as well as a general reluctance of existing insurers to take on new residential risks particularly of high-rise apartment blocks. To source the best renewal terms, we invited quotes from 12 insurers and can confirm that our contract with our existing provider was renewed for a further 12 months effective from 1 August 2021.

Utilities

There has been a sharp increase in energy costs during 2021. Since January 2021, gas prices have risen by at least 400% and the regulator Ofgem predicts that they will continue to climb in 2022 by a further 30%.

Our gas contracts are fixed until the end of April 2022 and electricity contracts are fixed until the end of March 2022. The cost of gas from the start of May 2022 and the cost of electricity from the start of May through to the end of year will therefore be based on the existing Q1 pricing plus a 75% uplift. We are reluctant to increase it by a higher amount but recognise that should the market exceed the Ofgem prediction, there will be a deficit in the end of year accounts.

Given the market conditions, when the utility contracts expire it is likely that we will not move to a long-term fixed contract in the hope that the market stabilises or returns to some level of normality at which point we would consider locking into a fixed rate for longer. We have also employed an energy broker to help us negotiate the best deal for the development.

Government initiatives

From 4 April 2022 the National Living Wage will increase from £8.91/hr to £9.50/hr. There will also be increases for workers under 23. This has been included in the 2022 budget.

From 6 April 2022, Employer NI contributions will increase by 1.25% to 15.05%. This has been included in the 2022 budget.

Internal factors

Fees

In line with our commitment to residents we have frozen our management fees at the same rate as throughout 2021, which is reflected in the service charge budget for London City Island & Goodluck Hope.

In addition, we have reduced the payroll fee from 8% to 2.5%.

We have removed insurance commission, replacing it with a fee-based system which is anticipated to reduce costs still further as fees will not fluctuate when insurance premiums go up.

Staff costs

As a property management company, staff costs are our highest expenditure for our developments. This year we reviewed the staffing model of the development to ensure that we have the right staffing levels in place. This included a wage-levelling exercise to ensure clarity around the knowledge and skills necessary to perform individual roles and to establish clear-cut roles and responsibilities. In some cases, it resulted in salaries being increased.

This standardised approach is critical particularly in the current environment where workforce shortages and recruitment are more challenging.

In addition, recent independent research states that UK employers are expected to give their employees an average annual pay rise of 2.9% in 2022. This has not been included in the 2022 budget.

Considerations

Due diligence has been applied to the budget which has been compiled using the RICS Service Charge Residential Management Code and additional advice to landlords', leaseholders' and agents Code of Practice, 3rd Edition. We have also reviewed and considered the implications of the draft version of the Block Management Sector Code of Practice, UK, 1st Edition, due to be enacted in 2022, and will implement the recommendations at the appropriate time.

We have also considered the Fire Safety Act which was passed into law earlier this year and the impending Building Safety Bill which will introduce a number of regulatory measures for buildings that are at least 18 metres high or have at least seven storeys and have at least two residential units.

The Building Safety Bill will include:

- New requirements on duty holders to have clear accountability and statutory responsibilities as buildings are designed, constructed and refurbished.
- New duties on the Accountable Person to manage building safety risks in occupied high-rise buildings, including duties to engage with residents.
- New duties on residents to ensure each other's safety by making sure their actions do not adversely affect the safety of their building.

We consider it too early to make provisions for the Building Safety Bill in this year's budget, however, the introduction of this legislation will impact future budgets.

We hope that you have found this explanation helpful in understanding your service charge and that it answers any questions you may have.

As noted above, if you would like to discuss anything within this guide, please book into one of our surgeries via the concierge and we would be happy to answer any queries.

Jing Li
Area Property Manager

Dan Cross
Property Director

Budget Summary

This budget has been produced on behalf of Clearstorm Limited, Leamouth Nominee 1 Limited & Leamouth Nominee 2 Limited, Eco World - Ballymore London City Island Limited and Ballymore Asset Management Limited and relates to the service charge budget for the year 1st January 2022 to 31st December 2022.

The budget demonstrates the costs we anticipate incurring for the purpose of managing the residential building, residential services, and the estate to the highest possible standard. Such costs include cleaning, maintenance, security, management, concierge, and landscaping, amongst others.

The budget figures have been calculated based on careful review of previous expenditure and periodic review and re-tender of services. Though we make every effort to accurately calculate the budget it must be noted that costs may vary from time to time to accommodate the demands of the development.

The total estimated service charge for the period is budgeted at £10,802,865.28, including VAT, which represents a 14.28% increase on last year’s combined budget. Please note this figure is inclusive of the building’s insurance cost, reserve fund and one-off service charge contribution of £564,653.

The table on the next page outlines the Service Charge comparative budgets between years 2021 and 2022.

Year on Year Service Charge Comparison Table

Amalgamated SC Schedules	2021	2022	+/-	% Change	Comments
BAML Fees	£ 1,193,511	£ 917,891	-£ 275,620	-23.09%	Note 1
Payroll Fee	£ 288,765	£ 84,863	-£ 203,902	-70.61%	
Management Fees	£ 853,448	£ 818,028	-£ 35,420	-4.15%	
Insurance Management	£ 51,298	£ 15,000	-£ 36,298	-70.76%	
Resort Staff	£ 3,738,333	£ 3,678,241	-£ 60,092	-1.61%	Note 2
Management	£ 532,225	£ 660,559	£ 128,334	24.11%	
Concierge (salaries)	£ 719,410	£ 680,837	-£ 38,573	-5.36%	
Recruitment / Training	£ 157,440	£ 85,440	-£ 72,000	-45.73%	
Uniforms	£ 59,040	£ 51,120	-£ 7,920	-13.41%	
CCTV and Security - Staff	£ 1,042,304	£ 1,001,813	-£ 40,491	-3.88%	
Cleaner / Yardmen	£ 670,833	£ 639,515	-£ 31,318	-4.67%	
Maintenance / Reactive	£ 56,461	£ 85,982	£ 29,521	52.29%	
Health Club Staff	£ 500,620	£ 472,975	-£ 27,645	-5.52%	
Utilities	£ 724,800	£ 1,144,694	£ 419,894	57.93%	Note 3
Business Rates	£ 10,000	£ 10,000	£ -	0.00%	
Electricity (Landlord Supply)	£ 548,000	£ 863,494	£ 315,494	57.57%	
Telephones	£ 5,000	£ 7,300	£ 2,300	46.00%	
Water Charges	£ 37,000	£ 45,500	£ 8,500	22.97%	
Gas	£ 124,800	£ 218,400	£ 93,600	75.00%	
Insurance	£ 1,203,726	£ 1,656,784	£ 453,058	37.64%	Note 4
Buildings (incl Terrorism and engineering)	£ 1,203,726	£ 1,656,784	£ 453,058	37.64%	
Hard Services	£ 1,614,697	£ 2,058,711	£ 444,014	27.50%	Note 5
CCTV and Security (Excl Staff Costs)	£ 49,120	£ 39,519	-£ 9,601	-19.55%	
Lift Maintenance	£ 181,920	£ 155,874	-£ 26,046	-14.32%	
General repairs works	£ 167,200	£ 175,420	£ 8,220	4.92%	
Mechanical and Electrical and Fire Contract	£ 1,216,457	£ 1,687,898	£ 471,441	38.76%	
Soft Services	£ 662,185	£ 493,851	-£ 168,334	-25.42%	Note 6
Cleaning Windows	£ 238,004	£ 143,176	-£ 94,828	-39.84%	
Cleaning (Excl Staff Costs)	£ 23,789	£ 21,000	-£ 2,789	-11.72%	
Health Club (Excl Staff Costs, Utilities and M&E)	£ 165,032	£ 141,000	-£ 24,032	-14.56%	
Cinema	£ 31,140	£ 35,675	£ 4,535	14.56%	
Landscaping & Floral Display	£ 122,720	£ 84,000	-£ 38,720	-31.55%	
Pest control	£ 25,500	£ 13,000	-£ 12,500	-49.02%	
Refuse bulk collections, bin hire, repairs etc	£ 56,000	£ 56,000	£ -	0.00%	
Other Costs	£ 238,063	£ 473,568	£ 235,505	98.93%	Note 7
Audit and accountancy	£ 40,000	£ 42,000	£ 2,000	5.00%	
Water Discharge Licenses	£ 45,472	£ 252,068	£ 206,596	454.34%	
Health & safety statutory inspections	£ 60,500	£ 62,000	£ 1,500	2.48%	
Legal and professional	£ 31,200	£ 32,500	£ 1,300	4.17%	
Estate Office	£ 60,891	£ 70,000	£ 9,109	14.96%	
Legal and professional - Cap Ex Plan	£ -	£ 15,000	£ 15,000	100.00%	
Income	-£ 381,725	-£ 123,900	£ 257,825	132.46%	Note 8
Parking	£ -	-£ 15,000	-£ 15,000	-100.00%	
Health Club	-£ 112,800	-£ 108,900	£ 3,900	3.46%	
CHP	-£ 268,925	£ -	£ 268,925	100.00%	
SUB TOTAL	£ 8,993,590	£ 10,299,840	£ 1,306,250	14.52%	
Reserve	£ 459,194	£ 503,025	£ 43,831	9.55%	
GRAND TOTAL	£ 9,452,784	£ 10,802,865	£ 1,350,081	14.28%	

Explanatory Notes

Note 1 – BAML Fees

In line with our commitment to residents we have again frozen our management fees at the same rate as throughout 2021, which is reflected in the service charge budget for London City Island & Goodluck Hope.

In addition, we have reduced the payroll fee from 8% to 2.5%.

We have removed insurance commission, replacing it with a fee-based system which is anticipated to reduce costs still further as fees will not fluctuate when insurance premiums go up.

This has resulted in a net reduction of 23.09% on the previous year's budget, which represents a saving of some £275,620 to the leaseholders.

Note 2 – Staffing

A full review of the staffing required to deliver the services was undertaken during the preparation of this budget, during which time HM Government announced increases to the Employer's NIC, a 1.25% increase, and the raising of the National minimum wage to £9.50 per hour. We identified that there were variances in the salaries across the portfolio for employees undertaking the same role which has now been addressed in this budget.

We also undertook a task to provide transparency of costs and therefore there are now items in the budget which were not clear in previous budgets, such as uniforms, recruitment, and training costs.

The net decrease in the staffing budget for 2022 is 1.61%, or £60,092.

Note 3 – Utilities

Expert opinion and advice has been taken whilst reviewing the increases in utility costs nationwide. The gas contracts are fixed until the end of April 2022 and electricity contracts are fixed until the end of March 2022 for London City Island & Goodluck Hope. Further, it has been advised by our energy broker that it makes no sense in entering into a long-term supply contract until the market stabilizes or returns to some level of normality, at which point this advice will be reviewed. We are therefore seeing an estimated increase of 57.93% (£419,894) for the supply of utilities to the landlord's communal areas in 2022.

Note 4 – Insurance

Due to nation wide increases as described earlier in this booklet has meant the insurance cost for London City Island & Goodluck Hope has increased by 37.64% (£453,058) against last year's costs for the reasons indicated in the cover letter hereto, which is based on the actual insurance premium values being used rather than an estimate.

Note 5 – Hard Services

Hard services provision for 2022 has seen an estimated 27.50% (£444,014) increase in costs mainly attributable to the Mechanical & Electrical reactive costs being increased as well as some increases in 3rd party contracts. We have also made an allowance for the annual inspection and maintenance of the recently installed fire detection equipment within apartments, and at the appropriate time expect to achieve savings in this cost.

All contracts are reviewed annually.

Note 6 – Soft Services

The provision of soft services to London City Island & Goodluck Hope has seen an estimated decrease of 25.42% (£168,334) with the majority of costs reducing and with slightly above the current inflation rate rises. There has been no reduction in the level of services being provided.

The provision for the ongoing maintenance of the Cinema, including ad-hoc replacements of furnishings, licences and maintenance of equipment has been significantly reduced in this year's budget, and the provision for Landscaping has seen a significant reduction largely due to the changing of landscaping contractor.

Note 7 – Other Costs

There is a 98.93% increase (£235,505) in the 2022 budget mainly due to the costs for the Water Discharge Licence from the Port of London which were previously unknown, and an enhanced Type 3 Fire Risk Assessment of the property being required.

Note 8 – Income

The projected income for 2022 has decreased by 132.46% (£257,825), which relates the health club and parking income. As most residents are now inducted, we cannot rely on this fee to offset projected expenditure. We are not expecting to gain CHP income as we are unable to rely on the this to offset expenditure with the current uncertainty within the energy market.

If you would like further detail supporting the costs, please book into one of our surgeries via the concierge.

Explanatory Notes to the Service Charge Budget

This budget is based on anticipated expenditure for the forthcoming service charge year to ensure the development is effectively managed and maintained to the highest standard possible.

These costs are based on best estimates of projected expenditure and value for money. Budgeted costs reflect anticipated operational costs over the next year. These budgets are based on prices and estimates at the time of issue and are subject to reasonable amendment. We endeavour to manage the budget carefully, however, costs may vary in the event of unanticipated expenditure.

Service charge monies are held in designated client bank accounts. Interest earned on service charge funds held is credited to the service charge account.

Residential contributions to the service charge are held in a trust account, in line with Section 42 of the Landlord and Tenant Act 1985.

Insurance has been included within the budget (buildings insurance, public liability insurance & engineering insurance). Contents insurance is not covered as part of the service charge and residents are advised to look into taking out a policy relating to their apartment for their contents. Ground rent is not included in this budget and will be billed separately by the Landlord. Apartment specific energy charges for water, heating and hot water are also billed separately from this budget.

Methodology

The basis and method of service charge cost apportionment is based on:

- A. Floor area and lease obligations
- B. Fair and reasonable apportionment according to availability of services, benefit and anticipated service use.

This method is deemed most appropriate to ensure that individual leaseholders bear a fair and reasonable proportion of the service charge expenditure. Allocations reflect benefit of use between commercial and residential occupiers.

Lift costs, however, are allocated according to the number of lifts in each block and the anticipated cost of maintenance. We have applied this method to lift costs to ensure individual costs of operation are not subsidised by those who do not benefit.

FAQs

What is service charge?

The service charge is a bi-annual charge payable by the Leaseholder to cover the costs of the services listed below. Individual Leaseholders pay a proportionate share of the total cost. Service charges do not cover the cost of maintaining the apartment, as this will be the Leaseholder's responsibility.

The basis and method of service charge cost apportionment is based on:

- A. Floor area and lease obligations.
- B. Fair and reasonable apportionment according to availability of services, benefit and anticipated service use.

This method is deemed most appropriate to ensure that individual Leaseholders bear a fair and reasonable proportion of the service charge expenditure. Allocations reflect benefit of use between commercial and residential occupiers.

Does the service charge include tax?

Residential service charges are inclusive of VAT and Insurance Premium Tax.

What is included?

Service charge includes but is not limited to:

- Estate management including landscaping, waste management and hard surface maintenance
- Operation of leisure facilities
- Health and safety of communal areas
- Lighting, heating, and any other utilities related to common parts
- Cleaning and window cleaning of communal areas
- Staff costs for concierge, post room, security, leisure services
- Management and professional fees
- Contribution to reserve fund for lifecycle replacement costs in the future
- Repairs, maintenance and improvements to communal areas or the building structure
- Buildings Insurance

When and how do residents pay the service charge?

Service charge budgets are set annually, and charges are billed bi-annually in two equal instalments.

Do service charges include a 'reserve fund' for future works?

Yes, all service charge budgets include a reserve fund contribution to ensure that lifecycle replacement works can be carried out when required. The money is held in trust, which is separate from general service charge funds.

FAQs (continued)

How much input do Leaseholders have to the service charge?

Ballymore Asset Management Limited (BAML) work collaboratively with Leaseholders and Residents' Associations to review scope and delivery of services and to ensure the annual service charge budgets reflect the needs of the development.

Leaseholders are encouraged to share feedback on the services and make suggestions for change, improvement, or efficiencies so they can be considered when setting a new budget.

Many of our properties have extensive facilities and the Leaseholders expectation is that we maintain a high service level.

BAML periodically benchmark service charges to ensure rates are competitive in the market for the experience offered.

Does the service charge increase annually or is it fixed?

Budgets are drafted annually and estimated in advance of each year. The budget is subject to change depending on the real-time cost of delivering the necessary services in the budget year.

BAML re-tender contracts to achieve best value and they ensure costs such as staff salaries and utilities are competitive and in line with market conditions.

To arrive at the service charge budget figure, BAML review the previous year's expenditure and future anticipated expenditure. Consideration is also given to one-off expenditure and also factors outside of their control.

What utilities are included?

Utility costs relating to the common areas (e.g. lighting of the common areas) are billed to the service charge as an Estate or Building cost, as applicable. Utilities consumed within the apartment are not covered by the service charge, these are billed to residents via their own utility accounts. On some developments the heating and hot water is delivered via a shared central system and although individual billing based on consumption is provided, which is billed separately by the provider.

Can you change utility providers?

Residents can opt to change electricity provider at any time and there are a number of suppliers to choose from. In the case of water, this is a fixed statutory communal heating service provider and cannot be changed.

If the facilities are closed do the service charges decrease as a result?

No, if the facilities are closed when the service charge reconciliation takes place at the end of the year, whereby actual costs are compared to budgeted costs, any underspend on that facility will be credited back to your account.

FAQs (continued)

What are the factors that will make the service charge decrease and increase?

BAML's priority is to maintain the high service levels that Leaseholders bought into when they purchased their home.

Decreases in service charge can be achieved through reducing scope of services, successful re-tendering of contracts or a change in operating model.

Increases can often be attributed to inflation rates, insurance market conditions, and utilities market conditions which have consistently been increasing. Occasionally unexpected factors can arise which cause an increase to the budget, such as an economic crisis or global issues.

What items come out of the reserve fund?

Reserve funds are collected to cover the cost of long-term future maintenance and items of expenditure such as a new roof, or a replacement lift. Large items of expenditure for works will include consultation with Leaseholders. Smaller items of expenditure required to be met by reserves will first be discussed with, and approved by the RA.

Is general maintenance, redecoration and furniture replacement in the communal areas included in the service charge?

Yes, these are part of the ongoing maintenance and factored into reserve fund projects.

What is included in the building's insurance?

Buildings insurance covers the cost of repairing damage to the structure of the property. This covers the fabric of the apartment, such as the walls, windows and doors. The policy also covers fixed flooring including fitted carpets, kitchens and wardrobes, and fixed appliances (note this does not cover domestic appliances). This policy is arranged by the freeholder and the premium is recoverable via the service charge.

Insurance arrangements to cover personal effects (e.g. clothing, furnishings, loose carpets, TV equipment, appliances, bicycles, vehicles etc.) are the responsibility of the residents and not the landlord or managing agent.

Note: Bicycles are often not included in contents insurance, additional cover may be required.

Please be aware of any actions or acts of negligence in your apartment which may render any insurance for the block and/or estate void or to cause the rate of premium on the insurance to be increased, this cost can be recovered from your service charge. The policy excess for an insured risk will be charged to the owner of the apartment if the damage is caused due to an act of negligence or lack of maintenance.

Definitions

1. Apportionment

The amount that may be stated in your Lease to determine how much of the service charge you are required to pay in respect of your apartment.

Apportionment can also mean the collective residential share of service charges in the estate budget.

2. Audit Activities

This is a cost to cover the professional fees incurred in managing the estate this includes auditing of accounts etc..

3. Audit fee

Fees associated with instructing independent accountants to audit accounting records and review service charge income and expenditure, including a review of actual invoices to ascertain a true and fair reconciliation of costs.

4. Budget

An estimate of expenditure that we anticipate incurring during the budget year.

5. Buildings

The Buildings within the Estate that require maintenance and management.

6. Buildings and Terrorism Insurance

A cost to cover buildings and terrorism insurance. This covers the cost of repairing damage to the structure of the property. Also covered is loss or damage caused by fire, explosion, storms, floods and earthquakes.

Terrorism Insurance covers Certified Act of Terrorism - a terrorist act that is eligible for coverage under the Terrorism Risk Insurance Act (TRIA).

7. CapEx Plan

A Capital Expenditure Plan outlines anticipated costs of replacing/renewing assets based on life cycle. This allows us to spread the costs of maintaining a building equally over a 25-year period rather than requesting supplementary funds.

8. Car Park Schedule

Services provided to those with a "Right to Park" included in their Lease.

9. Communal Areas

Areas within the buildings or estate that Leaseholders have a right to use in common with others and for which the Landlord is responsible. For example, these include communal hallways, lifts, shared stairways, access ways and external grounds.

10. Emergency Lighting

Contract cost for the maintenance and testing of the emergency lighting.

11. Engineering Insurance

A cost to cover the engineering insurance that provides economic safeguard to the machines and equipment, and Statutory Inspections of the lifts.

12. Estate

Areas of the overall estate that are shared by all Leaseholders, including residential, shared ownership, social housing, and commercial tenants.

13. Health Club

A cost to cover the annual contract for the management of the leisure amenities.

14. Housekeeping

A cost to cover the annual cleaning contract.

15. Landlord

The owner of the land and buildings who contracts with the Leaseholders under a long Lease for occupation.

16. Lease

A contract between Leaseholder and Landlord (and any other party such as a Management Company) in respect of property, services, etc. for a specified time, usually in return for a periodic payment.

Definitions (continued)

17. Management & FM

A cost to cover the annual salaries of all Management staff - this includes Resort Director, Facilities Manager, Residential Services Manager, Night Managers, and Office staff.

18. Management Fee

The fee received by the managing agent (BAML) for the management service provided, including VAT.

19. Provision

An allowance made to cover anticipated expenditure.

20. Public Liability Insurance

Costs to cover the estate public liability insurance; these cover legal and compensation claims if the Landlord is held responsible for injury or property damage to a client, contractor, or another member of the public.

21. Reserve Fund

A sum of money collected from Leaseholders as part of their service charge contribution to meet expenditure on the building in future years.

This will often be set up to cover the cost of major works such as a new roof, external decorations, redecoration of the common parts, lift replacements etc.

22. Residential Services

Services provided to residents collectively in accordance with the terms of their Lease, such as concierge, insurance, landscaping, cleaning, repairs and leisure services.

23. Security

A cost to cover the annual salaries of all security staff.

24. Surplus

Unspent funds at the end of a service charge year.

25. Telephones

A cost to maintain the phone system required to manage the lifts, the line rental and any calls on the emergency lift phones.

**Thank you from the team at
Ballymore Asset Management Limited**