

# **CHATHAM MARITIME ESTATE**

## **South Maritime Estate - Service Charge Policy Statement**

This document is a statement of the approach to service charge accounting on the South Maritime Estate. It sets out to explain the general principles and policies which apply.

This document will normally be issued at the same time as:

- The formal budget advice and initial service charge invoice (in February / March of each year)
- The year end reconciliation and advice of balancing credit / charge (September of each year)

It should be read in conjunction with the more detailed budget or reconciliation advice (as appropriate) which accompanies.

## **1. Introduction**

Chatham Maritime is a 140 ha (350 acre) estate which forms the major part of the former Chatham Naval dockyard. The Estate splits into approximately equal parts – to the north of the dock basins is the primarily residential St Mary's Island, to the south is the primarily non-residential South Maritime Estate (previously known as South of Basins Estate).

Chatham Maritime Trust is a charity which has the role of taking on the management and maintenance of the Chatham Maritime Estate. Once development and infrastructure is completed by the South East England Development Agency (SEEDA), it subsequently transfers to the Trust, and the Trust will eventually become estate owner and landlord of the major part of the Estate.

The Trust carries out the estate management through its subsidiary company Chatham Maritime Estate Ltd. (CME), which collects occupier contributions and arranges and supervises maintenance contracts. South Maritime lessees pay by way of a conventional service charge arrangement. St Mary's Island residential property owners pay an annual rentcharge.

Chatham Maritime Trust also holds endowment funds towards the maintenance of major infrastructure such as flood defences and dock basins, so that these elements do not have to form part of a direct recharge to occupiers. These funds are drawn upon as and when necessary.

The Trust's charitable objects are, with minor exception, dedicated to the Chatham Maritime Estate, and under charity law all funds held must be used in furtherance of these objects.

## **2. Governance & Management**

Chatham Maritime has a unique structure which is intended to facilitate a cooperative approach between different stakeholders.

Chatham Maritime Trust is a charity and has four member organisations: SEEDA, Medway Council, St Mary's Island Residents Association, and South Maritime Residents Ltd.

The last of these, South Maritime Residents, is an association for South Maritime non-residential leaseholders. Any lessee with a term greater than three years is entitled to become a member, and applications may be made to South Maritime Residents' registered office which is Montague Place, Quayside, Chatham Maritime, ME4 4QU (the offices of Reeves & Neylan, accountants).

The Trust's Member organisations have rights to nominate trustees to the Board of Chatham Maritime Trust. South Maritime Residents has the right to make two such nominations.

The Board of Trustees oversees the policy, activities, and finances of the Trust. In addition, a number of Trustees are also appointed as directors of CME, the subsidiary company which carries out day-to-day management of the Estate and sets service charge levels.

This arrangement seeks to ensure that the interests of stakeholders are taken into consideration when estate management policy is being considered, and that stakeholder representatives are in a position to exercise supervision.

### **3. South Maritime Service Charge**

The South Maritime Estate operates with a conventional service charge arrangement.

The service charge year runs from 1<sup>st</sup> April. Advance payments are due on 1<sup>st</sup> April and 1<sup>st</sup> October in each year, based on a budget prepared by CME. At year end there is a reconciliation of expenditure and there is a credit or a surcharge in respect of contributors. This is usually reflected in the October invoice of the following service charge year.

### **4. Maintained Estate**

The South Maritime Estate is still under development. Completed developments and infrastructure are transferred from SEEDA to the Trust, whereupon the maintenance is taken on by CME. As the Estate is not yet fully completed, CME does not yet maintain the whole of the eventual South Maritime common parts.

The attached plan shows, for illustrative purposes, the road, landscaping and open space areas which are maintained by CME (in green), and the areas which are expected to be transferred into CME's control (in orange). These latter areas are presently maintained by SEEDA and their cost is therefore not reflected in the South Maritime service charges issued by CME.

Over time, these additional areas will come into CME's maintenance, and it follows that service charge levels will rise in real terms to reflect this additional responsibility. This is explained in more detail in *Future Charge Levels* below.

### **5. Accounting Policies**

This section sets out the principal accounting policies which are applied in order to produce the service charge budgets.

#### **5.1. Apportionment**

Costs are apportioned on a site area basis. Details of this apportionment are attached to the service charge information.

Where sites have not yet been developed, an estimate of the developable site areas is made and included in the calculation. SEEDA makes a proportionate payment in respect of these.

The aggregate developed / developable area of South Maritime is currently assessed as 43.6ha (107.7 acres). This aggregate, and the resultant apportionments, will be reassessed when development is fully completed and the boundaries between privately-developed land and access / public areas are finalised. The apportionment figures may go up or down at this point.

Some older leases do not have service charge recovery provisions. Chatham Maritime Trust holds a separate endowment (a restricted fund within the charity's accounts) in respect of these from which it pays service charges on an equivalent basis. This arrangement covers c. 20% of the total service charge cost.

There are a number of developments where SEEDA has not yet transferred the reversionary freehold to the Trust, and for which SEEDA therefore remains the landlord until transfer takes place. In these cases Chatham

Maritime Trust invoices service charges to SEEDA for onward transmission to the relevant headlessee, as appropriate.

## 5.2. Cost Allocation

For accounting purposes the Estate is split into its two component parts: St Mary's Island and South Maritime, each as a cost centre with a recharge mechanism.

Costs associated with each part of the Estate are allocated to the relevant cost centre. For example landscape maintenance invoices are apportioned according to the location of the work.

Some expenses, however, are incurred across Chatham Maritime as a whole and apportioned between the two cost centres; this occurs where individual cost apportionment is not practical and where there are economies of scale: the main examples are security and estate management. These costs are apportioned between South Maritime and St Mary's Island based on an estimate of resource allocation.

## 5.3. Estate Management Costs

The costs of staff working on management of the Estate are recharged at cost. These costs include ancillary items such as national insurance, employer's pension contribution, recruitment & training, and expenses.

Where accommodation is used as part of the management of the Estate, the cost of this accommodation is included. This applies to two buildings owned by Chatham Maritime Trust: The Coach House (estate office) and Pembroke Gatehouse (security office) where a notional cost based on market value is charged to the service charge account. (In the case of The Coach House, this notional rent is offset by the notional cost to CME of providing utilities, maintenance and services to the part of the building occupied by the Trust; there is therefore no net charge).

There is no mark-up or other profit on these costs, and no separate "management fee" is charged.

## 5.4. Reserve Funds

The cyclical nature of some maintenance, and the inevitable occurrence of reactive repair means that year on year variations in service charge levels will occur.

There is provision in the Estate's standard form lease for reserve funds. However, no reserve funds are currently collected. Rather, significant maintenance costs may be phased over two or more years in order to minimise peaks and troughs in service charge requests.

The management company CME purchases minor items such as furniture and equipment for use in the management of the Estate. The cost of these is written down within CME's accounts according to its depreciation policy, and the depreciation cost (rather than the initial purchase cost) is included in the annual service charge. This has the effect of further smoothing service charge costs year on year.

CME accounts, which reflect the service charge arrangements, are prepared on a standard accrued basis: where expenditure is committed (although not yet paid) in a service charge year, it appears in that year's accounts; where income is invoiced (though not received) it too appears in that year's accounts. Any necessary adjustments are made in the following year.

#### 5.5. Other Income

Some leases contain provisions for a "Water Service Charge". This is a wholly separate sum, expressed as a percentage of the normal service charge. The Water Service Charge goes into the Trust's endowment funds to provide additional funding for future works to dock basins and other marine infrastructure which, as described above, is not subject to direct annual maintenance charges. This is, in effect, a very long term reserve fund for major infrastructure, which enables the Trust to carry the maintenance cost and the risk of such infrastructure. The maintenance of this major infrastructure is specifically excluded from the South Maritime Model Lease service charge terms.

Where lessees pay surveyors' fees for consents under individual leases (such as for consent to alterations), and the relevant estate staff time is funded by the service charge, then the fees are credited to the service charge account and so offset overall costs.

Where a lessee makes a payment for a variation in lease terms, then the payment for the benefit of the variation is retained by the Trust as landlord. However, any surveyor's fee paid for negotiation the transaction is credited to the service charge, as above.

Where a fee is paid for the one-off or occasional use of some part of the Estate, the benefit of this is retained by the Trust as landlord. However, any surveyor's fee paid for negotiation the transaction is credited to the service charge, as above.

Any income indicated as being retained by the landlord will usually be added to the Dowry Fund and thus held for the future benefit of the Estate in accordance with the Trust's charitable objects.

#### 5.6. Interest on Advance Payments

Advance service charge payments (together with St Mary's Island rentcharge payments and drawdowns from the Trust's Dowry Fund) are held in one or more deposit accounts in the name of Chatham Maritime Trust. Funds are transferred as required into a current account in the name of Chatham Maritime Estate Ltd, from where supplier payments are made.

There are no contractual obligations on the Trust to credit interest on the advance payments to the relevant cost centre. The RICS Service Charge Code identifies it as best practice that interest is credited to the benefit of the service charge account.

The Trust transfers interest on advance payments to the Trust's Community Fund which supports community activities. The Community Fund makes grants to local organisations, charities, and groups which support community activity, primarily at Chatham Maritime but also sometimes in the wider Medway Towns.

Tracking the interest accruing on contributions from the various groups (South Maritime, St Mary's Island, etc) in order to credit it to individual cost centres would require additional bank accounts, transactions, and accounting entries. This would complicate accounting and add to management costs.

The interest on deposits which is transferred to the Community Fund obviously varies according to bank deposit rates during the year. With typical (pre-2008) interest rates this might amount to £10-15K in a year, of which perhaps one-third might be attributable to South Maritime. This amounts to about 1% of the service charge budget.

## **6. Procurement**

There are three major contracts within the service charge: security, landscape maintenance, and minor works. Collectively these typically account for something like 60-70% of service charge expenditure. These contracts are normally let on a five year term.

The landscape maintenance contract is being jointly re-tendered with SEEDA, who retain responsibility for significant areas of landscaping on the Estate. This should allow a more competitive price, and enables a straightforward transfer of responsibility from SEEDA to the Trust when ownership is transferred (see *Maintained Estate* above).

Other minor contracts include street lighting, pest control, and road cleansing. These are usually re-tendered from time to time. Frequent re-tendering may not be economical where the current service is satisfactory, due to the relatively high cost of a tender exercise against the annual spend (and thus potential saving), and experience has been that there is value in maintaining a sustained relationship with a good contractor. In isolated cases the work may be so specialised that there may be few practical alternatives.

## **7. Future Charge Levels**

SEEDA's work on development of the Estate continues. This results in an increasing number of lessees, residents, workers, visitors, and vehicles, and also, from time to time, in the completion of additional infrastructure or common parts which transfer to the Trust for maintenance.

It therefore follows that the level of service charges for South Maritime is likely to increase significantly above maintenance cost inflation during the next five to ten years as the Estate is built out, and the Trust's maintenance responsibilities and provision of estate services grow.

Current projections suggest that service charge levels may increase by 50% in real terms as a result of this process.

## **8. Audit & Management Accounts**

All South Maritime service charge expenditure and all St Mary's Island rentcharge expenditure is channelled through the Trust's management company Chatham Maritime Estate Ltd (CME). In addition, grants from Chatham Maritime Trust's endowment (Dowry) funds for the maintenance of key infrastructure are also channelled through CME.

The distinction between South Maritime, St Mary's Island, and Dowry Fund expenditure within CME's accounts is maintained by the use of separate cost centres.

CME typically shows an annual profit, which is remitted to Chatham Maritime Trust under Gift Aid arrangements. This profit comprises Water Service Charge, interest income and other income as identified above (together with a reserve fund element paid by SEEDA for St Mary's Island). It does not represent profit on the South Maritime service charge account.

CME's accounts are audited annually by the Trust's auditors, Reeves & Neylan, and these are a matter of public record.