

CHATHAM MARITIME ESTATE LTD.

SOUTH MARITIME ESTATE

2009/10 SERVICE CHARGE - BACKGROUND

This note is to be read in conjunction with the accompanying Service Charge Budget & Payment Request. The note seeks explain the role of Chatham Maritime Trust in the maintenance of the South Maritime Estate.

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 (also 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 SEEDA, it subsequently transfers to the Trust.

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.

For accounting purposes the Estate is split into its component parts: St Mary's Island and South Maritime, each as a cost centre with a recharge mechanism. For South Maritime this is a fairly conventional service charge structure. Costs associated with each part of the Estate are allocated to the relevant cost centre. 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.

CME recharges expenditure (including staff salaries) at cost.

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. Most South Maritime headleases are c.150 years in duration, and the maintenance of key infrastructure has a similar time horizon. The nature of some of the infrastructure means that major maintenance expenditure may only fall over periods of several decades.

The Trust's charitable objects are, with minor exceptions, dedicated to the Chatham Maritime Estate, and all funds held must be used for those objects.

Apportionment

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

Where sites have not yet been developed, an estimate of the developable site areas is made and included in the calculation. SEEDA makes independent payment in respect of these. This currently amounts to c. 10% of the total service charge.

The aggregate developed / developable area of South Maritime is currently assessed as 42.5ha (105 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.

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

It follows that SEEDA and Chatham Maritime Trust currently contribute some 30% of the total service charge.

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 responsible lessee, as appropriate.

Maintained Estate

As described above, 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 areas which are maintained by CME (highlighted green), and the areas which are expected to be transferred into CME's control (highlighted orange). These latter areas are presently maintained by SEEDA and their cost is therefore not reflected in the South Maritime service charges.

Over time, possibly a period of five or more years, 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.

Reserve Funds

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 several years in order to minimise peaks and troughs in service charge requests. Nonetheless the cyclical nature of some maintenance, and the inevitable occurrence of reactive repair means that year on year variations do happen.

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

Some lessees have provisions in leases for a Water Service Charge. This is a wholly separate sum, expressed as a percentage of normal service charge, which goes into the Trust's endowment funds to provide additional funding for major future works to dock basins and other marine infrastructure which, as described above, is not subject to direct annual rentcharge. This is, in effect, a very long term reserve fund which enables the Trust to carry the maintenance cost and risk of the major infrastructure, and so avoid what could be occasionally very large recharge surges arising from major repair.

Chatham Maritime Estate Ltd
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