

Netherne Management Limited

Company Number: 04026814

Registered Office: One Jubilee Street, Brighton, BN1 1GE

Directors Report for the year ending 31 December 2014

When taking responsibility for Netherne Management Limited (NML) in January 2011, elected resident Directors set the following objectives:

- Recover the debt
- Get the reserves healthy
- Maximise cost efficiency (with view to reducing service charges whilst not reducing services).

Last year, we also explained that we expect to incur significant expenditure during the next 5-10 years for the maintenance of our facilities (the Village Hall, the Leisure Centre and the Estate), and that we need to continue to manage our finances prudently to meet these costs.

This report for the year to December 2014 outlines our progress in these areas in the past 12 months. We also discuss what has been happening with our facilities, and look ahead to the future.

Summary

In summary, the Board believe that the issues the Village faced prior to 2011 have become a distant memory. Assisted by our Managing Agents (SHW), the Board have exerted significant efforts to try to run the Village as efficiently as we can. The Village's reputation with local estate agents has improved considerably over the last few years, and this has been aided by the Community Bus success story.

Our financial position is strong, with debt having further reduced significantly over the year (by over £100,000). However, we incurred significant expenditure during 2014 to deal with various improvements, repairs and works, which meant that our reserves fell during the course of the year. Service charges for 2015 have had to increase marginally due to inflationary pressures.

Our immediate challenges are to continue to reduce the debt, to begin implementation of various maintenance works to NML's assets, to further improve the security we have in the village, and to add some lighting on the footpath to Hooley and the access pathways to the Leisure Centre

Debtors

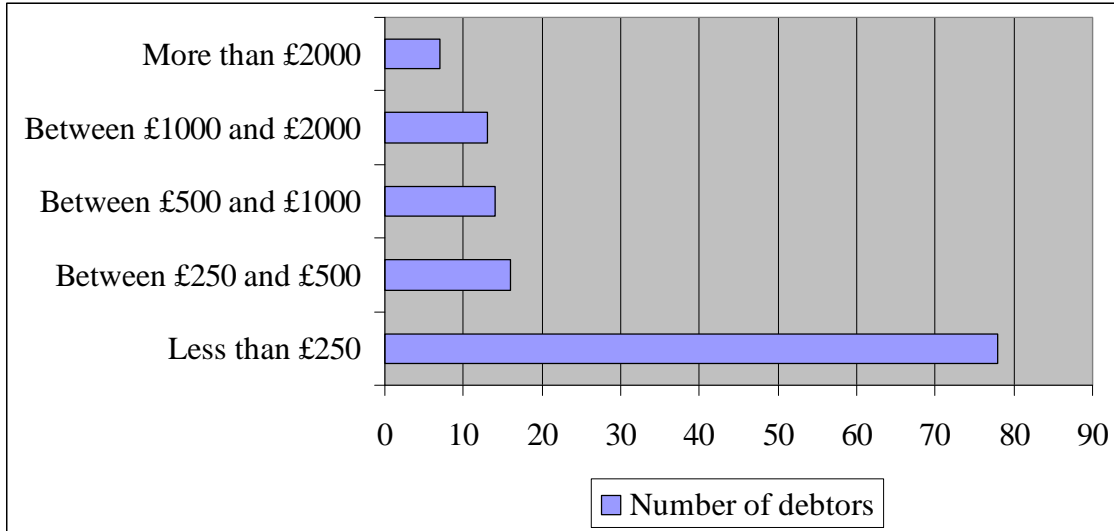
Throughout 2014, the Board has again had to devote a large amount of time chasing debts from those who enjoy the benefits of living in our community but continue not to pay the service charges that maintain it. We are pleased to report that NML's debt position has continued to improve significantly during the course of 2014, as we have chased down many of our debtors. Debt levels (and the number of debtors) are beginning to reach a level that is "manageable". The following table summarises our progress:

End of Year	Amount of service charge debt
2010	£449,000
2011	£396,000
2012	£307,000
2013	£183,000
2014	£74,000

Much of the residual debt is under management, with members on agreed repayment plans. In many cases, we have pursued mortgage lenders to settle debts, and this has proved to be an expensive way for members to settle their service charge arrears as they have also had to pay all of NML's legal costs, plus interest for late payment. Unfortunately, there remain a few debtors who, even after having their debt added to their mortgage, continue not to pay their ongoing service charges as and when they arise. Such members are finding that we are continually taking legal action against them. In one case, a member was advised by their mortgage lender that if they had any more debt added to their mortgage,

then their house would be repossessed. That member is now on a repayment plan. Other members have realised that they cannot afford to live in Netherne and have sold up.

To put things into context, our 7 highest debtors (each of whom owed more than £2,000) accounted for £32,000 of the total debt. Many of these are on agreed repayment plans; the rest are in the hands of our solicitors. The following chart illustrates how most other debtors owe relatively small amounts:



We implore all members to please settle their accounts, however small, so that we do not have to continue to chase them for these sums. We also recommend that all members set up direct debit mandates to settle their ongoing service charges, so that the situation of inadvertently forgetting to pay on time does not arise.

The goal for 2015 is to continue to manage the debt down. We have already made good progress during the start of 2015, and we expect to be below £40,000 by year end.

Cash and reserves position

With the recovery of debt, our cash position has been improving. However, during 2014, we also incurred significant expenditure for various improvements, repairs and works (not covered by the service charge budget). This included village hall roof repairs, deployment of traveler prevention methods, various improvements to the leisure centre facilities and extension of the children’s playpark (following an EGM vote). The total major works expenditure for the year was just over £100,000.

Such costs have been met from our reserves, which at the start of the year were just over £708,000. In particular, we have not had to ask members for increased service charges to meet these costs. The major works expenditure has led to a drain on our reserves, but this has been partially offset by the non-service charge income that we enjoy, such as exit fees and the telephone mast rent.

End of Year	Amount of cash at bank	Total reserves (including debt)
2010	£9,000	£485,000
2011 *	£301,000	£613,000
2012	£381,000	£680,000
2013	£523,000	£708,000
2014	£615,000	£666,000

* The improvement from 2010 to 2011 reflected the settlement reached with Gleasons.

Overall, therefore, our finances look relatively healthy. We need such reserves to be able to deal with unexpected expenditure as and when it arises, as has been the case in recent years.

In addition, as discussed in last year's report, over the next few years we will need to spend a considerable further sum on the maintenance of the estate and facilities that may use up much of the reserves that our accounts show. An example of such costs is the exterior decorating work and repairs required for the village hall and leisure centre. We received four tender reports for these works. Following consideration of these reports, we commissioned a firm to carry out the required works in 2015. The total cost of these works is £130,000, and will be met from our reserves.

We are therefore acutely aware that whilst our current financial position appears healthy, we do have significant expenditure to consider in the years ahead. We therefore need to continue to manage our finances prudently. In particular, we have no current plans to return any cash to shareholders, given the future expenditure requirements.

In terms of how we may go about meeting the various costs, there are several sources of funding available. Some works may simply have to be met from our current reserves. Other costs (such as the footpath to Hooley) might be met by Surrey County Council. In addition, over time we would expect to continue to build up our reserves as we receive income (in addition to ongoing service charge income) from other sources. For reference, the main sources of other income in 2014 were as follows:

▪ Exit Fees	£31,000
▪ Telephone mast rent	£9,000
▪ Village hall and pool hire	£9,000
▪ Interest from debtors on late payment	£6,000
▪ Bank interest	£5,000

As a result of such income streams in 2014, our reserves only declined by £42,000 during the year, despite the £100,000+ of major works expenditure.

Service charges

By taking tight control of our expenditure, we had been successful in reducing service charges for each year from 2012 to 2014.

However, like many companies we have been facing inflationary pressures on a number of fronts, such as the charges levied by Nuffield and SHW, insurances and utility costs. We have also introduced security patrols around the estate, and that has also added to our annual costs.

The result of these various cost pressures is that the 2015 service charge budget is 3% higher than the 2014 budget. Service charges for 2015 have therefore had to increase marginally. This has meant service charge increases of the order of 50 pence a week.

Year	Total service charge budget
2011	£449,000
2012	£382,000
2013	£351,000
2014	£345,000
2015	£356,000

Village Hall

At the last AGM, we discussed the future of the village hall and the possibility of building a new purpose built village hall. We met a planning officer at Reigate and Banstead Council to discuss the scope to re-develop the existing village hall, and to build a new village hall in a new location. We were told it was unlikely that permission would be given for such a project. Having received this advice, we will now need to revisit some of the village hall issues that have been put on hold whilst we considered its future. This includes the basement, which is suffering from damp.

One of the other issues faced by the village hall is acts of vandalism. During 2014, we have had 3 instances of damage to the stained glass windows. The cost of this damage has been £2,300, and whilst most of the cost is covered by our insurances we have seen our insurance premiums rising as a result.

All incidents are reported to the police and allocated a crime reference number. After becoming aware of the identity of one of the vandals, we demanded that if his parents did not meet the cost of repairing the damaged window, then we would report him to the police. The parents agreed to meet the repair cost.

As a further deterrent, a CCTV camera system has now been installed at the village hall. We are also looking at installing a form of window protection at the village hall.

Leisure Centre

During the course of 2014 we have invested in a number of improvements for the Leisure Centre. This has included a new turnstile access system, a pool cover (which will result in energy savings), roller blinds and more security cameras. In order to improve the hot water supply to the showers, we also replaced the existing Megaflo system with two larger Megaflo's.

We also became aware that the multi-gym equipment needed replacing, and this required a member vote to proceed as the cost exceeded £15,000. At the EGM on 3 November, we explained that the monthly payments for the new equipment with a 5 year finance lease would be £400. Such payments are adequately covered by the leisure centre income that we receive from those Guinness Trust residents who pay to use the leisure centre facilities. On this basis, members voted to go ahead with the replacement of the multi-gym equipment.

Looking ahead, we are looking to install stepping stone pathways to the Leisure Centre, to avoid members having to walk through the grass. In addition, we are considering getting some form of lighting on the existing footpath leading to the Leisure Centre from Chapel Walk.

Estate

Following suggestions at the AGM in March 2014, we implemented random security patrols. The purpose of these patrols is to protect the village and our property, for our personal safety, and also to discourage anti-social behaviour. The patrols were initially on a trial basis, but we intend these to continue for the foreseeable future.

We had a traveler incursion on Netherne Drive in April. In order to try and prevent further incursions, we employed traveler prevention methods in vulnerable areas of the village. One of the boulders we installed was stolen, so we are now having to incur further expense to secure the remaining boulders. We are also looking to add additional boulders.

In October, we had a very useful meeting with our local police officer, PC Kelly Houghton, when we discussed a number of issues. We were told that any additional CCTV cameras that can be installed will be useful and are supported by the police as they are both preventative and can also assist with convictions. Over the next couple of years we will therefore be looking to add more CCTV cameras around the village, such as on Netherne Drive (to guard against fly-tipping).

During 2014, in a joint initiative with the Residents Association, we funded the cost of re-instating the old football pitch (behind the cricket pitch), as well as a junior pitch on the site of the old bowling green.

At November EGM, members voted in favour of a resolution to extend the children's playpark.

We have recently secured a small grant from Surrey County Council, as a contribution towards installing some form of energy efficient lighting on the footpath to Hooley.

Cemetery

In addition to the Leisure Centre, Village Hall and wider estate, NML also owns extensive areas of land. This includes a cemetery containing the remains of about 1,350 people, in unmarked graves, including patients of the former Netherne hospital and soldiers who fought in the First World War. Gleasons attracted much criticism for allowing the graveyard to become overgrown and neglected.

The NML Board determined that it was appropriate to clear the cemetery of the extensive brambles and these works were undertaken in 2013. For 2014, it had been intended to introduce some form of meadow grass seed to the grounds, but that work has had to be deferred into 2015.

Netherne Community Bus Company

The Netherne Bus began operations in April 2012, offering a peak time service to and from Coulsdon South station. The Bus was initially financed by funding received from Gleasons as part of their exit settlement, together with a small grant from Surrey County Council.

The only other funding for the Netherne Bus is fare income; in particular it does not form part of the NML service charges. This effectively means that we have to try and cover the operating costs of the Bus from ticket sales, to avoid eroding the Bus Company assets, which are held in a separate company from NML.

During 2014, more and more people have been using this valuable service, to the point where we expect to achieve “break-even” status this year. The Bus is now seeing around 350 passenger journeys every week to and from Coulsdon South Station. That means a considerable reduction in Netherne’s carbon footprint. Demand for the service has meant that we have had to adapt the morning timetable, with the bus operating more like a shuttle during peak hours. If the closure of the Lion Green car park in Coulsdon goes ahead (to enable the building of a Waitrose supermarket and Health Centre – this is currently on hold pending a Judicial Review in March) this should lead to a further increase in demand for the Netherne Bus in 2015.

We receive many enquiries from prospective Netherne residents about the Bus service; it seems that if the Bus did not operate then they would not consider moving to Netherne. We believe the Bus has been a contributory factor in the rise of Netherne property prices.

The chart at the end of this report shows how weekly ticket sales have been gradually increasing in the last few years.

Looking ahead

Your Directors remain committed to managing our village properly in a cost effective manner. There will no doubt be new issues arising during the course of the year, but at the moment our priorities for 2015 are:

- To continue the debt recovery process
- To carry out some of the maintenance work identified in the 10 Year Plan (including addressing the damp issues in the village hall)
- To address the access pathways to the Leisure Centre, including some form of lighting
- To improve village security where appropriate
- To install energy efficient lighting on the footpath to Hooley

The Directors of Netherne Management Limited:

Steven Buczek

Jo Robins

Robert Murdoch

Rajen Shah

Nikki Le Cluse

**Netherne Community Bus
Weekly average ticket sales**

