

RESPONSE TO QUESTIONS RECEIVED FROM EVERGREEN BROADACRES
RESIDENTS IN RELATION TO BUDGET DISTRIBUTION4 May 2022 – Document 1

1. *No one could argue that balanced budgets are not necessary! But at whose cost? It would assume that the residents of Evergreen “foot the bill”*

A) We are proposing a 0% increase in basic levies and asking residents to pay for the services that they utilise.

2. *Market related levies*

The handling of levies is controlled by the Life Right Agreement (“LRA”) held by the residents and while I understand that not all LRA’s are the same, there are limits to Levy increases. I note that further on in the documentation we were supplied; that all levies quoted are for “single occupancy” and that a second person levy above that will be charged Over and above the basic levy. This attitude cannot be correct, if I sign a life rights agreement for myself and my wife that automatically assumes it is for two persons

A) It is charged accordance to the LRA. The additional person levy is merely separated from the current levy charged and not added in addition. It is now separately listed as:

- **Basic levy**
- **Additional Person levy**

3. *Reasonable services*

This could lead to services originally agreed to being reduced later on Such as a Bistro that was open at least six days of the week from 08h00 to 17h00. Now we have limited Bistro hours that barely meet the needs of residents.

A) Catering Service at Broadacres has not been decided upon. Any level of service is possible depending on what residents chose they want.

4. *Health Services; for example, we had a nurse that would walk around the village and meet residents and check blood pressures regularly. We had a medical office available that you could visit at least five days of the week for minor medical attention. What do we now have a medical centre you may not even enter? Granted this was brought about by the Covid Pandemic.*

A) Broadacres residents have access to the Clinic specific service for Village Residents. Frail care residents have their own service, independent from the Village Residents.

5. *Insurance*

What, exactly, is actually insured?

A) All buildings (including common area buildings) and public liability insurance.

6. *Head office expenses*

There appears to be a conflict of interest between the EH profit generating objectives and ELV cost containment objectives. Where is the separation of responsibilities and authority as ELV appears to be subservient to EH profit objective? Further explanation required. Please share EH objectives.

Residents are concerned at the double standards that are being applied between EH and ELV.

EH imposes a R40K/month (arbiter ally change) availability fee on ELV and charge for their services. The separation of authorities means that neither ELV are not concerned how EH manages its finances and payments to head office.

However, all the infrastructure at Broadacres is responsibility of ELV and they pay all costs associated with the assets of the site and these are reflected in the books of account of ELV. Residents are concerned that EH has free use of 50% of the Lifestyle centre floor space, parking, security, clubhouse, gardens, emergency lighting, lift, etc. EH rental is not brought into account in ELV's accounts but rather paid as clear profit to head office, a big contributing factor to the under recovery. All the other services are being used by EH free of charge, all of which makes EH parasitic on ELV as the only recovery made from EH is for electricity.

In principle there is a double standard being applied in that ELV is not allowed the implemented the same standard as applied by EH and to charge them a R100k/month availability fee and recover a percentage of all the other services being used by EH?

EH is not billed for security and garden services.

A) In reference to Head Office in ELV the budget relates to ELV Head Office. EH is a separate company with their own Head Office. EH pays for electricity, water, sewerage, refuse and rates for the care centre. The principle of cost reduction when service is terminated is applied. For example, if EH vacate the frail care facility, security cost will remain the same, thus no reduction in security cost. Same for garden services. EH is carrying their fair share of activity specific costs. EH has their own service level agreement with Reef Catering and is billed separately by the service provider.

7. *Please explain the justification as to why is this unfair double standard, that will substantially affect future levy increases, is acceptable to head office?*

A) Unsure what is meant by double standards. We are proposing a 0% increase in basic levy and giving residents the option on how they want the healthcare and catering facility to operate.

8. *The residents have a financial vested interest of ±R300m interest free contributions held by EPI, and have become uneasy from current events that their levies are going to be over inflated by what appears to be a huge push to up the levies, which many residents on fixed incomes will not be able to afford.*

For the past 10 years the levy increases have closely matched CPI+1½%. A solution would be to put all residents of a CPI based levy increase system as originally envisioned then Evergreen head office can move money internally between its various divisions without interference from ResCom.

Why would this option not be acceptable as it would be of mutual benefit?

A) And for the “vested interest of ±R300m” the LRA provides the resident with accommodation in the agreed dwelling. We are proposing a 0% increase in basic levy, this is hardly “over inflating” the levies. Increases are applied according to the individual LRA.

9. It has been stated that the accumulated under recovery of R13.6m is to be recovered from the residents. These losses are a direct result of not completing the village where the expenses infrastructure was set up for a 200 unit, but were being carried by less than 120 units. Instead of completing the ELV Broadacres village, a choice was made to rather first build Val de Vie, followed by Noordhoek, buy a golf course, Sitari and it was only in 2020 that ELV Broadacres was completed and finally in a position for sufficient levies to break even.

A) This is a false statement. We have never said that we will recover past losses, these were subsidised by the owner of the village Evergreen Property Investments. However, going forward we need to reach at least a breakeven basis. We are proposing a 0% increase in basic levies and asking residents to pay for Catering and Healthcare Services as per the LRA

10. Were the annual losses over the years not written off against taxable income? Past losses were carried by the Owner, EPI.

A) ELV is a separate Company to EPI. Losses were subsidised by EPI.

11. It has been stated that the levies are not market related. As a reminder, management had to reduce the levies for phase 3 residents by an average of R1000/month per unit because the units were not selling, and it was only when the levies had been reduced did the sales rapidly improve. The levies are currently market related for the upper-middle class range of retirement villages in Johannesburg (not Cape Town). Many residents have family and friends living in other retirement villages can be used for comparison.

A) There has never been a comment made about levies not being market related. We have done market research and we are fully aware of what the levies are in the sector. We are comfortable that the services we deliver far outweigh the levies we charge.

12. Moving the financial year end to February is a good decision as most pension funds increase their pension payment on 1st March. Will the levies of those few remaining residents whose levy increase is based on the published CPI at the end of August be moved to the published CPI on the end of February?

A) ELV's financial year has always been 1 Mar to 28 Feb. The levy cycle has always been running from 1 Sep to 31 Aug. It is proposed in the budget for the levy cycle to coincide with the financial year. If proposal accepted, the February CPI will be used going forward.

13. *Addition of these costs to the operational budget of the Village brings management costs to more than almost half or more than half the total budget. Would prefer to see a review in these costs to achieve the savings required to breach break even. Employee salaries and related costs amount to 43% of operational costs.*

A) Management views all costs included in the budget as a necessity to run the Village efficiently and effectively in delivering reasonable service to Life Right Holders. The alternative is a decentralised Administration function which could double this cost. Efficiency improvements have been and will always remain a priority to management. Continuous review of all operational costs is a key focus area.

14. *Health and catering costs*

The inclusion of R483K for Catering and Healthcare need to be explained fully. Also, the assumption that there will be no allowance for unsold apartments in the 2023 budget also needs explanation.

A) The LRA states that Catering and Healthcare Services could be provided on a fee for service basis. This, has to date, not been applied, thus EPI have funded these services through subsidising the losses. Effective FY23, catering and healthcare will have a separate levy, which is determined based on residents' requirement. It is similar to an availability fee and Residents will still pay for the meals consumed. A conservative budget method was followed by not budgeting for any revenue from the unsold units. As these units are sold, revenue will flow in, thus positive variance to budget. This budgeting method assist to determine worst case scenario regarding Operations Losses.

15. *Evergreen Health*

The residents are paying an Availability Fee and they are paying for the services rendered in a time utilised basis, is this double payment for the same service?

A) No double payment. Healthcare levy = availability fee to have a staffed Clinic at the Village. Charges from EH is patient /resident specific charges for requested service.

16. *Before the Frail-care, a fee was paid for a full time Registered Nurse, Marius and day/night ENA's who spent 100% of their time servicing the residents. Frail care then absorbed these staff members and the cost of the nursing staff is sunk for work in the frail-care and the reduced ad hoc service is now given to the residents does not add any more cost to the frail-care but they are entitled to recover the time lost.*

Why are these ad hoc services not recovered at medical rates, on a user must pay basis without an Availability Fee?

A) Village Clinic to be manned by healthcare staff to ensure availability as per agreement. It would be unfair to expect Frail care Residents to pay for ELV dedicated Healthcare staff. Management views the budget proposal as the most cost effective for Residents.

17. *Medical services available without a fee are two 24-hour medical services within 3 Km and eleven other day time medical clinics within 5 Km, all charge medical aid rates for their ad hoc nursing services. Why is Evergreen Health not doing the same with their service and not deliberately contribute to increasing the village's operating cost?*

A) EH does not have a practice number which makes claiming from medical aids a little more difficult. EH is in the process of obtaining approval from larger medical aid schemes to process residents' claims. Management views the budget proposal as the most cost effective for Residents.

18. *As the previous losses at the village were written off against the profits of the group company, why is it planned to recover the full amount? Would this not be morally correct to only recover 60% of the loss from future village over recoveries?*

A) Please refer to point 9 above – We are not planning on recovering any of the past losses from the village at all. We are proposing a 0% increase in basic levies and asking residents to fulfil their obligation as per the LRA and pay for Catering and Healthcare services.

19. *When will Evergreen Health register and have a practice number so we can claim from the medical aids? SANAS accredited Unique Health and as all the staff, standards and systems have not changed they could quickly reassess the business.*

A) This is not a budget related question. But I am happy to answer. Unfortunately, this is not a simple process. Practice numbers have not been issued since 2016. We are however in the process to get approval from larger medical aids to process home care services. More information will follow shortly.

20. *Most residents and particularly those incapacitated residents are captured Evergreen Health clients and have to use the nursing service. The so-called Availability Fees appear to be arbitrary and introduced by means of a statement of what is going to happen. Why are they not justified or measurable against empirical data?*

The LRA states that Healthcare Services could be provided on a fee for service basis. This, has to date, not been applied, thus EPI have been subsidising the village operational shortfall. Effective FY23, healthcare will have a separate levy, which is determined based on residents' requirement. It is similar to an availability fee.

21. *'.. costs ... on a per home basis.' What, exactly, is the meaning?*

A) Charge per unit, not per number of occupants (residents).

22. *Catering costs*

Why is EH not paying pay an availability fee or is it just ELV subsidising Reef Caterers?

A) Incorrect. EH has their own service level agreement with Reef Catering and is billed separately by the service provider.

23. *.... subsidy still being paid from when the bistro had only a few residents and food provided was fixed at R45 - R50 per meal.*

A) Meals will have to be charged on a commercial basis in the future. Meals are sold at this unrealistic low prices due to the fact that the management fee is paid to the catering company. Should the Catering levy not be paid and the availability fee not be passed to the catering company, the meals will be sold at a commercial rate equal to that of a normal restaurant.

24. *Reef Caterers have the free use on the kitchen (no rent), all equipment and other facilities (and pay depreciation), there is also profitable income from the meals provide to residents, management, and on the +3000 meals/month to EH. Why is management not concerned that an unnecessary?*

A) Question is unclear. EH has a separate service level agreement with Reef caterers. In order for meals to be provided at a low price per point 23 above, a management/availability needs to be charged.

25. *There is something very wrong in ELV making their facilities available to Reef Caterers and paying them an availability fee, so why is ELV not charging Reef an availability fee?*

A) There is no catering company that will provide a service with zero guarantees. Management views the principle of minimum meal charges as an expensive alternative for Residents, for example compulsory 15 meals per unit at R3,000 per month like many other villages have. Our residents have the choice to determine the level of service required. Note the closure of the Catering Service is also an option – thus zero cost to Residents.

26. *Why are we locked into Reef Caterers and still paying a subsidy (now conveniently called an availability fee)? Just before the frail-care opened, ELV put Reef on notice and received an offer from Fedics Catering that they would run the Bistro at risk at higher prices without the subsidy, provided they could get the frail-care ±3000 meal/month. Why has management not gone out to quote again? The Catering Levy is not Reef related.*

A) To date, EPI has carried the cost, however the LRA states that Catering Services could be provided on a fee for service basis. Residents are requested to pay for the service if required. We are not locked in to Reef at all. We have consulted with various different catering companies and none of them will take it on risk without minimum guaranteed income. The 3000 meals per month is overstated.

27. *Before buying, we were told the Levy included Catering overheads. So, meal costs were purely the cost of the actual food. It was a major selling point; so, why has it changed for the worse? Until recently, meal delivery was free; why is it now charged?*

A) To date EPI has carried the cost in the subsidy it has paid to cover the village operational losses, however the LRA states that Catering Services could be provided on a fee for service basis. Residents are requested to pay for the service if required.

28. *Head office recovery costs*

If Evergreen makes a decision to set up their structures on a higher unit total, then they must carry the cost for their decision and not pass any portion to their LRA holders. Head Office expenses form part of basic facilities and services, and thus covered by the monthly basic facility and service levy charged on the levy statement.

A) You are correct, and thus is the reason we are now adding these costs where they belong, in the basic levy expenses as per the LRA. These costs should remain constant with annual inflationary increases. When units increase beyond 2,000, the basis of the calculation will be updated. The current R300 only represents a 49% recovery of annual head office costs. Residents are therefore NOT being charged the full amount but benefit by being charged only half of it. The under recovery is covered by EPI.

29. *Management*

Considering that ELV is a non-profit, non-taxed organisation for which it's only income is from levies to cover operation expenses, why are management expenses so high at ±60% of total expenses created by the addition of head office costs impose from May 2021?

A) Incorrect. For clarity, ELV has had a Head Office since inception. Centralised finance, legal, human resources and Management function. A decentralised model will be more expensive to run. Management views all costs included in the budget as a necessity to run the Village efficiently and effectively in delivering reasonable service to Life Right Holders.

30. *A duty of the ELV management is to contain costs and were successful in cancelling the Availability fee with Unique Health when they started charging for their services. Now the EH has taken over the frail-care, not only are services been charged for but the availability fee reintroduced again without any proof justifying this cost?*

A) Staff need to be employed to service village resident's needs; these expenses are covered by the Healthcare levy. It is not fair to expect Frail care residents to pay for the salaries of staffing nor is it fair to expect EH to carry the salaries of staffing when the services provided generate insufficient income to cover expenses.

31. *ELV is a Brand and a product that the Act requires to be profit neutral, it forms the base on which three divisions of Development, Health and Sales can operate to generate profit. We were notified that R300/unit cost is added to the expenses, given that an unsubstantiated amount of R857K is added to the expenses. Is this not just profit off the levies? R857k related to Head Office costs charged in FY22.*

A) Refer to point 28 Above. The Head Office Management fee is only recovered at just under 50% of the actual cost. ELV is entitled to charge a 100% of these costs to residents but have decided to try keep costs as low as possible to pass on the remaining 50% of costs to EPI. The Head Office Management fee is charged across all villages not just Broadacres.

32. *It is noted that in 2023 there is no provision for levy income from unsold units contributing to the under recovery. Is it planned to have sold all the vacant units by February 2023?*

A) Correct. A conservative budget method was followed by not budgeting for any revenue from the unsold units. As these units are sold, revenue will flow in, thus positive variance to budget. This budgeting method assist to determine worst case scenario regarding Operations Losses.

33. *It is noted that the laundry generates an income from ELV and residents. Who owns the laundry?*

A) EH operates the laundry and carries all utilities costs associated with it.

34. *Village maintenance What, exactly, is defined as ‘. abnormal, non-routine spend.’ ? Most of the visible maintenance has been the result of sub-standard work initially.*

A) Normal / routine spend refers to service level agreements and must have maintenance to ensure operable equipment. Abnormal spend is one off costs that occur in the operation of the village that will not re-occur in the next year.

35. *Overall budget. Operating Surplus. What are envisaged as ‘Capital Enhancements’ ?*

Will ELV commission properly qualified and experienced Consultants and Contractors to ensure high quality of work? This refers to budget assumptions note 2.6.

A) Capital enhancement could take any form. Residents will determine how surplus funds will be distributed.

36. *Budget is not acceptable and nothing but a Zero-Based budget for each line item will suffice. Some of the projected increases are far in excess of inflation to the point that they are not even remotely acceptable.*

A) Incorrect, this is a zero-based budget. We have done a deep dive in to the LRA and also the Budget to ensure that all expenses are now reflected in the correct area. Some increases are higher than inflation but they are justifiable and unavoidable for us to operate the village. Management

will be happy to take residents through the entire budget and show them the workings on how the numbers were achieved.

37. *Levy Increase*

I wish to state my objection to the increase in the monthly levy of R500.00 per month. Most residents here are retirees, myself included and are on fixed incomes and cannot afford this increase which is above the inflation rate. An alternative plan should be made to cut costs. Residents have the option to terminate both Healthcare and Catering services, which will then have a zero-value increase.

A) For clarity we are proposing a 0% increase in basic levies as per the LRA. We are simply asking residents to pay for facilities and services like Healthcare and Catering as stated in the LRA. These expenses have been paid by EPI in the past by way of subsidising the village operational shortfall annually.

38. *I would like it to be recorded by the committee that I am totally against the R250 for the Frail care and the R250 for the bistro that is being suggested. We pay enough in the levy and I think this R500 cost each month is disgusting. Correction – Healthcare not Frail care.*

A) Your objection is noted and there is no pressure on residents to pay the levy. The option of closing the catering services down is also an option which will then have no financial increase for residents.

39. *I object most strongly to the items in the proposed Budget that stipulate an extra payment by each resident for R250 for the Health facility and R250 for the Clubhouse facility. I pay in excess of R6000 for the Evergreen levy every month. Surely our levies cover those payments? We then pay for meals and any treatment we get from the health facility separately anyway. Evergreen seems to be trying to get more and more money out of us, which makes a mockery of Management's often-stated caring policy. Correction – Catering not Clubhouse facility.*

A) Your objection is noted and there is no pressure on residents to pay the levy. The option of closing the catering services down is also an option which will then have no financial increase for residents. Unfortunately, the current levy you refer to is insufficient and does not cover the catering or healthcare facility. There is an annual loss in the operating budget because of these expenses. These losses have been funded by EPI in the way of an annual subsidy.

40. *I'm sure the biggest bone of contention is the introduction of two new levies adding R500 to resident expenses. If there was any progress with the issue of not being able to claim Health Centre charges against medical aid, there might be a better understanding or acceptance. As things stand Health Centre usage becomes a penalty rather than a benefit. Ah, but then Evergreen generally shows little concern or empathy for residents.*

A) Unfortunately, being able to obtain a practice number which will allow residents to claim from general medical aid is a process that we have been involved in for the past two years. We have not given up on this process and we will continue until such time we are successful. The comment about "Evergreen generally shows little concern or empathy for residents" is completely false. Evergreen

has subsidised resident's lifestyle At Evergreen Broadacres to the value of R13 974 532 since the inception. I am unsure how this commitment is seen as a show of "Little concern or empathy"