

Circular 06/2022

29 April 2022

Dear Resident,

SPECIAL GENERAL MEETING/ VILLAGE OPERATIONAL BUDGET FY2023

A special general meeting is being called by the Rescom who wish to share news of the operational budget and how this may affect residents in the future.

Evergreen Lifestyle Village (ELV) appointed by Evergreen Property Investment (EPI) as the operator to manage the Diep River village has prepared the FY2023 proposed operational budget. Historically the village has run at an operational loss that has been funded by EPI. As at the financial year ended in February 2022, it was noted that the operational loss was R2.7M and the accumulated loss since inception was R10,6M. This is clearly not a sustainable situation in the long term.

It's been a tough year and the new budget was prepared with five very specific objectives in mind including a balanced budget; to offer market related levies; provide reasonable services; and have village comparability. In order to see the application of these objective and how they relate to the budget, I have attached the Budget Assumptions as well as a Budget Overview for FYE 2023.

The following are items will be covered in the meeting:

1. Please note that ELV have proposed a levy cycle period change. The proposed change is from the current period (01 September to 31 August) to ensure that budgets will fall in line with financial year of 01 March to 28 February. The result of this means that the LRA change proposal will in effect only increase levies on 01 March 2023.
2. You will also notice that in the budget overview attached, there is no expense line for Healthcare nor Catering services, which fall outside of the 'Facilities and Services' as agreed on, in the LRA. Historically, these services have been allocated to the operational expenses. These two services are not an ELV obligation in terms of the LRA. There is a proposal that these costs will be charged to residents, on a per home basis going forward. Rescom has looked at alternatives for both the catering options and healthcare alternatives and wish to have your input to take back to ELV.

Rescom will be convening a meeting with ALL residents on Thursday, 5 May at 2.30pm in the Recreation Room to engage on any questions that you may have on this new proposal. Please send any questions that you may have to the Chairman at kathy@naccw.org.za by no later than Tuesday, 3 May 2022 to allow an agenda to be prepared for the meeting. We urge everyone to attend as it will require a special vote on options put forward.

Your sincerely,



Christine Dempers
Village Manager: Diep River

Encl/ Budget Assumptions/Methodology and Budget Overview DR Forecast_v12 Final FYE2023



**DIEP RIVER
FY2023 BUDGET**
1 Mar 2022 - 28 Feb 2023

Detailed Income Statement

| | | FY2022 | FY2023 | |
|---|---|--------------------|------------------|---------|
| | | ACTUAL | BUDGET | |
| NUMBER OF UNITS | | 57 | 57 | |
| Notes | Revenue | 3,021,433 | 3,223,835 | 6.7% |
| | Levies: Houses & Cottages | 2,931,833 | 3,133,296 | 6.9% |
| 1 | Resident Levies | 2,669,549 | 3,133,296 | 17.4% |
| 2 | Levy - Unsold Units | 262,284 | - | -100.0% |
| | Levies Received - CSOS | - | - | - |
| 3 | Catering Levy | - | - | - |
| 3 | Healthcare Levy | - | - | - |
| | Other Income | 89,600 | 90,539 | 1.0% |
| OPERATING EXPENSES AS PER LRA | | 5,737,423 | 3,462,948 | -39.6% |
| 5 | Head Office Expense Recovery | 205,200 | 205,200 | 0.0% |
| 6 | Insurance | 86,500 | 81,199 | -6.1% |
| | Clubhouse Expense | 94,618 | 97,909 | 3.5% |
| 7 | Medical Response | 65,924 | 71,925 | 9.1% |
| 8 | Employee Cost Salaries | 1,379,662 | 983,899 | -28.7% |
| | Employee Cost Other | 56,338 | 65,275 | 15.9% |
| | Levies Expenses | 24,920 | 27,360 | 9.8% |
| 9 | Administration Expenses | 35,469 | 59,663 | 68.2% |
| 9 | Consulting Expenses | 68,826 | 31,350 | -54.5% |
| | Information Technology Expenses | 135,041 | 145,457 | 7.7% |
| | Travel Expenses | 500 | - | -100.0% |
| | Printing & Stationery Expenses | 63,617 | 65,724 | 3.3% |
| | Depreciation Expenses | 32,717 | 39,604 | 21.1% |
| 10 | Common Property: Municipal Utilities | 599,182 | 602,893 | 0.6% |
| | Property Rates | 141,478 | 126,405 | -10.7% |
| 11 | Security | 784,549 | 628,020 | -20.0% |
| 12 | Village Maintenance | 347,729 | 127,481 | -63.3% |
| | Garden Maintenance | 103,402 | 103,584 | 0.2% |
| OPERATING EXPENSES NOT INCLUDED IN THE LRA | | | | |
| 3 | Catering | 491,289 | - | -100.0% |
| 3 | Healthcare | 1,020,464 | - | -100.0% |
| Surplus/ (Deficit) | | (2,715,991) | (239,113) | -91.2% |
| 2/13 | Evergreen Property Investment Funding Operations Loss | 2,715,991 | 239,113 | -91.2% |
| Surplus/ (Deficit) after EPI contribution | | - | - | - |



**DIEP RIVER
FY2023 BUDGET
1 Mar 2022 - 28 Feb 2023**

Detailed Income Statement

FY2022

FY2023

ACTUAL

BUDGET

Notes

- 1 No levy increase 1 September 2022. Proposal to increase levies 1 March annually - revised cycle to fall in-line with Evergreen financial year.
- 2 FY23 - Developer contribution consolidated to Operations Loss Recovery, thus no subsidy, developer levy on vacant units and developer rates.
- 3 Catering / Healthcare Services and Levy - Proposal to terminate due to unaffordability. FY22 R1.5m - developer funded. Per LRA could be recovered if on offer.
- 5 Head Office Expense Recovery - Basic Facilities and Services per LRA. Recovery rate of R300 based on 2,000 Evergreen Lifestyle units (for current cost base). Only 50% of Head Office costs recovered - Developer is funding the deficit of R3.5m.
- 6 Insurance costs - Basic Facilities and Services per LRA. Calculation based on insurers replacement rate per m2 per dwelling type (houses, apartments, etc). Annually reviewed in July.
- 8 Salaries - Include 5% increase. Reduce number of staff.
- 9 Admin / Consulting - Re-allocation of Health & safety from Consulting fees to health and Safety in Budget.
- 10 Municipal Utilities - Increase recovery rate in budget FY23.
- 11 Security - reduction in SLA during FY22.
- 12 Village maintenance - 4.5% increase on adjusted FY22 spend. FY22 adjusted for abnormal, non routine spend.
- 13 EPI total funding FY22:

| | |
|-----------------------------|-----------------------|
| - Unsold units levies R0.3m | |
| - Loss for year R2.7m | - Loss for year R0.2m |
| TOTAL R3.0m | TOTAL R0.2m |

**EVERGREEN LIFESTYLE VILLAGE – DIEP RIVER BUDGET FY2023
HIGH LEVEL ASSUMPTIONS / METHODOLOGY**

1) **BUDGET OBJECTIVES**

- Balanced budgets
- Market related levies
- Reasonable services
- Village comparability
- Labour vs Technology

2) **HIGH LEVEL BUDGET CHANGES**

- Levy cycle period change
- No immediate levy increases
- Split expenses in two categories – Included and Excluded from LRA
- LRA cost inclusion implementation
- LRA cost recovery implementation
- Evergreen Property Investments (EPI) consolidation of contributions
- Operating surpluses to be ring-fenced
- Levy standardization

2.1) **Levy cycle period change**

Cycle change from current 1 September to 31 August period, to fall in line with financial year of 1 March to 28 February.
This represents an LRA change.

2.2) **No levy increase FY23**

Proposal to only increase levies 1 March 2023, - a 18-month relief for residents. This relief will assist with implementation of other changes proposed in the budget.

2.3) **LRA cost inclusion**

Head Office costs recovery methodology

ELV Head Office costs are to be recovered from residents as per the LRA. It is acknowledged that the current head office structure is set-up to manage a larger number of units than the current units. Therefore, the head office costs have been allocated using a 2000 units base and then apportioned to each village based on the actual current unit numbers. The calculated recovery, at R300 per unit per month, represents an under-recovery of approximately 50%, which are funded by Evergreen Property Investments (EPI). This will further reduce as more units are built and added to the greater Evergreen business.

Insurance costs recovery methodology

Building and public liability insurance costs are to be recovered from residents as per the LRA. Annually we meet with the insurance broker to determine the estimated property replacement value, on which the insurance premium is based.

2.4) **LRA cost recovery**

Healthcare and Catering services fall outside of the 'Facilities and Services' as agreed upon in the LRA. Historically these services have been erroneously allocated to the operational expenses. As a corrective action these costs will now be charged to residents on a per home basis.

2.5) **Evergreen Property Investments (EPI) consolidation of contributions**

Evergreen Property Investments (EPI) contribution consolidated to Operations Loss Recovery. The focus remains to run the Village on a profitable basis.

2.6) **Operating Surplus to be ring-fenced in "the Village"**

As it is our intention to bring this Village from a loss-making entity in to a breakeven entity. From time-to-time villages will make a profit in a financial year. As the revenue is generated from resident levies any and all profits will remain "in the village" where discussions between Rescom and Management will determine how these funds will be disbursed. Some of these ideas may include;

- Capital Enhancements to the Village
- Introduction of new technologies (Security, renewable energy)
- Rebate on levies

2.7) **Levy standardization**
Calculation of theoretical levy

Revenue consists of fixed income (resident levies) - limited to the number of units per Village. Operating costs should therefore be managed at levels below the fixed income mark. A theoretical levy calculation assisted to determine these levels. These newly determined levies form the base of all new LRA's signed effective 1 March 2022.

Treatment of the additional person levy

As part of the calculation of the theoretical levy, we extrapolated the second person levy for the total levy income and we are now showing this separate. The principle applied is that all levies quoted are for single occupancy (basic levy) and a second person levy (additional person levy) will be charged over and above

3) **MID-YEAR FORECAST**

Actual implementation dates of above might vary from Budget assumption implementation date, thus an updated mid-year forecast will be prepared.

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