The Atrium Owners Association

(Registered with the Registrar of Societies, Chennai, Registration # 144/1999)

Fiscal Management and Policies – A Whitepaper

Version 1.0, December 31, 2008

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Circulation: To Members Only

Caveat

This document is **not** to be construed as a proposal by the Managing Committee or plans of the Managing Committee. This is a 'White Paper' detailing options and scenarios for the consideration of the members of the Association so that an appropriate policy can be developed by consensus.

Financial data presented herein are orders of magnitude and reflect 'what should be', rather than 'what is'. Recipients are requested to keep this perspective and not be side-tracked by seeming errors.

Members can provide feedback to the Managing Committee on these and related subjects directly to the sub-committee members named herein or via email (taoapir@gmail.com).

1. Background

Facility Maintenance services (FMS) at The Atrium, a residential apartment complex, is currently provided through a combination of outsourced services and some limited directly managed services. CBRE is presently engaged as the outsourced facility manager (FM), and they in turn utilize a combination of direct and indirect (sub-contract) resources to provide various services at The Atrium.

2. Objective

The objective of this document is to perform an analysis of maintenance fees load on apartment owners and members of the TAOA, vs the costs of services provided. This analysis is directed towards reducing the costs of services where feasible, determining the modality by which costs reduction can happen, and examining various scenarios by which an implementation timeline can be effected.

Taking different parameters into consideration it is believed that this proposal can be adopted in FY 2009, starting April 1, 2009.

3. Service Categories

Services funded and managed by the TAOA are aimed at preserving a well maintained infrastructure and quality of life at The Atrium. They are scoped to cover ‘common areas’ only as per definition detailed in the byelaws of the association.

Broad categories under which services are currently provided are listed below:
Provided by CBRE and administered by the Managing Committee

1) Housekeeping [CBRE]
2) Security Services [CBRE]
3) Garden and Landscape Services [CBRE]
4) Water Infrastructure Management [CBRE]
5) Swimming Pool Maintenance [CBRE]
6) Electricals and Power Management [CBRE]

Directly administered by the Managing Committee [MC]

1) Elevators Maintenance and Management [Service Provider TBD]
2) Sports Complex Maintenance [Direct]
3) Secretarial and statutory affairs [Direct & retained advisors, auditor, etc]

4. Data Analysis

The methodology followed is to use current year billings and expenses as the baseline. Detailed analysis is done on certain line items. Commentaries have been provided on a few items. A set of proposals have been listed that could form the first draft of FY2009 policy.

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Baseline - Summary Income and Expenditure data table

Expenditure	Rs		Income	Rs
FM – Fee	34.15		Maintenance @ Rs 1.80 per ft^2	75.50
Electricity	6.60		Interest on deposits	1.70
Generator	3.50		Miscellaneous	1.00
Administration Expenses	3.10			
Water treatment	2.95			
General Maintenance	2.95			
Swimming Pool	2.80			
AMC charges	2.60			
Sports complex	1.20			
Lift Maintenance	0.90			
Water purchases	0.85			
Pavilion expenses	0.55			
Gardening	0.25			
Pest control	0.05			
Sub-total (revenue expenses)	62.45		Sub-total (revenue receipts)	78.20
Capex proposed at AGM	22.00		Capex to be collected	7.00
Total expenses	85.00		Total receipts	85.00

Notes:

1) All Rs are approximate and have been rounded off to lakh excepting ft^2 data
2) Calculations are based on total billable 3.5 lakh sq ft
3) Current term deposit level is Rs 18.00 lakh
4) Expenses have been ordered high to low, to better focus cost control measures
5) Capex proposed at the AGM has been taken as the key figure and not the amount passed, since the proposals reflect 'what is required'

On the face of it the table above shows a rosy picture, as expenses are significantly lower than income. However, the reality belies this picture reasons for it require to be explored and the MC is engaged in this task.

However, given this as a baseline we have explored strategies to be adopted for the future, particularly as the building ages and large chunks of our infrastructure come up for renewal. In all this a key concern is the amount members pay as service tax, for this tax is mark-up based on the amount spent (12.36% of the expense), rather than a flat fee. Thus, before we begin to discuss what future costs are likely to be and how they can be met, let us address the issue of service tax first.

5. Addressing Service Tax

This tax is levied on apartments who are billed more than Rs 3,000 per month towards maintenance charges.

107 apartments collectively pay Rs 51,264.51 per month as service tax. This translates to Rs 6.15 lakh per year.

Any increase in maintenance charges would inevitably drag more apartments into the service tax net, and, in addition nearly a month and half's worth of maintenance charges would go towards service tax.

The reality is that the only service in the true definition of the word that we receive today is the Facility Management service rendered by CBRE. Specific activities that they supervise are out-sourced by them and the Association only reimburses this cost.

Thus, if we were to bill members separately for different components, viz, as share of contribution to service charges, reimbursement of salary and consumable expenses and contribution to a 'sinking fund', then arguably the component of the maintenance charges attracting service tax would be significantly lower than Rs 3,000 per month for every apartment.

Enquiries with apartment associations in other metros show that this practice is eminently practicable and we understand that case law exists to support this practice.

6. Strategies for the future – Cost reduction

To develop strategies for the future, we would need to understand what the future is likely to be.

Given the nature of our Association, which has only costs, but no income, save, members contributions, the obvious candidate for any strategy is cost management.

The main culprits for cost are inflation and inefficiency.

In the short term, the impact of inflation is unlikely to be significant owing to the overall economic environment. This, therefore, provides an opportunity to create a revenue base through surpluses generated in current revenue income and expenditure, which over a period of time will provide an income stream to mitigate inflationary impact.

We estimate that inefficiency in our affairs contributes to 15% - 20% of our costs. This is because we do not have an effective policing mechanism:

1) For planned vs actual spends
2) To evaluate consumable consumption against rated requirements
3) To implement a preventive and predictive maintenance of our equipment

Added to this, we do not effectively use our collective bargaining ability to lower costs significantly.

One root cause for this is our system of changing MC in the middle of the financial year, and another is the the lack of an adequately empowered and trained managerial staff in the complex to be able to implement a disciplined process based system. In the absence of the latter, it falls on the MC to perform this task, for which MCs have no time.

A third, element of cost saving is by moving to equipment and devices which reduce operating expenses, such as LED lights, solar power, organic gardening and pest control, etc. However, to reap the benefit of this there would be significant upfront costs.

Annexure 1 shows the likely impact of such a scenario, were the above conditions to be ameliorated.

7. Strategies for the future – Capex expenditures

Members would have no doubt noticed that the building is beginning to show the signs of wear and tear.

Annexure 2 shows a summary of likely replacement costs for the commonly owned assets of the members over the next ten years. These are estimated to be around Rs 4.50 crores over the next ten years. Civil work costs have not been estimated and will require to be done. A detailed working sheet for this is at the Association's website.

As can be seen there are peaks and troughs of expenses coming due in the future ten year period.

The best means of evening out the impact would be to start collecting funds with this ten year horizon, by creating a 'sinking' fund from which funds can be drawn periodically to meet these expenses. As has been earlier mentioned, this is an acceptable practice and attracts no tax provision either from the individual or the Association.

8. Strategies for the future – In summary

Given the above scenarios the following are the suggestions and their likely impacts.

1. Implement cost reduction plans with the following schedule:

Financial Year	Activity	Current cost	Projected Cost	Nett Saving
2009 – 10	FM system	34.15	29.00	5.15
2010 – 11	FM system	34.15	26.00	8.15
2009 - 11	Consumption reduction	28.00	24.00	4.00

   Effectively then this could, yield a surplus revenue of Rs 12.15 lakh from FY 2010 -11 onwards

2. Add surpluses from the existing funds flow so that the corpus created by 2014 – 15 can provide for upto 30% of the maintenance cost. In today's terms this means a corpus of Rs 2.00 – Rs 2.50 crore.

3. This would imply that each year we would have to fund the corpus to the tune of Rs 40.00 lakhs.

4. Evaluate investments and plans to lower cost solutions such as solar power so that recurring and continual expenditures are further minimised.

5. Create a 'sinking' fund to fund anticipated capital expenditures and fund it systematically with a collection or Rs 1.10 per sq ft of undivided share.

9. Strategies for the future – Governance issues

The above or any strategy adopted will require significant changes in the way we manage our affairs. The most fundamental one however will to elect Managing Committees so that their terms coincide with financial years. Only this can ensure that managing committees are aligned to objectives and finances.

This can be achieved by holding an election meeting in January. The incoming committee would spend time with the incumbent committee in February and March to develop a plan for the next financial year, which can be presented to the members in late March. This presentation can even be in the form of a mailing to all members, rather than a General Body meeting. The incumbent committee then demits office on April 1 when the new committee takes over. The potential advantage of this system would be that the committee that presents the plan actually also implements it.

This will not be inconsistent with the legal framework, since the Registrar of co-operative societies only wants the accounts to be passed within six months of the end of the financial year and that all elections are held within the framework of the bye-laws of the Association.

10. Next Steps

This document is intended to be a 'white paper' for the purpose of generating a discussion.

The calendar that the Managing Committee would like to work too is as follows:

Activity	Target Date
Circulation of white paper	December 31, 2008
Feedback and consolidation of views	January 31, 2009
Finalisation of plan	February 15, 2009
General body approval for implementation	March 15, 2009
Implementation	April 1, 2009

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Annexure 1 – A possible cost reduction scenario

Note:

1. All numbers are estimates and constitute only a proposal for setting objectives.
2. All data is considered to be in early draft form
3. Requires detailed analysis of constituent line items.
4. Capex line items NOT totalled and included

This section provides a high level fiscal forecast for a two year period.

We hope it will act as a tool for all of us to understand cash flow requirements and availability for a given year and for a management team to set objectives, focus efforts on any of the areas of costs reduction, funds collection or funds management at the start of their tenure and or a fiscal year.

Please note

1) The authors of this paper fundamentally believe that a reduction in monthly maintenance charges is possible after establishing and reaching a threshold level of a 'sinking fund' and a 'corpus fund' along with selective capital investments and streamlined operations.
2) However, even as a forecast, a monthly maintenance charges of Rs 1.20 / sq ft is a very premature projection at this time and is dependent on many factors
3) Please DO NOT construe any statement in this document as a future guarantee that maintenance charges, corpus fund or generated interest income will be at a specific and definite value as shown below. The data is only indicative of what is possible were all other attendant objectives to be achieved.

Forecast for Income & Expenditure – A Potential Scenario

Expenditure	Rs		Income	Rs
Financial Year 2009 - 10				
Operational expenses	54.00		Maintenance @ Rs 1.20 per ft^2	50.40
Contingency	0.50		Interest on deposits	3.10
			Miscellaneous	1.00
Total	54.50		Total	54.50
Financial Year 2010 - 11				
Operational expenses	59.40		Maintenance @ Rs 1.20 per ft^2	50.40
Contingency	0.60		Interest on deposits	6.60
			Miscellaneous	3.00
Total	60.00		Total	54.50
Total expenses	85.00		Total receipts	85.00

Annexure 2: Anticipated Capital Expenditures for Renewal of TAOA Assets

	Likely capital expenditures falling due for renewal in financial year ending March 31 … (All figures in Rs '000)													
	R	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Capital expenditures for:															
Water Infrastructure															
Normal water production	-	230.00	-	-	230.00	-	-	230.00	-	-	230.00	-	-	230.00	
Drinking water production	-	175.00	-	-	175.00	-	-	175.00	-	-	175.00	-	-	175.00	
Storage and distribution	-	375.00	-	-	375.00	-	-	375.00	-	-	375.00	-	-	375.00	
Other water uses	-	285.00	-	-	285.00	-	-	285.00	-	-	285.00	-	-	285.00	
Sewage	-	100.00	-	-	100.00	-	-	100.00	-	-	100.00	-	-	100.00	
Amenities															
Swimming pool infrastructure	-	-	1,150.00	-	-	-	1,150.00	-	-	-	1,150.00	-	-	-	
Sports complex infrastructure	2,102.00	-	2.00	100.00	2.00	2,000.00	102.00	-	2.00	100.00	2,002.00	-	102.00	-	
Public buildings	60.03	193.70	58.53	5.70	72.03	4.20	60.03	17.70	58.53	5.70	72.03	180.20	60.03	17.70	
Temple	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Lighting and air-conditioning	17.50	175.00	-	-	-	17.50	-	-	-	-	17.50	175.00	-	-	
Civil works	-	-	-	4,540.00	-	-	-	-	-	-	4,540.00	-	-	-	
Elevators	-	-	-	-	-	-	11,200.00	-	-	-	-	-	-	-	
Generators	-	2,400.00	-	-	-	-	-	-	-	-	-	2,400.00	-	-	
Contingency	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	
Total	2,479.53	4,233.70	1,510.53	4,945.70	1,539.03	2,321.70	12,812.03	1,482.70	360.53	405.70	9,246.53	3,055.20	462.03	1,482.70	46,337.58
Cost per sq ft per annum	7.10	12.12	4.32	14.16	4.41	6.65	36.68	4.24	1.03	1.16	26.47	8.75	1.32	4.24	132.66
Cost per sq ft per month	0.59	1.01	0.36	1.18	0.37	0.55	3.06	0.35	0.09	0.10	2.21	0.73	0.11	0.35	1.11