



# CHAMPAGNE SHARE BLOCK

## NEWSLETTER NUMBER 77

10<sup>TH</sup> NOVEMBER 2022

### EXECUTIVE SUMMARY

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I'm told by owners that they can skim read this section and not fuss about the detail. Fair enough, the detail is your Board's and management's job. It's their job to get it right and your job to enjoy your holiday!

This year, after a 3.9% and 6.5% budget increase over the last two years, we have had to get our refurbishment program moving again, even if it's at a lower level than originally planned. The result is a 6.8% cost increase and a 2.1% dedicated amount towards the refurbishment plan. A tough decision that your directors felt duty bound to pass.

#### 2022 HIGHLIGHTS

- After DSTV came the Wi-Fi, which has been brought online for testing in all the chalets and is working well.
- The AGM was held on Zoom on the 28<sup>th</sup> June 2022. Your Board was re-elected.
- The 2022 Forecast is for an operating surplus of about R4.9m, and a R300k deficit after the spend on the building refurbishment and Wi-Fi projects of R5.2m for the year.
- We completed 5 units of the chalet building refurbishment program as well as the Wi-Fi.
- Inflation was well ahead of the 5% assumed and certain costs such as electricity were significantly up.
- Diesel usage also went up substantially, including a week where Eskom fixed a new main line into the valley.
- We also had unusual costs where we had to replace our main incoming electrical cable, costing us some R250k.
- The forecast reserve at year end is approximately R5.5m from R5.8m.

#### LEVY 2023 HIGHLIGHTS

- The Inflation base we have assumed is 6.5%. Administered cost pressures are rising well above this level, and with CPI currently at 7.8 % and the PPI currently at 16 %, we may end up with a higher actual figure for the year.

- With the losses insurers have had over the unrest and floods in the last 2 years, the cost and conditions of our cover are being examined. Insurance of thatch is becoming increasingly difficult- watch this space while we renegotiate.
- The budget allows for substantial savings - eg Covid PPE costs are out of the budget and rates rebates were received.
- In setting the budget the Board did not want to further compromise the refurbishment programs which have fallen behind already. The budget includes refurbishing 7 chalets and upgrading some décor.
- We're going to have to get used to this instability for a while.
- The reserve is forecast, on the above assumptions, to end the year 2023 at R5.5m.
- To keep to the timing of the refurbishment plan adopted in 2019 we would need an approximately 7.5% one-off increase this year to meet the original timing plan. The budget without the refurbishment increase is 6.8%. This would mean a 14% increase this year. In light of the difficult times, your Board chose not to apply this plan but to allow a smaller uptick so we do not fall too far behind. This should allow the chalet refurbishment program to be complete in 7-8 years from now. A balanced outcome.
- The outcome is a levy increase of 6.8% plus 2.1% for refurb, giving an 8.9 % increase.

## AND NOW THE NEWSLETTER

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Sunset from the golf club veranda – it's hard to believe that events such as Ukraine can even exist in this beautiful world we inhabit. We are so privileged to be here, but the thought intrudes on my reflections (am I allowed to make a political remark?) - it is astounding that our country cannot clearly condemn the aggressor in that dreadful war. May our mountains forever look on peace.

Talking of peace, our resort's "Peace of Mind" mantra over the Covid period has stood us in good stead, and although it feels behind us, our Covid protocols are in a box ready to be pulled out if needed. The tendency for everyone to hold back on bookings is lost in the mists of time; now the problem is, how to fit all our owners in.

At the same time this has been a difficult year for the Board and management due to the rapidly developing instability in the economy. We cannot hide from the effects as they are felt in our pockets. Balancing the needs of those owners who would like to see the refurbishment proceed at pace, and the more budget conscious of our older group, is more difficult with the higher inflation levels. Yes, even the rand depreciation has effects on imports.



## THE AGM

The AGM for the December 2021 year end was held on Zoom on 28 June 2022. The Chairman's main objective was to get the company through the Covid period whilst retaining our owner base. This was a major concern, and we came through with only some 19 weeks that needed to change hands to the warehouse account operated by our managers. Mission accomplished.

The formalities were completed with the Board re-elected and the budget approved. Management appreciates the experience and institutional knowledge that is retained. The meetings always include those of the CSRC and the CSRA – being, respectively, the Club and the not for profit entity CSRA. The Champagne Sports and Racket Club (CSRC) is a social club, a formality required as it forms part of the original documentation, and the the Champagne Sports and Raquet Association (CSRA) is our mini town planning entity, which arises from the complexities associated with Unesco and being in the approaches zone to the World Heritage site.

The Chairman noted that whilst the meeting was for 2021, the current effects of economic instability in 2022, give notice of a more difficult budget to come in 2023. On top of Covid, this has meant that with higher inflation, the timing of the rollout of the refurbishment programs are affected. This rollout was determined by the levy smoothing plan, but the Covid revenue losses absorbed our reserves and affected this timing which is thus being pushed forward. The Board considered speeding the projects up by using more of the reserves, but the company cannot be seen to fail a stress test should Covid raise its head again and we need to rely on the reserve level.

The Chairman noted that special thanks were due to the Board for getting the company through this difficult period. The hotel did well to survive, and credit is also due to Southern Sun, the owners of the hotel property, who were very co-operative and supportive. Management, with the Boards support and direction, were able to provide that financial space to give time and room to adjust to forces at work without having to resort to special levies.

## SOME DEVELOPMENT NEWS

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### BUILDING REFURBISHMENT PROGRAM

It was noted at the AGM that the progress of the building refurbishment program needed to be adjusted. The original plan had allowed for a rollout of 10 chalets per annum and a smoothed levy increase was provided for accordingly. With the reserves used over Covid, and the Wi-Fi taking precedence in 2022, the plan had to be re-prioritised once again.

A crucial point is that the building refurbishment financial plan included a smoothing effect. It was meant to have two tranches of about 7% added to the levy in 2020 and 2021. With Covid the second tranche was not applied in 2021 as there was enough on our owners' plates. Thus, with our revenue losses over Covid, and the rise in cost effects from the global instability, and with this change to our building refurbishment fund raising plan, it means we are well behind our timing on the project. The sheer extent of the changes puts a quicker refurbishment plan out of the art of the possible for the time being. Of the building refurbishment program, 5 units were completed this year. Whilst the budget was R2.6m it is forecast at R 2.8m as some components pushed costs up by some R200k. We have now completed 25 units in total so far.

Many of our owners want the refurbishments done now, even with a special levy. Management would far prefer to have the job completed as soon as possible instead of the long, drawn-out process. On the other hand, a slower rate means that we are able to continue operations without disruption, use our maintenance weeks, work mainly in the dry season and avoid big special levies with the smoothed budget.

### SOFTS REFURBISHMENT PROGRAM

Softs Refurbishment spend was held over to make space for the Wi-Fi project but will be re-assessed during the year ahead.

## INSURANCE

With the conditions of our insurance policies, we may be required to install lightning masts, a porcupine of them, which we really do not want visually. However, we are required to show a duty of care, and should these be required, we may have to meet such demands. This may also include fire retardants applied to the thatching.

## Wi-Fi & TELEPHONE SYSTEM

The Wi-Fi and telephone system are now installed and operating. The rollout was delayed by supply chain problems experienced on imports. This affected the cost and with some technical improvements may cause some R200k overrun. Our owners were very understanding at the delay which meant a lot of work in the Winter dry period with longer rehabilitation times. This involved nearly 10km of trenches being dug up in an operating environment.



# LEVY BUDGET 2023

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## FORECAST OF 2022 FINANCES

We commence with reporting on the 2022 year, to provide perspective for the 2023 budget, as we work from the interim forecast based on the September 2022 accounts. This is extensively explained below, as the inflation impacts this year were out of the ordinary and this directly impacts on the 2023 levy, as do the reserve movements from year to year as a financial balancing mechanism.

### Revenue.

Revenue for 2022 is expected to be some R360k lower than budget. This variance was highlighted by the Chairman at the AGM. While the levies for 2022 are to budget, the negative revenue variance arises from an increased level of discounts, as we had excellent collections, and as a result, lower net interest on outstanding levies which are at a high interest rate, but higher interest on cash at a lower call rate. A double-edged sword.

### Costs

Higher inflation and administered costs also affect the forecast. CPI is 2-3% higher than our base. In addition to this we have had overall cost push effects from specific cost centres that have radically increased, like diesel costs from power

outages, which are now a big cost, with an overrun in the hundreds of thousands. The company had to run generators for nearly a week while Eskom put a new line into the valley raising diesel usage as well. Electricity costs are also up with the return to full occupancy. Insurance is still a moving target but may even show a saving on budget this year, even though it may go up radically next year.

Certain unexpected, one-off large costs were incurred. A main cable required replacement after repeated damage over time, with associated transformer issues. We also had an increased risk at the water plant and had to install a double security fence. Together this was some R500k of unusual expenditure. Such costs are shared with the hotel through the estate shared cost centre. Other maintenance amounts are paid for separately by the A shares who bear their own costs.

In short, the highlights of the forecast are some R360k down on revenue, and increases in operating costs of R500k, Shared costs showed a saving, maintenance was higher as per the above, and project spends were R2.5m for Wi Fi and R2.8m for building refurbishment giving R5.3m relative to the project budgets of R5.2m.

The forecast reserve is some R5.5m ie. R300k down. It is noted that without the Wi-Fi spend, the reserve would have been R8m plus. The decision framework on controllable expenditure for 2022 was based on a projected R5.8m reserve plus project spend of R5.1m giving R10.9m to face a stress situation.

## LEVY BUDGET 2023

### Inflation.

The budget for 2021 increased by 3.9% and that for 2022 by 6.5%. This year the budget has been prepared taking into account a general inflation level of 6.5%. It could be higher as SA lags the world at this time and it may catch up as PPI feeds through into the economy. It is logical, with a cost creep of 2% on average over the budget base in 2022, that we should adjust for this as well. We hope we won't regret this low relative increase with our zero-based approach.,

### Operating costs

Some highlighted cost increases - cost pressures increasing above inflation are: insurance, electricity, and the staffing component of 7% on budget.

Insurance has been a wild card. We are covered under the HPF/Southern Sun umbrella giving us scale. One of the underwriters is insisting on fire retardant on the thatch and some 42 lightning conductor poles across the timeshare property. Apart from being unsightly, this would cost us millions to install - If only the company could self-insure. Our claim ratio has been so small over the years. Last year we assumed the first R500k of loss and achieved cover at reasonable rates. This matter is a work in progress, but it may be worthwhile to consider increasing the first claim loss.

Some savings - PPE costs are taken out of the budget. Municipal rates are lower and we hope to maintain the current rebates. Staffing costs are secure at 7% with a 3-year settlement, but with the staff quarters closed after Covid we now pay for transport.

Electricity - Eskom and Nersa are in court over the multi-year price determination, so there is unclear information on what the increase will be. Management have settled on allowing a 16.5% increase budget on budget.

Diesel for generators is expected to remain high, but at lower cost than 2022 without the long shutdown.

The Shared Costs with the hotel come in at 4.2% after the PPE savings and lower municipal rates, as well as telephone savings, but with the same pressures on electricity and fuel.

### Project costs

The main project allowances for the long-term wellbeing of the resort being LTM and the Softs Refurbishment budgets are proposed to be maintained at 6.5%, but with the Building Refurbishment budget going up by an additional R840k to extend the refurbishment plan to 7 chalets for 2023. It must be noted that the program is now well behind the original schedule pre-Covid, and with building costs well up we achieve less. Should the company be forced into putting up lightning masts, some of these amounts may need to be applied to that project.

## Revenue

On the revenue side, it is assumed that the normal discounts be used, and Interest income is proposed at R1,236k. If there are cancellations again due to another Covid wave, that will be dealt with within the cash flows by withholding project expenditures.

## Levy outcome

The resultant net increase in levies for B Shares is thus 8.9% for 2023, the fractional A Share levies are increased by 6.7%, and the externally owned A Shares are increased by the same as the B Shares at 8.9% to R1922.

The levies approved by your board are as follows:

	BASE LEVY	REFURB PORTION	TOTAL LEVY	AFTER DISCOUNT
<b>B SHARE LEVIES FOR 2023</b>				
1 BEDROOM	R 8 022.32	R 1 373.23	R 9 395.55	R 8 690.88
2 BEDROOM	R 8 957.67	R 1 533.34	R 10 491.01	R 9 704.19
3 BEDROOM	R 10 198.74	R 1 745.78	R 11 944.52	R 11 048.68
2 BEDROOM SPLIT	R 5 126.37	R 877.51	R 6 003.88	R 5 553.59
3 BEDROOM SPLIT	R 5 755.92	R 985.27	R 6 741.19	R 6 235.60
<b>FRACTIONAL A SHARE LEVIES FOR 2023</b>				
4 BEDROOM			R 16 095.95	R 14 888.75

## PAYMENT OF THE LEVY

Levies are payable by the 1<sup>st</sup> of January 2023 in order to qualify for the 7.5% discount. However, due to the December break, we allow a grace period to the 31<sup>st</sup> of January 2023. From this point, the window in which to take your discount is over and interest at 1.25% per month then applies. It is not our intention to penalize our owners, but to see that at least the specific additional costs of delayed payments, including sending out additional statements, are borne by those specific owners.

If you pay by credit card, please note that we are no longer allowed to accept card details without the card holder present. It's one of those policies adopted by the banks to lessen fraud. If you wish to pay by card, please e-mail Trudy at [shareblock@champagnesportsresort.com](mailto:shareblock@champagnesportsresort.com) or contact her at the office on 031-8153906 and she will provide you with a secure link to our online payment gateway.

If you pay by EFT, it is very important that you please include your account number as reference and send your proof of payment either by email to [shareblock@champagnesportsresort.com](mailto:shareblock@champagnesportsresort.com) or by fax to 031-7655195. As so many amounts are the same, this avoids confusion. The Share Block office in Hillcrest will be closed from the 15<sup>th</sup> of December 2022 to the 3<sup>rd</sup> of January 2023. E-mails for administrative matters will be dealt with from the 4<sup>th</sup> of January 2023.

The bank account details are as follows:

Standard Bank – Hillcrest

Account No. 250831686

Branch code 045726

## COMMENTS ABOUT THE REFURBISHMENT PROGRAM AND THE RESERVE

The Board's plan has been to delay controllable expenditure intra-year until the road is clearer, so that the reserve is managed, and a stress capability is maintained in case of further unexpected events. Remember, our company resolutions do not allow us to use debt financing. The Board has made reasonable provision for uncertainties should further difficulties come up.

Once again – the battle of the Yes's and No's – these are tough decisions. The Board had hung their hat on a helpful levy smoothing plan by spreading the project expenditure, which made perfect sense as a compromise at that stage, even though management would have preferred to speed it up.

However, the cumulation of a series of events has caused the program to be well behind. This could be resolved by a single further increase of say 7.5%. Remember that we were meant to have a second tranche of project increases in 2021 but Covid put paid to that. This would still leave us behind but at least we would be back on a quicker path.

However, here's the problem – a single large special levy can force some owners to sell. The values of timeshare in this economy are already poor, and it would be difficult with forced sales to achieve the value of the levies outstanding. It is essential to maintain our virtuous circle.

Your board will continue to stay on top of the instability at present, and the downside is a drawn-out refurbishment program. An owner suggested that there could be a program with a dual levy - those who pay up front for the whole refurb cost should get the upgraded units. Whilst understandable this could be divisive and even possibly illegal.



# OWNER MATTERS

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## THE HOTEL RENTAL POOL

The rental pool has become a difficult matter. It was envisaged to help owners in exceptional circumstances, like serious illness. It was not planned to be a dumping ground. Real life has unfortunate outcomes at times, and owners need help in a short-term situation or have a long-term disposal need to eradicate the levy commitments in their personal budgets and in our case for some to emigrate.

This service has been offered by the hotel managers and not the timeshare company and is not a long-term commitment. Please do not use this product without considering your alternatives. We will limit it to 100 weeks this year and will not accept overseas owners as, in any case, they do not occupy.

The booking calendar is attached at the end of the newsletter. It is already open for bookings so please contact Connie at the resort on 036-4688092 or e-mail [timeshare@champagnesportsresort.com](mailto:timeshare@champagnesportsresort.com) to make your bookings.

## APPEAL TO BOOK

We again appeal to owners to book early to avoid space going empty. Likewise, if you know that you will not be using your week and wish to Spacebank it for the year, please do so as early as possible and inform Connie at the resort.



## IN CONCLUSION

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May we first wish all our owners a Happy Christmas and an improved New Year. May the guns stop thundering in the Ukraine. Whilst this newsletter is primarily about practical and financial matters, it is always close to us that it is ***about the Holiday Experience!***

Do enjoy your stay when next at the resort.

With Warm Regards,

Your Managers

*CHAMPAGNE SHARE BLOCK LIMITED (REG 1956/003056/06)*

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# BOOKING CALENDAR 2023

WEEK	NTL	TVL	OFS	CP	RCI PEAK	OCC DATE		KWAZULU NATAL FSSMTWT	GAUTENG		FREE STATE FSSMTWT	WESTERN CAPE FSSMTWT		
						DAY IN	DAY OUT		NORTH PROV MPUMALANGA FSSMTWT	NORTH PROV MPUMALANGA FSSMTWT				
1	P12	P12	P12	P12	*	06-Jan	-	13-Jan	*****	*****	*****	*****		
2	HF	HF	HF	HF		13-Jan	-	20-Jan	*****			*****		
3	HF	HF	HF	HF		20-Jan	-	27-Jan						
4	HF	HF	HF	HF		27-Jan	-	03-Feb						
5	MF	MF	MF	MF		03-Feb	-	10-Feb						
6	MF	MF	MF	MF		10-Feb	-	17-Feb						
7	MF	MF	MF	MF		17-Feb	-	24-Feb						
8	MF	MF	MF	MF		24-Feb	-	03-Mar						
9	HF	HF	HF	HF		03-Mar	-	10-Mar						
10	HF	HF	HF	HF		10-Mar	-	17-Mar						
11	HF	P1	P1	HF	*	17-Mar	-	24-Mar						
12	P1	P2	P2	P1	*	24-Mar	-	31-Mar	*****	*****				
13	P2	HF	HF	P2		31-Mar	-	07-Apr	*****	*****	*****	*****		
14	HF	HF	HF	HF		07-Apr	-	14-Apr	*****	*****	*****	*****		
15	HF	HF	HF	HF		14-Apr	-	21-Apr						
16	MF	MF	MF	MF		21-Apr	-	28-Apr						
17	MF	MF	MF	MF		28-Apr	-	05-May						
18	MF	MF	MF	MF		05-May	-	12-May						
19	MF	MF	MF	MF		12-May	-	19-May						
20	MF	MF	MF	MF		19-May	-	26-May						
21	MF	MF	MF	MF		26-May	-	02-Jun						
22	MF	MF	MF	MF		02-Jun	-	09-Jun						
23	HF	HF	HF	HF		09-Jun	-	16-Jun						
24	HF	HF	HF	HF		16-Jun	-	23-Jun						
25	P3	P3	P3	P3	*	23-Jun	-	30-Jun	*****	*****	*****	*****		
26	P4	P4	P4	P4	*	30-Jun	-	07-Jul	*****	*****	*****	*****		
27	P5	P5	P5	P5	*	07-Jul	-	14-Jul	*****	*****	*****	*****		
28	HF	HF	HF	HF		14-Jul	-	21-Jul	****	****	****	****		
29	HF	HF	HF	HF		21-Jul	-	28-Jul						
30	HF	HF	HF	HF		28-Jul	-	04-Aug						
31	MF	MF	MF	MF		04-Aug	-	11-Aug						
32	MF	MF	MF	MF		11-Aug	-	18-Aug						
33	MF	MF	MF	MF		18-Aug	-	25-Aug						
34	MF	MF	MF	MF		25-Aug	-	01-Sep						
35	MF	MF	MF	MF		01-Sep	-	08-Sep						
36	MF	MF	MF	MF		08-Sep	-	15-Sep						
37	HF	HF	HF	HF		15-Sep	-	22-Sep						
38	HF	HF	HF	HF		22-Sep	-	29-Sep						
39	P6	P6	P6	P6	*	29-Sep	-	06-Oct	*****	*****	*****	*****		
40	P7	P7	P7	P7		06-Oct	-	13-Oct	****	****	****	****		
41	HF	HF	HF	HF		13-Oct	-	20-Oct						
42	HF	HF	HF	HF		20-Oct	-	27-Oct						
43	MF	MF	MF	MF		27-Oct	-	03-Nov						
44	MF	MF	MF	MF		03-Nov	-	10-Nov						
45	MF	MF	MF	MF		10-Nov	-	17-Nov						
46	MF	MF	MF	MF		17-Nov	-	24-Nov						
47	HF	HF	HF	HF		24-Nov	-	01-Dec						
48	HF	HF	HF	HF		01-Dec	-	08-Dec						
49	P8	P8	P8	P8		08-Dec	-	15-Dec	**	**	**	**		
50	P9	P9	P9	P9	*	15-Dec	-	22-Dec	*****	*****	*****	*****		
51	P10	P10	P10	P10	*	22-Dec	-	29-Dec	*****	*****	*****	*****		
52	P11	P11	P11	P11	*	29-Dec	-	05-Jan	*****	*****	*****	*****		

- 1) ALL WEEKS, BOTH MF & HF ARE RED WEEKS FOR RCI EXCHANGE PURPOSES.
- 2) THIS CALENDAR IS A FRIDAY TO FRIDAY CALENDAR.
- 3) NOTE SHOULD THE SCHOOL HOLIDAYS CHANGE THEN ANY FLEXI WEEK BOOKING WHICH IS IN PEAK SPACE AFTER ADJUSTMENTS FOR A CHANGED HOLIDAY SHALL BE CANCELLED AND SUCH OWNER WILL BE ADVISED AND WILL HAVE TO RE-BOOK.