

## **Directors Report – Poplar Dock Management Company financial year ended Sept 2006.**

The directors enclose a copy of the audited accounts for the year ended 30 September 2006. This year we have taken the opportunity to give a bit more background to how the estate is run, and where the service charges are spent.

Since the 2005 accounts were prepared, we have had changes in the board of directors, and also changed our auditors. We took the opportunity to task the new auditors with checking the accounts in more detail than normal, in order to make sure that all outstanding matters were cleared up.

This has resulted in the accounts taking longer to finalise than normal, but going forward future audited numbers will be available on a more timely basis.

### **Poplar Dock Management Company Ltd**

Poplar Dock Management Company Ltd is a company which has the sole purpose of managing the Boardwalk Estate. It is collectively owned by the leaseholders of flats / houses on the estate, each of the 408 properties owning one share. Each share is attached to each property and is sold on with any change of ownership.

The company aims to break even each year by collecting sufficient service charges to cover expenditure. It does not seek to make a profit.

The company is also required to build up a Sinking Fund to cover future Capital Expenditure. This is money set aside for major refurbishment items, such as redecoration of common areas, roof repairs, lift replacements, etc. We also have a responsibility to re-paint the two dockside cranes! The Sinking Fund monies should be put aside annually in line with a long-term maintenance plan, but it is clear that the monies allocated to the fund so far are on the light side and will need to increase, albeit only for some zones.

The Directors of the company are all owners of property on the estate, either as owner occupiers, or buy to let investors. The directors work is unpaid – they receive no remuneration, and they claim no expenses. None of the directors has any financial or commercial interest in any supplier of goods and services to the management company.

There are presently five directors, three of whom are new and were only appointed within the last 12 months. The directors stand for re-election each year at the company's AGM. It has been extremely difficult over the years to get residents to volunteer to be a director and the board would welcome anyone wishing to put themselves forward, to help spread the workload.

The day to day management of the estate is contracted out to Managing Agents.

## **Managing Agents**

The Boardwalk Estate has had 5 different Managing Agents from the first blocks opening (in 1998) to date. The first agents were appointed by the builders, and proved to be wanting in financial and/or operational control, usually both. This led to severe issues in the management of the estate historically.

In 2005 we appointed Chainbow Property Management Services Ltd. This appointment was made following a tendering process carried out by the directors, and their recommendations were voted on at a shareholders meeting. Chainbow is controlled by Roger Southam, who resides in Boardwalk Place, and who was previously a director of Poplar Dock Management Company Ltd. Mr Southam had no involvement in the tendering process, or the decision to appoint Chainbow. Upon the appointment of Chainbow, Mr Southam resigned as a director from Poplar Dock Management Company Ltd.

Since the appointment of Chainbow, the directors believe there has been a significant improvement in both the financial and operational management of the development, and we believe that these areas will continue to improve going forward.

The year ended September 2006 is the first full year under Chainbow management and whilst there have been budgeting issues, it is positive that overall costs in 2006, before sinking fund transfers, were reduced compared to 2005. This was despite the fact that more properties were handed over to new residents by the developer, and thus came into the service charge pool.

Chainbow actively encourage contact by residents. They hold quarterly meetings, open to all residents, details of which are posted on the message boards, along with contact details for the relevant people within the company. Residents are asked to report any problems or issues on the estate as they arise.

## **Service Charges**

The payment of service charges is a legally binding contract entered into by residents when purchasing property on the estate. The basis of the charge, and the method of payment, was decided by the developer and it cannot now be changed. These charges are set out in your lease.

The charges are calculated in two parts. A charge relating to the Zone in which a property is situated, and a charge relating to the running of the Estate (which covers all charges which cannot be attributed to any one Zone).

### *Zone Charges*

There are 8 Zones. Each Zone encompasses a number of properties and the Zones vary considerably in size. The smallest is Zone 1 (5 properties – the town houses) and the largest Zone 5 (134 properties being Blocks D1, D2, E and F which are the four blocks surrounding the communal garden square). All the costs incurred in a Zone (which put simply are those costs which take place within the confines of the physical building and its private grounds), are split between the properties based on a calculation which spreads the charges over the square footage of each Zone – bigger flats pay a higher share. The share each flat is liable for is laid out in the property lease.

As some Zones have relatively few flats to spread fixed costs over, identically sized flats based in different Zones will have quite marked variations in Zone Costs and thus Service Charges. Flats in small blocks may pay substantially more than flats in large blocks. This is because equipment such as lifts, door entry systems, car park gates have the same cost per installation but the cost is spread over fewer flats. Thus the fixed costs are spread over fewer flats. As an example Zone 2 has four small blocks each with their own lift / door entry system – this had c£37k in equipment maintenance charges in 2006 spread over 50 flats. Zone 5 has four large blocks with a similar number of lift and door entry systems to Zone 2. Zone 5 had c£33k in equipment costs in 2006 but spread over 134 flats. Thus a typical flat in Zone 2 will pay £750 a year for these services whereas a typical flat in Zone 5 will pay £250. In reality as these costs are spread by square footage larger flats will pick up bigger shares and smaller flats lower shares of the overall total. These figures are only for the costs of these items, not the total service charge for the flat.

### *Estate Charges*

The Estate Charges cover non Zone costs (Water, which is an estate item and not Zone specific due to the communal pipes employed at construction. Roadway and lighting maintenance are also included as well as gardens, portorage, security, etc). These costs are spread over all 408 properties on an equal basis, and are not related to property size.

### *Budgets – Service Charge Payments*

At the beginning of each financial year the Managing Agents and the Directors agree a budget which is then billed out to residents 6 monthly in advance. At the end of the financial year if there is a budget deficit or surplus the properties are then issued with a further bill / refund to balance.

The company has no borrowing facilities and requires residents to pay on time.

### *Arrears*

At the 30 Sept 06 year end some £41,240 of arrears were outstanding: most of this has since been paid, and legal action is commencing against four owners who have failed to meet their obligations under the terms of their leases.

The Managing Agents adopt a robust approach with late payers, and interest will now be charged on all overdue payments, as it is apparent that a minority of residents deliberately fail to pay on time, waiting until legal action commences before paying up. This is unfair on the vast majority of residents who pay on time, as delayed payments means planned work cannot be carried out as timetabled.

### *Historic Budgeting*

The budgets in recent years have proven to be too low, resulting in a run of catch up charges at the year end. There are various reasons for this including the mismanagement of the estate under previous Managing Agents. However in the past three years insufficient allowance has been made for new blocks opening and the costs they would incur. Repairs and maintenance increased markedly as Bellway left the estate and the budget did not allow for this. No allowance was made for the properties ageing, and non-urgent repairs were often deferred due to a lack of cash. Following a run of break-ins, and problems with local youths on the estate in 2005 / 2006 the residents voted to increase the security presence on the site. This was not budgeted for, and increased our costs. Finally substantial and well above inflation utility cost increases were not allowed for.

However now that the development is fully complete and there are good historical records, with effect from the 2007/8 budget the directors hope that the forecasts will prove relatively accurate. The aim is that the budgets billed out for the year 2007/8 will prove accurate and any final balancing charge will be small.

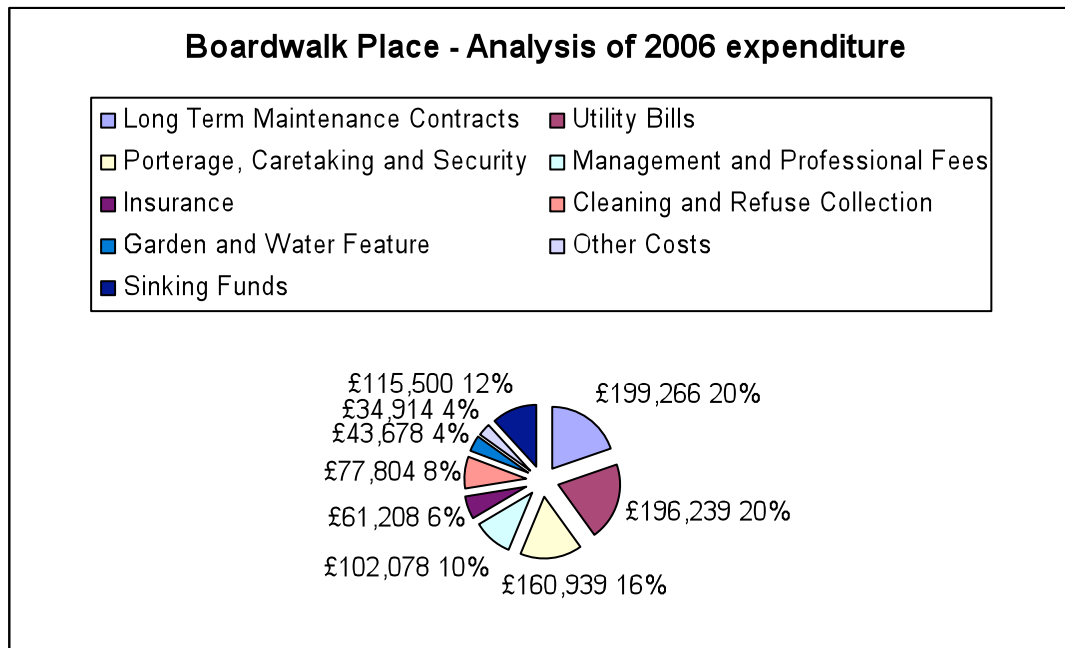
It has transpired that due to a mix-up when the Managing Agents were changed in 2005, the entries which amounted to the company deficit of £63,266 for 2003 were passed to residents in 2004 by the outgoing agents, and again in 2005 by the new agents. All the cash entries are correctly accounted for in the company's accounts and this is why an unexpected surplus arose in the 2005 audited accounts. For 2006 there is a substantial estate deficit to be passed against residents, however this will be reduced by £63,266 as the charge erroneously made in 2005 will be reversed and applied to residents statements.

## 2006 Expenses

Whilst the overall costs are broken down by each Zone / Estate and a report is supplied showing how this is made up for each area it is probably helpful to produce a consolidated report based on the whole development.

Where possible the policy is to tender all suppliers on a regular basis, and accept the best value (which is usually, but not always, the cheapest).

Costs incurred are broken down into 7 main headings:



*Note: percentages have been rounded to the nearest whole number*

### **Long Term Maintenance Contracts £199,266 (20% of total costs)**

The developer locked the Management Company into long term maintenance contracts on the lifts, door entry systems and car park gates. These are all fixed price contracts, inflation linked and run for 6 years for the lifts, and 13 years for the door entry and car park gates. Every single piece of kit has its own contract and each is dated from when the property in that block was handed over to the leaseholders.

Whilst the lift contracts are probably at market rates for individual lifts the directors believe that in the long run better pricing will be achieved by putting all lifts out as one contract. The plan therefore is to keep each lift on an annual maintenance contract as they come out of the 6 year term, and once all lifts are free of the manufacturers tie-in the position will be tendered. Lift Maintenance was £86,166 in total in 2006.

The door entry and car park gates are extremely expensive, costing £103,901 in 2006, and the directors believe that these costs are too high and alternative cheaper systems can be installed. However the 13 year contracts are unbreakable, and the supplier has not been willing to renegotiate or break the contracts other than by seeking a break cost which the directors feel unable to recommend to residents. The break fee sought was in excess of £400,000. The plan here is to revisit the situation when the first lease approaches expiry in 2011, but otherwise these will be long term costs which cannot be reduced for some considerable period of time.

Finally there was a further £13,121 spent on maintenance contracts entered into by the builders for the satellite and TV systems. Although most of these are now out of the tied time period, regular maintenance work requires to be undertaken nevertheless. The TV and satellite systems require upgrade work, which is addressed later in this report.

*Utilities £196,239 (20% of total costs)*

These comprise Water and Electricity Charges. Water is supplied on a communal basis and metered at entry to the estate. Water charges have increased as more properties were occupied but the cost has been spread over an increasing number of flats so underlying cost increases have remained in line with Thames Water tariff increases. In common with large scale flat developments the communal nature of the pipes means that individual property metering is not available from Thames Water.

Electricity costs have increased above inflation in line with the suppliers increases. The supply is tendered out to ensure best pricing.

*Porterage, Caretaking and Security £160,939 (16% of total costs)*

The provision of porterage, caretaking and 24 hour security is a key service for many residents and is in line with what is expected for a large Canary Wharf development. This service is subject to tender. In 2005, and again in 2006, at the request of residents additional security was implemented to deal with troublesome teenagers on the estate and also to provide 24 hour walk round security. This has subsequently been scaled back to reduce costs but is subject to continuous review depending on experience.

*Management and Professional Fees £102,078 (10% of total costs)*

Chainbow are remunerated on a flat fee per flat managed, and their charges are not turnover linked. The contract was awarded after competitive tender and was judged to be best value. In 2006 Chainbow charges were £83,895. This contract will go out to tender every four to five years. Changing Managing Agents has proven to be extremely disruptive each time it has occurred but in any event at the present time the directors are happy with the progress Chainbow have been making.

Audit and accountancy fees are regarded as reasonable at £6070, albeit half of this related to a change of auditors and restating the accounts under new accounting policies. We expect these to be lower in 2007.

Statutory Annual Fire Inspections and Equipment testing amounted to £9,199.

Under Health and Safety legislation the Boardwalk development is regarded as a work place (on the basis that we have porters, cleaners, maintenance staff etc, who have to work on site) and we do have to comply with ever increasing legislation the cost of which seems to increase each year at rates well above inflation. Part of our repairs and maintenance costs each year are in fact upgrades required to meet new legislation rather than straight replacement.

*Insurance £61,208 (6% of total costs)*

Insurance is arranged via the freeholder, albeit Chainbow have now insisted on being involved in the tender process. This resulted in a substantial reduction in charges in 2006 versus 2005. As Insurance premiums do vary substantially year by year, are difficult to budget, and are processed by the freeholder, this cost is billed separately to each property when known, rather than included in the overall charge.

*Cleaning + Refuse collection £77,804 (8% of total costs)*

Cleaning and refuse collection is put out to tender and in 2006 we saw a marked reduction as compared with 2005. Windows are cleaned quarterly being a compromise between the expense incurred (as specialist equipment is required) and frequency. The cleaning only covers communal area glass, inaccessible glass, and difficult to access glass (for health and safety reasons). This means mostly external surfaces of balconies, and fixed window panes. Patio Doors, internal surfaces of glass balustrades and windows with tilt and turn mechanisms are not cleaned – this is the responsibility of residents.

*Garden and Water Feature Maintenance £43,678 (4% of total costs)*

Again these requirements are regularly market tested, albeit since the present gardeners took over there has been an improvement in the garden maintenance.

*Other Costs £34,914 (4% of total costs)*

These cover various items are detailed in the report and accounts the main one being Repairs and Maintenance at £25,319.

Overall the directors believe costs are adequately controlled, and are in line with those necessary to maintain a high class private Canary Wharf residential estate

## **Sinking Fund**

The directors are required to maintain a sinking fund to cover future capital expenditure on the estate (ie major refurbishments, replacement of major equipment, major roof / fabric maintenance, etc). It is necessary to have a fully costed long-term maintenance plan, and regular contributions are made each year to the sinking fund to support meeting the costs when they are scheduled to be spent.

Historically due to the management problems on the estate no sinking fund transfers were made or billed, other than in 2004 and 2006. The sinking fund will need regular cash inputs by all zones from now on, and this will be in the annual budget. Currently, the situation will require a review of the funds attached to each Zone. It is likely that some Zones have been receiving adequate transfer rates, but others are short and will require an increase to bring them back to an adequate level. Once the 2006/7 transfers are known, this will be reviewed as part of the 2007/8 budget process.

## **Plans for the future**

2005 and 2006 have very much been years of attempting to get the financial and day to day operational management of the estate on a sounder footing. The directors believe much of this has been achieved, but this will not be fully accomplished until the 2007/8 financial year.

On the finance side service charge arrears have been much reduced. New accounting policies have been introduced whereby the financial statements will be easier to read and follow. The budget process has been completely revisited and there is a commitment to realistic budgeting going forward in order that residents have a better idea of their annual service charge outgoings at the beginning of each year. And finally after the 2007/08 budget is established at a realistic level, and now that the estate is complete and fully occupied, the aim is to see service charges in future years grow in line with inflation.

Operationally most repairs and maintenance have been caught up, including roof repairs on the F and J blocks which had been outstanding for some time. The water feature has now seen the bottom trough filled in and planted, and the fountain re-instated.

Chainbow now have a proper preventative maintenance schedule in place whereas previously many items were only dealt with on a reactive basis, after they had gone wrong.

However the directors are aware that the estate is ageing and a number of items incurring capital expenditure are required, and this has been re-inforced by the increasing number of complaints to Chainbow from residents. The following work is being planned for 2007 and 2008.

### *Lighting*

The street and estate lighting has never fully functioned properly and the developer, Bellway, has never been able to supply full wiring plans. Additionally many of the components used were not originally sourced from the UK and replacement parts have proved difficult to obtain. The blue neon strip on the central garden has been turned off following health and safety advice as the general lighting in that area is no longer up to standard. The blue neon fins along Poplar Dock are also experiencing issues.

It is intended that there will be a refurbishment of all the estate lighting which will include:

- Re-assessment of the roadway lighting and repairing / replacing the considerable number of non functioning fittings
- Upgraded lighting in the Fraser Place walkway and the Boardwalk within the Central Garden areas
- Cleaning / repair / re-instatement of the neon fins on the estate

### *TV Reception*

The older properties (ie the majority) have analogue aerials, and only Sky is available. All the equipment will require to be replaced to cope with the digital switchover, however a decision has been taken to move to new equipment in 2007/08 which will be digital, enable High Definition TV to be received and allow for Sky+ to be installed if residents require this (as opposed to the basic Sky system which is all that is available at present). This is in response to many requests from residents who are unhappy with the basic provision which now exists. This is currently under site evaluation and tender, and we will come back to you shortly with more detailed information.

### *CCTV / Security*

Whilst there has been consideration to CCTV being installed in the past, the cost has been prohibitive, as no infrastructure existed on site. However with new technology emerging, which may allow low cost installation within the Boardwalk, this is being reconsidered again.

### *Refurbishment of Communal areas in most blocks*

The communal areas should normally be refurbished every 7 years or so, but none has received any attention since the development finished. Only the most recently completed blocks can be described as being in an acceptable position, and the number of complaints from residents about the poor state of decoration, and worn out fixtures and fittings continues to increase.

The level of wear is not uniform: the first blocks to be developed (the smaller ones) generally had more spacious receptions, and much higher quality finishes and these have held up reasonably well albeit they are now tired. However the larger blocks, particularly those around the communal garden areas (D1, D2, E

and F) had poorer quality of finishes, different designs and given the very high usage are now in very poor condition.

The poor state of repair of many of the entrance halls may be having a detrimental effect on value on the properties as they are not up to the standard of most docklands developments, something which estate agents have commented upon. Doing nothing is not an option given the poor state of the existing entrances, and the directors have an obligation to meet the requirements under the leases to redecorate the communal areas in accordance with normal timescales.

The directors have taken external advice and recommendations on colour schemes / standards of finish that would be suitable for our development. It is proposed that during 2007/08 the communal areas in all blocks (other than the most recently completed M blocks) be redecorated on a rolling programme. This would begin with the worst blocks (D1, D2, E and F) and then the template rolled out to the remaining blocks immediately thereafter. The plan is that the communal areas will be updated from Bellway's 1990's designs and more aligned to the finishes and colour schemes seen on the more recent top class docklands developments. The look is intended to be simple, classic and clean, and allow for easy maintenance and last for 7 to 10 years before the next refurbishment will be due.

The directors are planning to show residents the colour boards and plans etc. at the AGM which will be held shortly but the proposals are:

- The work to be undertaken is cosmetic rather than structural to keep costs down
- Most carpets will be replaced, with high quality product used on the heavy traffic areas, and medium quality on upper floor corridors. Those floor corridors which presently have vinyl floor coverings will be upgraded to carpet. Dust mats and edgings will be replaced / upgraded.
- Robust high quality wall coverings designed to withstand heavy use will be used in communal areas with heavy traffic areas, with upper corridors repainted in matching emulsion. All woodwork will be repainted white. All ceilings will be repainted
- Handrails will be repainted with the possibility of capping with a wooden finish on the ground floors in those blocks where the stairwells are "front of house" rather than tucked away at the rear. This applies only to the D1 / D2 / E blocks as all the other blocks already have wooden handrails.
- Lighting will be upgraded and / or replaced (additional ceiling lights / wall lights) in communal areas to brighten the environment, and those light fittings which are constantly burning out will be replaced with more suitable fixtures.
- Doors which have been damaged will be replaced where necessary with new units with better protective surfaces

- Letter Box Units will be repaired / repainted as necessary – those external box units which have rusted will be replaced. It would be helpful if residents who have missing keys could make arrangements with Chainbow to sort out replacements before the refurbishments commence.
- Notice Boards will be upgraded to a better quality, enlarged and relocated in some blocks. Pictures will be introduced and fixed to the walls where required.
- General fixtures and fittings (door stops, signs, plant pots) will be replaced and upgraded
- Lift Cars in Blocks B / D1 / D2 / E / F will possibly be upgraded with new wall panels and floors to replace the present fittings and bring them up to the finishes seen in the lifts in the rest of the development.

The cost of this will vary considerably from block to block, but at present it looks like the smaller older blocks need less work (having all marble floors in communal areas and a better standard of work generally), and the more expensive work required is in the bigger blocks and will thus be spread over many more flats. It is anticipated that the most of the work can be met from sinking fund allocations but in some zones there will need to be an additional charge to residents to cover these items.

No action is needed at present and fuller information and any Section 20 notices which will be required will be served in due course.

### **Annual General Meeting**

The AGM will be held shortly, and Chainbow will be issuing the formal notices in due course.

The directors will be present, as will Chainbow and the new auditors, and we hope to see as many residents as possible.

Finally should you have any questions on the accounts or this report, these should be addressed to Chainbow in the first instance who will be happy to respond.

The Directors  
Poplar Dock Management Company Ltd  
June 2007