

# Directors' Report

Poplar Dock Management Company Ltd Financial year ended Sept 2007

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The directors enclose a copy of the audited accounts for the year ended 30 September 2007.

## **The Management Company: Background and Information**

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 and 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 legal 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 small side even though they were increased for the 2007 and 2008 financial years. A further sizeable increase will be required in the 2009 budget to start to build up funds to meet the sizeable repair and maintenance bills which are due in the next decade.

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. 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.

Anyone wishing to put themselves forward should meet two pre-conditions: (i) they should have no service charge arrears and (ii) they should not be in dispute with the Management Company, the Managing Agents or the Freeholder of the Estate. This is to ensure there are no conflicts of interest.

It would be particularly helpful to have someone with a legal background, and someone with a particular interest in the maintenance and running of the garden areas.

## **Managing Agents**

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

The Boardwalk Estate has had five different Managing Agents from the first blocks opening (in 1998) to date. The first agents were appointed by the developers, 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. Service charges were set at levels which were unrealistic and as a result the estate ran out of cash, causing a major backlog of unpaid bills, and all but essential maintenance ceased.

In 2005 Chainbow were appointed. Since the appointment of Chainbow, the directors believe there has been a significant improvement in both the financial and operational management of the development, albeit more still needs to be done particularly around refurbishment.

However the directors now feel that the finances, and repairs have largely been resolved, and the next stage is the refurbishment of the estate to take it forward and compete with the newer developments now coming onto the market in the Canary Wharf area.

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 in order that they can be dealt with quickly.

Changing Managing Agents is extremely disruptive and therefore whilst the contract will go to tender on a regular basis the intention is that agents are expected to be in place for several years, albeit there will not be a formal contract as such. The contract will be tendered again shortly.

All cash collected by the Managing Agents are held in designated Clients Accounts with NatWest Bank.

## **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).

A break down of the various Zones / Block and Flat numbers is given at the end of this report which will help you pin point where your particular flat belongs.

### ***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 - ie 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 some equipment such as lifts, door entry systems, and car park gates have the same cost per installation but the cost is spread over fewer flats.

As an example Zone 2 has four small blocks each with their own lift / door entry system - this had c£31k in equipment maintenance charges in 2007 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£40k in equipment costs in 2007 but spread over 134 flats. Thus a typical flat in Zone 2 will pay £620 a year for these services whereas a typical flat in Zone 5 will pay £300. 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.

Zone 8 is slightly different from the rest of the development, in that it was originally planned as three residential blocks (C1, C2 and C3) but blocks C2 and C3 became the Fraser Place serviced apartments. Fraser Place have taken in house all internal maintenance and suppliers. Zone 8 is now just the external sinking fund requirements for all three blocks, plus charges which apply to all

three blocks (external lights, door entry and gate systems etc). Zone 8a relates to C1 Block only and covers all internal bills.

The residents of Zone 8a exercised a Right to Manage prior to Chainbow taking over as Managing Agents, but elected to come back into the Boardwalk Management Company during 2006/7 financial year. Chainbow inherited the budgets then in place. Whilst under the previous Managing Agents this zone built up substantial arrears in electricity bills (they were just not paid) and repairs were not attended to (lift repairs and damaged fire vents amongst other items). Chainbow have rectified the situation this year but this zone has a large deficit this financial year as a result, more so than most other zones.

### ***Estate Charges***

The Estate Charges cover non Zone costs such as water supply, (which is an estate item and not Zone specific due to the communal pipes employed at construction), roadway and lighting maintenance (the road is not adopted by the council), gardens, portorage, security, cleaning, 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 six 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 directors aim to issue a budget which will be achieved in order that residents can expect no balancing bills at the end of the financial year. This policy was adopted from the Sept 2008 financial year budget.

The company has no borrowing facilities and needs residents to pay on time, otherwise we can't pay our bills as they fall due.

### ***Arrears***

At the 30 Sept 07 year end some £56,158 of arrears were outstanding, of which about half was accounted for by one owner of multiple properties who required some points over the 2006 deficit to be clarified, and who has since paid with the queries having been resolved satisfactorily: most of remaining arrears have since been paid, and arose due to the late billing out of the 2006 deficit. Legal action has commenced against a handful of owners who had not yet cleared these arrears.

The Managing Agents adopt a robust approach with late payers, and interest is 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, together with other items which were described in detail in the Directors 2006 report. (A copy of that report is available on the Chainbow web site).

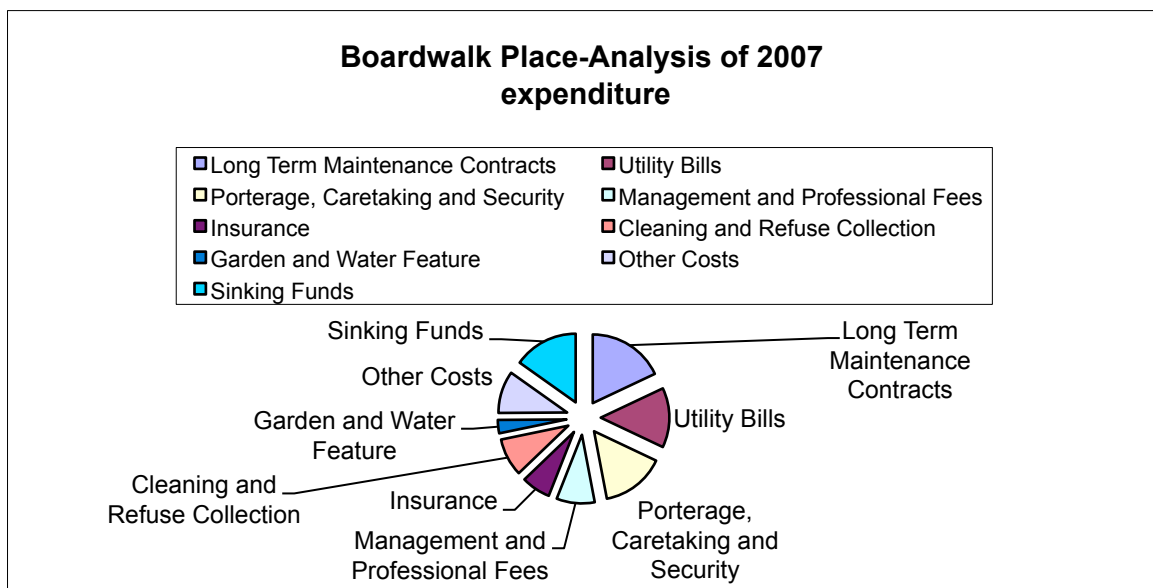
There is a deficit for the 2007 Financial year which is now being billed out. The budget for the 2008 financial year was based on the new arrangements - better forecasting leading to no deficits - and to date we are on budget.

**2007 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 more 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:



***Long Term Maintenance Contracts £184,274 (18% of total costs)***

The developer (Bellway) 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 (and in a minority of cases 18 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.

However in 2007 we managed to agree the breakage of the lift fixed contracts with Kone, at nil cost. This has enabled us to tender all the lifts on an annual basis as a package which has enabled us to reduce the cost. Lift Maintenance was c£62k (2006 - c£86k).

The door entry and car park gates are extremely expensive, costing c£115k (2006 - c£104k), and the directors believe that these costs are too high and alternative cheaper systems can be installed. However the long term 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 in 2006. The plan here is to revisit the situation when the first leases approach expiry in 2011, but otherwise these will be long term costs which cannot be reduced for some considerable period of time.

Finally there are other maintenance contracts entered in place for satellite and TV systems as well as the new CCTV systems. None are on long term maintenance contracts, all having passed their long term expiry date, and are now shown in the "Other Costs" heading.

***Utilities £143,989 (14% of total costs)***

These comprise Water and Electricity Charges. Water is supplied on a communal basis and metered at entry to the estate. 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, and we recently changed supplier.

These costs compare to £196,239 in the 2006 financial year but a lot of bills in 2006 were in fact catch up from prior years so a like for like comparison is not possible.

***Porterage, Caretaking and Security £153,378 (15% 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 annual tender. Costs dropped from 2006 (£160,939) as the provision of security personnel was reduced (it had been increased in prior years due to youths loitering on the development)

***Management and Professional Fees £91,994 (9% 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 £85,131 (2006 - £83,895).

***Insurance £70,176 (7% of total costs)***

Insurance is arranged via the freeholder, albeit Chainbow have now insisted on being involved in the tender process. 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 budget charge.

***Cleaning + Refuse collection £91,412 (8% of total costs)***

Cleaning and refuse collection is put out to tender on a regular basis. Windows are cleaned quarterly being a compromise between the expense incurred (as specialist equipment is required) and frequency. The window 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.

The cost of cleaning in 2006 was £77,804 and the increase in 2007 is due to higher specification of cleaning demanded by residents, plus much more regular jet cleaning. Cleaning is one area where we foresee increased costs in future years as residents are becoming more demanding, and after the refurbishments of communal areas, a higher specification will be put in place.

***Garden and Water Feature Maintenance £32,177 (3% of total costs)***

Again these requirements are regularly market tested. The gardeners have recently been changed at a higher cost as it is now clear the maintenance has to be upgraded to a higher standard, with substantial replanting planned over the next two years. This bill fell compared to 2006 (£43,276) as we had substantial catch up repairs in 2006 to the water feature.

### ***Other Costs £101,743 (10% of total costs)***

These cover various items and are detailed in the report and accounts, the main one being Repairs and Maintenance at £82,317 which has more than trebled compared to 2006 (£25,319). This is due to the fact that under previous managing agents almost no repairs were attended to in 2004 and 2005, and it was only as cash started to come in 2006 and 2007 in that Chainbow were able to attend to the very large backlog.

Overall the directors believe costs are adequately controlled, and are in line with those necessary to maintain an upmarket private Canary Wharf residential estate. Generally speaking we would expect the annual running costs to increase at slightly above inflation due to:

- Utility bills (electricity and water) are rising at well above general inflation and these comprise a large part of our costs;
- A substantial number of our larger bills (porterage, security, cleaning, gardening) have as their largest constituent labour costs linked roughly to the minimum wage, which is increasing at a rate slightly higher than inflation;
- Repairs and maintenance and are increasing as the estate ages, and health and safety requirements always seem to result in substantial expenditure above prior years 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;
- Increased standards demanded by residents - as new developments open and the standard of what is acceptable in an upmarket development moves with time, so Boardwalk has to improve to keep up and protect the capital values. This usually costs more.

### **Sinking Fund**

The directors are required to maintain a sinking fund to cover future capital expenditure on the estate. It is necessary to have a 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 other than in 2004, 2006 and 2007. There was no historic guidance on what the costs would be for the maintenance/capital expenditure of an estate of this size and therefore the directors had little to help them to gauge what sort of level the sinking fund transfers should be set at.

However a 10 year plan has now been drawn up, and whilst this will be subject to annual review, and estimates of bills many years out can never be that accurate, what is clear is that historic transfers have been far too low to meet the forthcoming expenses which will be required to maintain the development.

To maintain the capital values of the estate it is essential that a long term maintenance plan is funded in advance over a number of years, and whilst in the early years this was less important, as the estate heads into its second decade substantial costs loom in the ordinary course of property maintenance, and these need to have funds set aside so the work can be done on time and to a high standard.

The 10 year plan includes:

- Redecoration of painted metal work / railings / painted doors, canopies, cranes, on a roughly 5 yearly cycle;
- Redecoration of internal lobbies and common areas, new carpets etc, on a roughly 7 year cycle;
- Replacement of marble floors in common areas, as the original marble used was of low quality and is not wearing well, despite professional maintenance on a three monthly cycle. Consideration was given to replacement in some lobbies in the 2008 refurbishment, but it was financially impossible at this time. The directors are also aware that in some blocks it would be beneficial to extend the marbled areas in some ground floor areas which are presently carpeted but it was not viable economically in the 2008 refurbishment, but will be looked at as part of the longer term plan;
- Redecoration of external stucco work, renewal of powder coating on metal work and window frames, on a roughly 20 year cycle (due 2018 to 2020). With associated scaffolding works this work will be a major cost and in 2010 the directors will try and get a feel for what this would be (at 2010 costs) to ensure longer term transfers to the sinking fund will be adequate. But we are aware from some work undertaken by previous managing agents that this work alone was estimated at several hundred thousand pounds at 2005 prices;
- Replacement of door entry systems and car park entry systems between 2011 and 2018;
- Replacement / upgrading of TV Aerial equipment on a roughly 10 year cycle, with the present equipment due to be replaced later this year;
- Replacement / upgrading of CCTV equipment on a roughly 10 year cycle;
- Replacement of major lighting systems and electrical equipment plus irregular overhauls on a “as needed” basis, probably every five to ten years;
- Mid-life upgrade of lift cars and equipment on a roughly 15 year cycle, and full replacement over a 30 year cycle;

- Replacement / repair of major infrastructure (water supply / pumps / tanks) on an irregular basis. The estate water infrastructure is not maintained by Thames water as this is a private development;
- Unscheduled repairs which buildings require as they age (in 2008 we have had to spend thousands of pounds on roof repairs which were not expected, and thousands of pounds will also be spent on making safe and repairing some brick walling which is subsiding, again an unbudgeted cost);
- Resurfacing of roadways / relaying of paving / relining of waterproof membranes in garden and paved areas over underground car parks on a roughly 20 year cycle, albeit we are aware some membranes have probably failed in Zones 3 and 5 at the present time;
- Dealing with unexpected bills;
- Improvements to the estate to meet higher standards which emerge over the years for residential developments.

No ten year plan will be totally accurate, and it will change every year, but we do know that for a development the size of Boardwalk, in order to keep it maintained to high standards and a good state of repair, the expenditure over the next ten years will be measured in millions of pounds.

Because of this it is clear that the annual sinking fund transfers will need to keep rising year on year, albeit this is more marked in some Zones than others. For the 2008/2009 financial year the directors consider that the sinking fund budget will need to increase to at least £250,000, possibly £275,000 (up from £150,500 in 2007/2008 financial year), and this sum will nonetheless have to be increased above inflation for the next few years, albeit not on such a step change as will be needed in 2008/09.

We have discussed the level of sinking funds with our auditors and benchmarked against other large developments, and it is clear that typically at least an average of £750 to £1000 per flat per annum is where we need to be aiming for in the medium term, but increasing it to c£600 / £650 per flat in 2008/09 is the most we felt we could justify at this time. However we are also reliant on the 2009 sinking fund transfers to meet some of the 2008/09 refurbishments in some zones. Without this increase some zones will not be able to get any refurbishment done until 2010, which we believe will not be acceptable to residents.

In the way that service charges can vary from zone to zone quite considerably because fixed costs are spread over fewer properties, the same issue applies to sinking funds.

## **Annual General Meeting**

The AGM will be held shortly, and Chainbow will 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 2008