

# **Directors' Report July 2009**

## **Poplar Dock Management Company Ltd**

### **Financial year ended 30 Sept 2008**

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The directors enclose a copy of the audited accounts for the year ended 30 September 2008. These have taken longer to produce than planned, as we were unable to sign off the accounts until we had a final water bill for 2007/08. During 2007 the water meter failed, and Thames Water were only able to finalise the bill for the unrecorded usage in May 2009.

Overall, there is a small surplus for the year of £10,359. This is made up of surpluses from the Zones, which outweigh a small deficit on the estate. After the surpluses and deficits are passed back to residents most properties will receive a small credit, with a minority of flats seeing a small debit, due to the way the zoning system works. These balancing items will be built into the 2009/10 service charge demand as they are so small it is not cost effective to deal with them separately.

The estate deficit is caused by an unexpectedly high water bill, which was some £60,000 higher than the prior year. We had anticipated an increase and had budgeted for it, but we've since found out that the old meter was under-recording usage, so the previous year's water bills were lower than they should have been.

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

Poplar Dock Management Company Ltd is a company with the sole purpose of managing the Boardwalk Place development. 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 ever seek to make a profit, as this is not allowed by its role.

The company is also required to build up a Reserve Account to cover future Capital Expenditure. This is money set aside for major refurbishment items, such as redecoration of common areas, roof repairs, lift replacements and so on, as well as ongoing irregular repairs and maintenance. The Reserve Account monies are put aside annually in line with a long-term maintenance plan. In order to plan for this requirement, the management company has commissioned an externally audited ten-year maintenance plan to guide the directors in long term planning and ensure sufficient Reserve Account monies are being put aside each year.

The Directors of the company are owners of property on the estate, either owner-occupiers, or buy-to-let investors, with the one exception of one director who represents Fraser Place (the serviced apartment block which owns the largest number of units on the development).

The directors' work is unpaid - they receive no remuneration, and they claim no expenses. The directors aim to have no financial or commercial interest in any supplier of goods and services to the management company, but if such a possible conflict arises, two independent directors will review the situation before making a recommendation to the board.

There are presently seven 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. Please do not feel that you need to have any relevant experience in property management, a simple desire to maintain and improve our development was what prompted the existing directors to stand for election.

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.

The directors have a number of objectives to achieve, and it is a difficult job balancing all the requests / different agendas which residents have. The guiding principles the directors use are:

- The estate should be managed and maintained at a high standard reflecting the location and type of properties on the development;
- The estate should be managed in such a way to maximise and preserve the rental and capital values of the properties;
- The company should be organised on a sound financial footing, meaning proper and realistic budgeting, and adequate funding of the Reserve Account looking forward on a ten-year planning cycle;
- Value for money balanced with excellence of service is sought when tendering all contracts;
- The starting premise is that all facilities, infrastructure and services which were in place when the development opened should be maintained. Experience shows that residents' views and expectations vary widely from person to person. One resident's "unnecessary" expenditure is another resident's "essential" expenditure, and a reason why they live or invest in the development in the first place. The directors have to take every resident's views into account when deciding where to spend money and how much;
- The directors adhere to best practice guidelines for managing residential developments, and also commit to keeping residents informed about where their cash is going and why. The directors have monthly board meetings, which are formally minuted. The company's accounts are externally audited;
- Service Charges have to be controlled and kept as low as possible, but reflecting the money needed to maintain the development as outlined in the guiding principles.

As longer-term residents will know, in the early years the estate suffered from financial and operational mismanagement, with large deficits, work going undone and severe problems in the basic running of Boardwalk. Since 2005, that situation has been tackled, albeit taking longer than the directors anticipated. The long awaited internal refurbishments, anticipated to start very shortly, will see the estate improve further.

Finally in common with all large scale residential estates the development has to meet health and safety requirements of commercial work places. The testing regimes, and independent audits they entail, apply to Boardwalk, and we spend considerable sums each year on compulsory tests and remedial work to rectify test failures, as well as meeting new legislation as appropriate.

## **Managing Agents**

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

The appointment of Managing Agents is extremely important to the running of the estate, but changing agents can be very disruptive. Therefore the directors aim to retender the contract on an irregular basis, every four years or so - although the contract with the agents does allow for the directors to replace them with three months' notice, after the initial twelve month appointment.

Kinleigh Folkard and Hayward (KFH) were appointed on 1 October 2008, and the directors have been pleased with their performance to date, with agreed milestones having been met. Details of KFH can be found on their web site at [www.kfh.co.uk](http://www.kfh.co.uk)

Contact details for KFH are posted on all notice boards on the development. The easiest way to report an issue or seek guidance is to contact the staff in the Porters Lodge. The main full time staff are now direct permanent employees of the estate. KFH also hold regular residents forums, and details of future meetings will be posted on the new Boardwalk web site which will go live in August - residents will be advised of the web address shortly.

Residents will be able to contact KFH via the Boardwalk Web site, and using the web site will be the easiest way to report any repairs which need to be done.

All cash collected by the Managing Agents are held in designated Clients Accounts with Lloyds TSB 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. 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 / Blocks and Flat numbers is available on the Boardwalk web site 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 - the four blocks surrounding the communal garden square). All the costs incurred in a Zone (put simply, 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 - i.e. 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 similar running costs 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£26k in equipment maintenance charges in 2008 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£31k in equipment costs in 2008 but spread over 134 flats. Thus a typical flat in Zone 2 will pay approximately £520 a year for these services whereas a typical flat in Zone 5 will pay approximately £230. 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. This example is replicated in other costs such that flats in the bigger blocks tend to benefit from economies of scale, and thus service charges tend to be lower than identically sized flats in smaller blocks.

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 of their blocks. Zone 8 is now just the external Reserve Account 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 and Reserve Account requirements relating to that block.

### **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 & paths cleaning and maintenance, general maintenance and repairs, lighting maintenance, gardening, portorage, security, communal areas cleaning, crane maintenance, railings maintenance, etc. These costs are spread over all 408 properties on an equal basis, and are not related to property size.

As the estate is privately owned and the roadways are not adopted by the council, all roadways, pavements, dockside walkways, lighting and electrical systems, water infrastructure etc have to be maintained by the management company.

### ***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 months 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 any balancing bills at the end of the financial year to be minor. This policy was adopted from the Sept 2008 financial year budget. As said before, the accounts for that financial year which has now closed show that there was a small surplus which will be refunded to residents. However that comprises a deficit on the estate costs (caused by an unexpectedly high water bill) and a surplus on most of the Zones.

The majority of properties will see a small credit to their account but where there is a balancing debit charge it will not be a large sum. As these amounts are all small they will be processed alongside the 2009/10 service charge demands which will be sent out in August.

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

### ***Arrears***

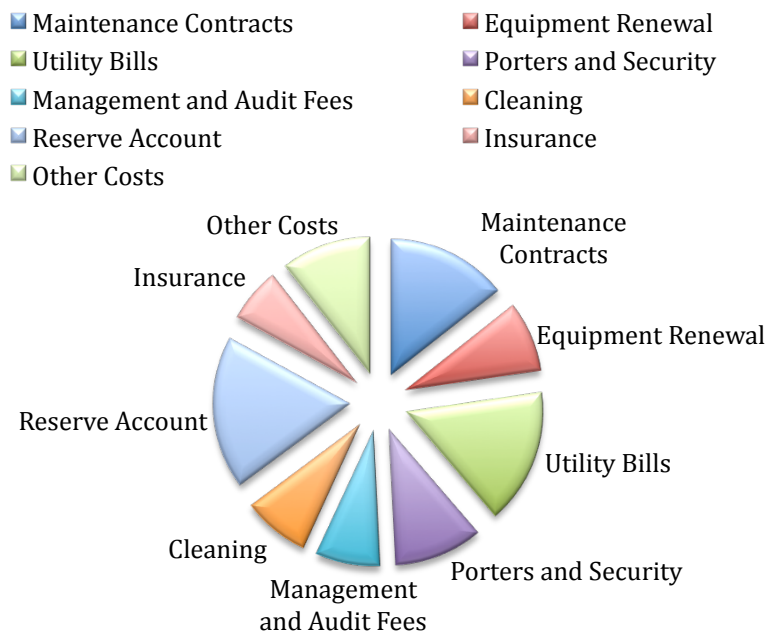
The majority of residents pay their service charges on time and this is essential to the smooth running of the estate. Arrears constitute a small percentage of overall service charges but even this low number affects the running of the estate as it results in work being delayed. At the 30 Sept 08 year end some £53k of arrears were outstanding. Most of this has since been cleared, and the rest is now in the hands of solicitors.

The Managing Agents adopt a robust approach with late payers, and interest is charged on all overdue payments, as it is apparent that a small 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.

When overdue service charges are passed to solicitors the resident is responsible for paying the legal charges in addition to the original bill.

## 2008 Expenditure

### Boardwalk Place-Analysis of 2008 expenditure



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).

There are nine main areas of expenditure:

**(i) Maintenance Contracts £180,153 (14.4% 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. The lift contracts have since expired and are now tendered annually.

The door entry / car park gates are all fixed price contracts, inflation linked and run for 13 years (and in a minority of cases 18 years). 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.

The door entry and car park gates, coupled with the associated telephone operating costs, are extremely expensive, costing c£104k pa. The directors believe that these costs are far 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 without payment of a very sizeable fee, the cost of which was just not feasible in the context of billing it out to residents. The plan here is to revisit the situation when the first contracts approach expiry in 2011, but otherwise these will be long term costs which cannot be reduced for some considerable period of time.

The overall maintenance contracts which cover lifts, door entry systems, fire equipment and communal TV amounted to £180,153 in 2008, down from £184,274 in 2007.

***(ii) Utilities £200,887 (16% of total costs)***

These comprise Water and Electricity Charges (detailed as Light and Heat in the accounts). 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, and instead residents' water usage is included in the estate charge.

As mentioned at the beginning of this report the failure of the water meter sometime in late 2007 required the installation of a new meter, and Thames Water believe that the meter was under-recording usage for some time. Our historic bills have therefore been lower than they would otherwise have been. The water bill for the year 2007/08 is £144,242 as against £84,677 for the previous year. The bill this year includes some retrospective charges for 2006/07 as well as the 2007/08 usage. We had budgeted £105,000, and this over budget cost is the main reason for the small deficit on the Estate charges.

We have undertaken a reality check on the water charges. There are 408 properties on the development, a mix of one, two and three bedroom flats. Thames Water's website advises that a property with two occupants, using an average amount of water would incur a bill of approximately £290 per annum. Assuming that the properties all average out at 2 adults =  $408 \times £290 = £118,320$ . This is in line with the annual estate charge which we expect from Thames Water for this year. As well as supplying the flats the estate also uses water for cleaning communal areas, bin stores, gardening, jet washing, the pond etc, so the numbers do look reasonable and in line with what we would expect.

Electricity costs have decreased slightly as against the prior year. The supply is tendered out to ensure best pricing.

***(iii) Porterage, Caretaking and Security £131,824 (10.5% 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 have dropped for the second successive year (prior year £153,378), due to the reduction in night security staff.

***(iv) Management and Audit Fees £95,569 (7.6% of total costs)***

The Managing Agents are remunerated on a flat fee per flat managed, and their charges are not turnover linked. These costs increased slightly over prior year (£91,994) on an agreed basis.

***(v) Insurance £81,318 (6.5% of total costs)***

Insurance is arranged via the freeholder. 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 at the beginning of each year.

***(vi) Cleaning £100,398 (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 2008 was £100,398 up from £91,412 and the increase over prior year 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.

Also included within cleaning is the removal of refuse, and there was an increase in this area, due to increased instances of furniture and electrical equipment being dumped in communal areas by residents. The council will remove items for free if contacted in advance but they will not remove any dumped items. The management company - and therefore all residents - then have to pay to get them removed. The Boardwalk website has details of how to contact the council to have items removed free of charge, and we would hope all residents would behave responsibly in this area.

***(vii) Other Costs £132,462 (10.6% of total costs)***

These cover various items and are detailed in the report and accounts, the main one being Repairs and Maintenance at £74,706.

***(viii) Equipment Renewal £105,035 (8.4% of total costs)***

2008 incurred a number of costs which would ordinarily have been covered by Reserve Account funds, but due to the inadequate provision made in previous years to the Reserve Account, some of these costs had to be charged out as part of the service charge.

The refurbishment and remodelling of the Porters Lodge (£21,508), the first money spent on it for almost a decade, and repairs to walls and ceilings in blocks due to damage which was not covered by insurance (£5,055), were met by the Reserve Account.

Replacement and refurbishment of external lighting systems including the large Poplar Dock neon lighting features as well as many other fittings (£42,685), installation of CCTV cameras and systems (£28,832) and repairs to the Lightning Conductors which failed safety inspections (£6,955). These were all budgeted for.

Additional items had been budgeted for in the 2007/08 financial year and whilst contracts were being committed to at the financial year end the sums budgeted were not spent in the 2007/08 financial year but transferred to the Reserve Account. These transfers were in addition to the already planned Reserve Account transfers.

These have been detailed separately in the accounts but briefly are:- £30,500 for the replacement of the analogue communal TV systems with digital equipment to ready the estate for the switch off of analogue signals (completed June 09), £21,400 to replace Emergency Lighting systems, which failed safety inspections (completed April 09), and £25,000 earmarked to paint and repair the estate railings (planned to start in August 09).

The new TV aerials provide digital signals, Sky and HD reception. Sky+ reception is also available at a one-off conversion cost (the receiving inlet in the flat requires special modification and equipment). The Managing Agents can provide details of the contractor who can enable this service, together with an indication of cost.

***(ix) Reserve Account Transfers £227,400 (18.1% of total costs)***

This sum was the planned £150,500 plus the additional items committed in 2008 referred to in the Equipment renewal comments above.

Overall the directors believe costs are adequately controlled, and are in line with those necessary to maintain an upmarket Canary Wharf privately owned residential estate.

## **Reserve Account**

The directors are required to maintain a Reserve Account 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 Reserve Account to support meeting the costs when they are scheduled to be spent.

Whilst a rudimentary ten year plan existed previously, the directors have recently commissioned a detailed external survey and review of the estate by a firm of surveyors. This will inform what work needs to be done and when. It brings discipline to the running of the estate and ensures that there is longer term planning as to when works will be required. It also gives an external benchmark and review to help inform what the annual Reserve Account transfers should be.

The surveyors will review this plan on an annual basis to ensure that the costs remain reasonable and that the rolling ten year plan is updated to allow for work which needs to be accelerated or could be delayed. The plan is only an indication of what works will be undertaken when; circumstances change over time.

The outcome of the first review is still being discussed with the surveyors, as a number of points and costs require clarification. However the survey has revealed a number of areas, where we will have to spend money in 2009/2010 to preserve the fabric of the building and prevent any new damage occurring.

We will provide an analysis of the Maintenance Plan for residents once the discussions with the surveyors have been finalised. We hope to make that available when we send out the Service Charge demands for 2009/2010.

## **Summary**

The directors believe much progress has been made in the past three to four years in the running and maintenance of the estate. Indeed since the September 2008 financial year end, a lot of additional work has been carried out which residents will be aware of through the newsletters which KFH send out. However the directors are more than aware that much more needs to be done, but we have to work within tight budgets, so work is scheduled according to when funds are available. In the case of the internal refurbishments, there is a complex and time-consuming formal procedure that must be followed to the letter.

These internal refurbishments are the most important item to be attended to. By the time of the AGM, we hope that the necessary statutory processes will have been completed, and we will have been able to appoint a contractor. If this has happened, we are planning for works to commence later in August or at the latest September. The works are a very large project, and will take about 30 weeks to complete, with contractors and their equipment being on site for this period. It will inevitably cause some disruption which will be unavoidable given the scale of the works, but we are sure it will be worth it.

Further works to be undertaken in 2009/10 include improvements to the external stucco work on some of the older blocks, further improvements to the gardens (including replacement of many of the trees which are diseased and dying), the rebuilding of the water tank in an attempt to tackle the repeated water leaks, the repaving of the Fraser Place stairs, improvements to the pond and fountain, (restoring it to a fresh and clean water feature as originally installed). Additionally not so visible work will be required to some of the roofs, and the repair and replacement of damaged insulation, malfunctioning drains and corroded pipework in the underground car park areas.

## **Annual General Meeting**

The AGM will be held shortly, and KFH will issue the appropriate notices. The directors will be present, as will KFH and the company's 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 KFH in the first instance who will be happy to respond.

**The Directors**  
**Poplar Dock Management Company Ltd**  
**July 2009**