

GLASGOW HARBOUR ANNUAL GENERAL MEETING 2014

HACKING AND PATERSON MANAGEMENT REPORT

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1. A New Approach

We have always viewed the Development as a Flagship property in our portfolio and were delighted that the owners have put their faith in us to enable owners and ourselves to move forward together.

We view this as an opportunity to re-energise and re-engage with the owners. It is also our aim to be as transparent as can possibly be in all matters pertaining to our management of the Development.

We are under no illusions here either and fully appreciate that the owners have expectations that will require to be met.

When your Committee advised they were going to approach the market to investigate the possibility of changing Factor, we were asked to look at our own offering to the Development. What could we do better, how could we improve communications etc.?

In this respect we found the process to be extremely positive and it allowed us to step outside the box a little.

We have recognised that a Development the size of Glasgow Harbour with all the contract services etc. in place to maintain the property requires a different approach from ourselves, a more "Facilities Management" approach.

2. Our Commitment

We want to continue to work with the owners at Glasgow Harbour and wish to be factoring the Development not in the short or even medium term but in the long term.

In our view the owners ought to be looking to the future. I will talk more about the importance of a cyclical maintenance fund later.

Hacking and Paterson are just finishing off the upgrading and refurbishment of the office in the basement car park. When complete, the refurbishment will have cost in the region of £10,000. We are happy to do this to help demonstrate our commitment to the Development. We would also hope within the next fortnight that Scott Gillespie who works directly for Hacking and Paterson will be spending either mornings or afternoons at the Development from Monday to Friday. Part of Scott's role will be to ensure that contract services such as the cleaning contractors, Development maintenance officers, window cleaning contractors etc. are all adhering fully to their specification as set out in their contracts. Scott's role will also be to ensure that all the contractors sign in and out of the Development and that invoices received for common repairs accurately reflect the time the contractors have spent at the Development.

Scott is going to say a few words shortly about his vision for the Development and what he hopes to bring to the role.

It is important to stress that having Scott located at Glasgow Harbour is an additional service that we are happy to provide to demonstrate our commitment to the owners. The cost for this will be borne by ourselves and not by the owners.

3. The Cost Of Running The Development

The cost to the collective ownership for running the Development from November 2013 to August 2014, i.e. for a full 4 quarters, was £628,000. I want to talk in some detail about the costs, hopefully so everyone will have a clearer understanding of where your money is being spent.

It is important to appreciate that in a Development of this size, there are a considerable number of services and contractors required to ensure the smooth running of the Development. These include the following:-

Service	Contractor
Development Maintenance Officer	Corps Ltd
Gardening Contract	OCS
Inspection of Common Dry Risers	Lamberts
Annual Water Tank Inspection	Writmac
Cleaning of Common Areas	Capital Cleaning
Security Cameras	Advanced Security Systems
Window Cleaning	Caledonia Cleaning
Maintenance of Smoke Vents	HF Electrical
Anchor Point Inspections	Eurosafe
Lift Service Provider	KONE
Fire Alarm Monitoring	Protech
Garage Gates	Mech Doors
Inspection of Cradles	Smith Services
Lightening Protection	Omega
Proactive Re-Lamping	Interlink
Flue Inspection	BSI
Lift Insurance	Zurich
Buildings Insurance	Allianz

Buildings insurance is the biggest single cost to the Development. Each year in April/ May, we approach a broker to go to market to establish what provider can give the most comprehensive and competitive quotation. For the period 2012/2013, the most competitive insurance company was Aviva and the total annual premium was £186,740.10. When the broker approached Aviva earlier this year, they were advised that the annual premiums would rise considerably. We were also advised by the broker that due to the two storm damage insurance claims that had occurred in recent years, the insurance company had made a loss on the policy. Furthermore, they were advocating increasing the excess for particular claims such as storm damage.

Aon the broker, subsequently recommended that the insurance company be changed from Aviva to Allianz as in their view, they offered the best value for money. On this basis they were instructed, on behalf of the collective ownership.

The Development is insured for the sum of £126,387,600.00 and the annual premium is £202,384.00 to which should be added 6% insurance premium tax, giving a total annual premium of £214,527.04.

In terms of the overall annual spend, this equates to approximately 33% of the annual spend.

As is industry standard, the insurance company will pay the broker a percentage commission for administering the policy. The broker in turn pays ourselves a fee for the administration of the policy.

We will for example, handle all common claims including liaising with Loss Adjusters and claims handlers. We will also apportion all insurance details at the point of private sale. Hacking and Paterson Management Services also guarantee the premiums for the policy and make premium prior to recouping funds from owners.

Common electricity usage accounts for 11% of the annual spend at the Development. The current electricity provider at Glasgow Harbour is Eon, with a rate of 8.63p and a standing charge of 32.72p per day. This rate is locked in until the end of 2015. We regularly approach the market to be sure that we are receiving the best rate and have in the past used the services of a company called Resolve Energy who are energy brokers for the market. The broker advised that the current rates were extremely competitive and that it would be highly unlikely that a more competitive quote could be found. The brokers have advised that it would be beneficial to lock in a new rate for 2016 and avoid the next 18 months of market movement.

We fully recognise that having a good rate is only half the battle – we have to ensure that we are using electricity wisely. Recent Developments in this area have included the reduction of the lighting in the car park basement area which should result in an electricity consumption saving. We have also, in conjunction with the Committee, installed LED lighting in the lifts and are now looking to see what scope there is for energy efficient bulbs in the rest of the Development. We have looked into this previously, however, we were advised that some of the suggestions we made were not viable. The technology for lighting is moving so fast that what was not possible a couple of years ago may now be possible. Scott has also met with an energy savings company at the Development and he can discuss in more detail later on.

Having a Development Maintenance Officer at the Development accounts for 7% of the annual spend. There is currently a contract in place with an annual value of £42,000.00 for which a Development Maintenance Officer is present at the Development from 7.00am to 7.00pm Monday to Sunday. We are of the view that the Development benefits from this level of cover, however, are discussing with the Committee the possibility of reducing hours at the weekend.

We would confirm that the Corps Ltd have written to us recently requesting a 3% increase added to their contract value. While in itself this is not an unreasonable request (there have been no increased levels in 4 years), we are of the view that the company's performance should be monitored over the next 3 months before making a decision on this.

We are of the view that the gardening contract in the sum of £1,960.00 per annum continues to represent good value for money for the collective ownership. When we obtained a crosscheck quotation it was in the sum of £3,980.00.

In addition to their regular maintenance works, we would confirm that OCS were recently instructed to supply and fit 100 additional assorted shrubs in the courtyard areas. The wooden shrub boxes were also sanded down and repainted and additional chips were supplied, along with a new perimeter upstand to keep the chips in place. We are of the view that these minor works have made a big improvement to the aesthetic appearance of the courtyard areas. The cost for the upgrade works were £2,914.98 equating to approximately £9.00 per owner.

KONE continue to be the lift service provider at the Development. The annual cost for KONE's premium maintenance agreement for the Development is £16,650.00 per annum. The maintenance plan will cover works of a minor nature that are required on the lifts, however, major works are not covered under the policy.

As owners may be aware, Zurich Insurance carry out regular inspections on the lift and forward reports to our office. We in turn forward these to KONE for their consideration.

We had a situation recently at 1 Meadowside Quay Square where Zurich reported a snag on one of the 4 ropes. Whenever one rope has to be replaced, all ropes require to be removed and fully replaced. This allows any engineer or insurance company to know the age of the ropes and know where all the ropes were sourced from.

The reason I bring this up is two-fold. In our view it took far too long for the lift to be repaired (almost 2 months). We put in a formal complaint to the company as in our view this was an unacceptable timescale for a repair to a lift. Secondly, and more importantly, the cost of replacing the ropes was £8,250 plus VAT (the ropes replaced were on the highest block within the Development and all 4 ropes required to be replaced), we did lodge an official complaint with KONE and have been advised that a credit note for £500.00 will be raised.

The lifts at the Development are just one reason why having a robust cyclical maintenance fund in place is a good idea. Again I will talk on this in more detail later on.

As owners are aware, Interlink have a contract for carrying out proactive re-lamping at the Development. The cost to the owners in the last year for re-lamping and re-testing bulbs and maintenance units etc. is £40,648.59. Clearly this is a sizeable sum and one of Scott's first priorities is to investigate options in relation to the re-lamping. As suggested earlier in the report, the introduction of further LED lighting is an option that will be considered.

At present, Interlink attend on a monthly basis. It may be that making a visit every second month will reduce the bill and it may also be possible for bulbs to be purchased to allow the concierge to carry out basic re-lamping as part of his remit. These are all options that will be explored closely over the coming months by Scott.

The windows continue to be cleaned by Caledonia Cleaning for the sum of £4,365.00 per clean.

The cleaning of the common areas continues to be carried out by Capital Cleaning. Capital have been cleaning the Development since May 2011. Initially 7 cleaners were provided including a working supervisor each Tuesday. The charge was £1.22 per resident per week giving an annual charge of £20,364.00. This was added to when a second weekend clean was arranged each Friday incorporating all entrances, lifts and basement areas. The cleaners carry out this work and there is an annual charge of £3,120 per annum. In March 2012, the cleaning of the glass in the common areas was also incorporated at an additional cost of £1,440.00 giving a total cost of £24,924.00 per annum.

We are currently discussing the possibility of dog mess disposal being incorporated into that remit as we recognise the upset that this causes at the property.

4. Our Financial Controls

Given the annual cost of running the Development, it is imperative that we maintain strict financial controls to ensure that the debt at the Development does not accrue. We have a new Debt Management Department in the office and with that, some new protocols have been introduced that have helped with the continuing improvements in this area.

All clients Direct Debits and Standing Orders etc. are now reviewed every 6 months. This means that owners who have a Direct Debit in place should always be paying broadly speaking, the correct amount. There are more ways than ever to make payment. This can be done by Direct Debit, Standing Order, over the phone and on-line. Direct Debits can also be tailored to suit owners requirements with payments being made monthly or quarterly. There is also a facility to have the full quarterly charge taken in one easy payment each quarter.

Outstanding Client Balance	£104,871.25	(57 accounts over (£600)
Charge File Balance Invoices	£ 95,940.73	
One Quarter's Premium Paid in Advance	£ 53,625.12	

Sub-Total	£254,437.20	
Less Float Held	(£248,500.00)	

Total		£ 5,937.20
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In our view this demonstrates that the float increase of 2 years ago was the correct decision to make. ($£200 \times 321 = £64,200$).

There was recently a Homeowners Housing Panel case in relation to the float increase and our decision to increase the float was fully upheld. We still operate a policy of introducing Notices of Potential Liability for Costs against properties which have bad debts. This ensures that at the point of sale we will receive any outstanding common charges and Court expenses in pursuit of the debt. Using Notices of Potential Liability for Costs means that individual debt is ring fenced to that owner and that debts are not as a matter of course distributed amongst all owners.

In previous years, the debt position has been a cause for concern. Over the last couple of years however, the debt has begun to reduce at the Development. While we cannot afford to be complacent, we are of the view that things are very much moving in the correct direction.

5. The Long Term View

As intimated earlier, taking the long term view is essential, moving forward.

As part of this, and after discussion with the Committee, we have on behalf of the collective ownership requested that Allied Surveyors carry out an inspection of the property in order that a maintenance plan can be produced by Glasgow Harbour.

Allied Surveyors would hope to have the plan finalised over the next few weeks. It is clear however from a discussion we have had with the Surveyor, that funds should be getting put in place for items such as major lift works in the future, repainting projects, structural works etc.

6. The Importance Of A Cyclical Maintenance Fund

At present, the owners are contributing £30.00 per quarter into the cyclical maintenance fund. Given that there are 321 owners, this equates to £9,630.00 per quarter or £38,520.00 per year. Funds from the cyclical fund have been used successfully this year with the repainting of the wooden railings and the cleaning down of the render. Following a tender process, Caledonia Cleaning were awarded both contracts. (I would like to thank Alan McLelland very much for his help in working with us in relation to these contracts).

A cyclical maintenance fund is essentially the Development's "piggy bank". Once the funds have been ingathered, they are ring-fenced for use at the Development. Funds are held in an interest bearing bank account in joint owners' names.

Owners selling their property are not entitled to take their contribution back as the funds are for Glasgow Harbour.

In our experience however, having a healthy fund in place will add value to the property at the point of sale. Clearly if the seller can point to say a £150,000 cyclical fund, this will install confidence in a prospective purchaser.

After discussions with the Committee, it was felt that the Development would be well served by increasing the quarterly cyclical fund contribution from £30.00 to £50.00. Whilst we recognise that this is a substantial increase, we remain firmly of the view that the Development would benefit greatly from the increase.

At present the £30.00 per quarter figure gives an annual contribution of £38,520. Raising this to £50.00 per quarter gives a new figure of £64,200. This is an increase of £25,680 per annum.

7. Introduction of Scott Gillespie

Scott has worked for the company for a considerable number of years and has an excellent understanding of what the expectations of the owners are.

I will pass you straight on to Scott.

Notes

As set out in the Deed of Conditions, the Committee step down at each A.G.M. and are then re-elected.

I understand that all the Committee wish to be reinstated, and unless there are any objections, I would propose that they are all re-elected.

On a personal note, I would like to thank the Committee for all their support over the past year. It has been greatly appreciated.