

# **Twenty Macleay Street Limited**

## **Report to Shareholders 2024**

### Overview

Since the last AGM, Twenty has made some major changes to its management and operations, outlined in this annual report. This has also led to a re-assessment of key priorities for the year ahead, along with series of recommended changes to the company's Constitution. These matters are covered in this year's report.

### Governance and Management Changes

After several years as Twenty's company secretary and manager, an amicable termination with Danielle Marchand's Company Title Management agency was arranged as Twenty sought the services of a larger and more resourceful organisation to manage the company's business affairs in the future.

A new agreement was struck with Jamesons, who took up the role in early 2024. The choice of Jamesons was influenced to some extent by the prospect of Kinen Lau returning to the role of Twenty's manager, but after Twenty signed service agreements with Jameson's, he left their employ. In the short time since, Jamesons has provided three senior managers to undertake primary carriage of Twenty's affairs, with Elysia King as our Senior Manager currently.

Ms King is also ably supported by Sashja Dyer. James Hosking, the Mosman Branch Manager has also taken a direct and active interest in ensuring Twenty's needs are being met. The Directors of Twenty have noted that Jamesons has specialist areas attending to compliance and insurance matters.

During the year, Bruce Miller informed Directors that he was no longer in a position to continue as Chairman of Twenty, owing to a range of outside commitments. Mr Miller took an active part in seeking a smooth transition and the Directors would like to place on record their deep appreciation for his service and contribution to the company.

As none of the other Directors was available to take up the vacant position, a former Chairman of Twenty, Mark McDonnell, was approached and agreed to take up a co-ordinating governance role in a consulting capacity for a modest fee. This arrangement continues and is working well.

As detailed further below, with the support of Twenty's legal advisors, Andreyev Lawyers, changes to the Constitution to enable Mark to return to the Board as an Independent Director are to be put as part of the set of Special Resolutions at this year's AGM.

### Shareholding changes

During the year, Twenty welcomed new shareholders for two of the one bedroom apartments at Twenty. Shares for unit 29 were purchased by Stephen Anderson and for unit 18 by Nicola Anthony. The relatively small turnover in the company's shares continues a trend of recent years, and is reflected in a low turnover of residents, including among rental units. Local real estate agents now refer to Twenty as "tightly held". The company also farewelled the late Mr Paul Tunnington as a joint shareholder in unit 8, with his shares transferred to the other two existing shareholders, who are part of his family.

### Priorities – Past and Present

Over the past year, the company has continued to carry out essential repairs and maintenance and supported a number of renovation applications from Members. Repairs and replacement of timber framed windows was completed as the largest building improvement project of the year, at a cost of \$56,211. Water leaks in a number of apartments required urgent plumbing attention and some associated “make good” repairs. Given the age of the building, Directors expect on-going problems with leaks and seek co-operation of Members and residents in reporting these events promptly, so that damage is minimised.

Improvements were made to the laundry on the lower ground floor, which is now cleaner, lighter and more presentable. Among the changes made, new card operated machines replaced the older, coin operated models. The company has also recently upgraded the adjoining Directors Meeting Room, which was in a poor condition and unsuited to its stated purpose. This has now been remedied at a cost of less than \$10,000. There have also been fire safety related repairs carried out and some minor electrical works.

In addition to the window project noted above, major expenses for the year included water and sewerage at \$51,711; building and related insurance premium of \$40,855; agent fees and disbursements of \$34,780; cleaning costs of \$31,500; gas and electricity of \$29,599; fire safety compliance and repairs of \$15,513; legal, accounting and consulting fees of \$15,034 and lift maintenance of \$12,385.

Total expenses for the year to 30 June 2024 amounted to \$332,104. Total revenues were \$280,360, for a deficit of over \$50,000.

In the current financial year, Directors expect costs to increase further. The company’s insurance premium has risen by more than 20% to almost \$50,000, and legal and consulting costs will also be higher, along with other cost increases associated with persistent economy wide inflation. Even with prudent cost control, it is likely that total expenses for the year ended 30 June 2025 will be in the order of \$350,000.

As levies in the past year amounted to slightly less than \$260,000, without an increase in company revenues, the financial result for the company this year is likely to be a deficit of \$90,000. The cash position of Twenty declined in the last financial year from \$529,523 to \$465,367, a decrease of \$64,156. This was a deterioration of over \$108,000 from the \$44,431 increase in the company’s cash position in the previous 2023 financial year.

Based on these results, Directors have decided to increase levies by \$90,000 a year, with the increase taking effect from 1 January 2025. This means that there is still likely to be a deficit in the current financial year of around \$45,000 to be covered by the cash savings made in prior years. With careful management of expenses, the deficit should be eliminated next financial year, when the cash balance should settle at around \$400,000.

Given these circumstances, Directors have resolved to focus on cost control as a major priority in the current year. This has begun with a detailed consideration of the company’s insurance costs, as this is one of the highest expenses we incur each year.

## Insurance

Twenty maintains a number of insurance policies. The most significant is the insurance policy for the building. Twenty's Constitution at section 9.1(5) requires the company to "effect proper and adequate insurance" and sets out some detail around the intended scope of the policy. The relevant sub-section is at the Appendix to this Report for ease of reference.

Insurance of the building is not only one of the highest recurring costs for Twenty, it is also one of the costs that is increasing at the fastest rate. For this reason alone, there is cause to re-assess the existing policy and determine whether it should be retained in its current form, or revised in certain respects to ensure better value for money.

Key questions for the company are as follows:

- As a residential strata scheme insurance policy, are the terms applicable to a company title building, or do they need to be amended or clarified?
- Is the sum insured of \$26.3 million "adequate" or is a different amount more appropriate?
- Given the history of claims and expected future calls on the insurance policy, is an excess of \$2,000 optimal, or would a higher excess that helped to reduce premiums be more cost-effective?

In order to canvass Member views on these questions, they will be raised as matters for general discussion at the forthcoming Annual General Meeting under the Agenda item 6 "Priorities for the year ahead".

To provide some context, Directors have sought legal advice on the first question relating to the applicability and suitability of the terms and conditions of the policy.

In relation to the second question, Members should note that the existing policy provides a sum insured of \$26.3 million. This is in line with the replacement cost of Twenty as estimated by QS Solutions, who were recently engaged to provide a current estimate.

However, \$26.3 million is well below the market value of the building and the QS Solutions report sets out a number of significant exclusions from their replacement cost estimation. To provide some context, the audited Financial Report for the company, accompanying this Report, shows the value of the land and buildings at the directors' valuation of \$38,079,186. This valuation has been unchanged for some years and arguably the market value of Twenty, based on recent sales data, is up to twice the sum insured.

A related concern is that the policy specifically excludes certain events which could lead to the total destruction of the building, including war and terrorism, among others. This raises a broader question as to whether the company's Constitution is realistic in seeking total cover for rebuilding in the event of the building's destruction, where certain possible causes of that destruction are not insurable.

As to the third question, there have been only 3 claims for small amounts made under Twenty's building insurance policy since 2014. Based on past practice, the policy has not been of material benefit to the company in respect of ongoing repairs and maintenance, which overwhelmingly have been funded from shareholder levies.

### Proposed Constitutional Amendments

Included with this year's Report, as a separate document, is a set of Special Resolutions, prepared by Andreyev Lawyers, in consultation with Twenty's Directors. The changes should be reasonably self explanatory, so only a few comments will be offered here. Although there are separate Special Resolutions for each section of the Constitution where changes are proposed, essentially there are three areas of concern addressed. All the proposed Special Resolutions have the support of Twenty's Directors.

The first area concerns Resolution 1, which addresses clause 1.2 of the Constitution. Currently, the statement of the company's objects does not accurately reflect the operational reality at Twenty, where a majority of apartments are leased under the *Residential Tenancies Act 2010* to third parties unrelated to Members. This situation is expected to persist indefinitely. The proposed amendment aims to align with existing provisions allowing Directors to approve third-party tenancies, thereby transferring Members' exclusive occupancy rights to designated tenants for the duration of their rental agreements.

The second area covers several Resolutions each aimed at removing references in the Constitution pertaining to the assessment of individuals' mental capacity by Directors. Our concerns encompass the qualifications required for such assessments, the potential breadth of interpretations associated with terms like "unsound mind," and the risk of unintended discrimination contrary to state or federal laws. Removing these references is intended to relieve Directors of unnecessary responsibilities and align the Constitution with standard Director obligations.

Lastly, there are a set of Resolutions allowing qualified and experienced individuals to serve as Directors of Twenty, including eligibility for the Chairman role, in a paid capacity. It is relevant to note that Independent Directors often serve on the Boards of other public companies, such as those listed on the Australian Securities Exchange. If these Resolutions are passed, Mark McDonnell will make himself available for election as an Independent Director of Twenty. He is a Fellow of the Australian Institute of Company Directors and has been a Company Director since 1989, including as Chairman of Twenty for an extended period until 2017.

### "Phase 3" Electrical works

In past Reports there has been reference to the company's electrical upgrade program, and the need for shareholders to ensure that the electrical circuits within the apartments where they have primary rights of occupancy are fully compliant with contemporary building codes and standards. This final segment of the upgrade program has been referred to as "phase 3" electrical works. On review of the company's records, it is clear that while many shareholders have supplied Certificates of Compliance of Electrical Works (CCEW), signed by licensed electricians for phase 3, there are quite a few instances where these certificates have not been lodged with the company. It is important for shareholders to know that CCEWs are legally required. Electricians must submit a CCEW under the *Gas and Electricity (Consumer Safety) Act 2017* and *Gas and Electricity (Consumer Safety) Regulation 2018*. A completed CCEW must be submitted within seven days of completing any safety and compliance test, on an electrical installation. Where CCEWs remain outstanding, the company will be in contact in coming weeks to arrange for the relevant inspections and certificates to be provided. This should ensure the phase 3 program is finally completed with all relevant documentation provided.

## Conclusion

This Report highlights the chief areas of current activity by Directors and management of Twenty. In respect of the many other matters that the company considers during the year, we can report that the company actively monitors and maintains relevant documents and certificates of compliance required by law or regulation.

11 September 2024

## Appendix

Section 9.1 (5) of the Constitution states:

The company shall....

(5) effect proper and adequate insurance in respect of the Property including an insurance policy which provides:

(a) in the event of any part of the Property being destroyed or damaged by fire, lightning, explosion or any other occurrence specified in the policy, for the rebuilding of the Property or its replacement by a similar building in the event of its destruction; and

(b) the repair of damage to, or the restoration of the damaged portion of, the Property in the event of it being damaged but not destroyed, so that in the case of destruction, every part of the rebuilt improvements or the replacement improvements and, in the case of damage, the repaired or restored portion, is in a condition no worse nor less extensive than the condition of that part or portion prior to the occurrence of the destruction or damage.

The insurance shall also cover the payment of expenses incurred and the removal of debris and the remuneration of architects and other persons whose services are necessary or incidental to the rebuilding, replacement, repair or restoration. The Company shall also effect workers' compensation insurance (if required) and public risk insurance for a cover not less than \$10 million and any other insurance required by law or approved by the Members. The Company shall not be responsible for insuring the personal chattels of an owner or occupier of a Residential Unit nor for any damage arising within a Residential Unit except where such damage is directly or indirectly the result of an act or omission on the part of the Company;