

SINKING FUND FORECASTS

UNDERSTANDING THE COMMON PROPERTY IN A STRATA SCHEME

Common property is that part of the scheme land that is not part of the lot. For legal purposes, the body corporate is deemed to be the owner and occupier of the common property. Body corporate assets are items of real or personal property acquired by the body corporate. The assets are held by the body corporate in a trust for the lot owners. The body corporate must maintain body corporate assets in good condition. A lot means the separate, distinct area (owned by each lot owner) under a plan subdivision of the property on which the complex is built.



THE TWO TYPES OF FORMAT PLANS

Standard Format Plan Body corporate responsibility:

- Maintain common property in good condition.
- Keep the structural parts in a sound condition.
- When there are dividing fences, the costs to maintain and/or replace are paid as follows:

If the fence separates a lot and common property, the lot owner and the body corporate share the costs equally.

If the fence separates a lot and public land, the body corporate pays the costs.

Building Format

Plan Body corporate responsibility:

- Maintain common property in good condition.
- Keep the structural parts in a sound condition.
- Maintain in good condition:

Boundary railings on or near the boundary of a lot and common property;

Doors, windows and fittings in a boundary wall separating lots from common property;

Roofing membranes protecting lots or common property;
Maintain in a structurally sound condition the schemes foundations, roofing and supporting framework, including load bearing walls;

Pay any maintenance or replacement costs for a dividing fence separating common property from a lot or an adjoining property.

WHAT DOES THIS ALL MEAN ?

Simply put, Sinking Fund Forecasts are regulated in Queensland by "The Body Corporate and Community Management Act 1997". At the Annual General Meeting the owners are presented with the body corporate budgets of income and expenditure to approve based on the budget and to:

- Fix the contributions that are levied.
- Set the dates for payment of the levies.



DEVELOPING THE SINKING FUND FORECAST

The following is taken into consideration when preparing a Sinking Fund Forecast.

- List all the common property

These may include letterboxes, intercom, lighting, swimming pools, pool heaters and equipment, gardens, pergolas, driveways, waterproof membranes etc.

- Estimate when repairs will be needed

Estimate when repairs will be needed.

Decide on time frame for repair work.

Review guarantee or warranty information, where available, to establish a time line for items such as repainting, automatic doors, intercoms.

- Estimate costs

Investigate cost of replacing items and future repair costs.

- Consultation

It is important that whoever is preparing the Budget that they must consult with the On-site Manager, Committee member or Body Corporate as they will have important information as to the history of the building and knowledge about future planning.

- Sinking Fund Excess

Body Corporate Manager is to be aware if the Committee has any special requirements for a minimum balance in the sinking fund.

Review the Sinking Fund levy to establish if the levy is realistic for the type of property.

Body Corporate Manager is obligated to inform the committee of the excess funds projected in the Sinking Fund, whilst at the same time coming forward with recommended options such as

- Obvious omissions.
- Reduce levies (Not recommended unless the Sinking Fund Forecast is unrealistic).
- Freeze the levy increase or total levy for a certain amount of years.
- Reduce the levies in proportion to an increase in the administration expenditure.
- Undertake whatever upgrades / renovation works required and have the Sinking Fund Forecast reviewed and strike new levies accordingly.

Sinking Fund Shortfall

- Body Corporate Manager is to be aware if the Sinking Fund is going to have a shortfall and what items are specifically attributing to the shortfall.
- Body Corporate Manager is obligated to inform the committee of the shortfall in funds projected in the sinking fund, whilst at the same time coming forward with recommended options such as:
 - Increase the levies to cover the shortfall.
 - Introduce a special levy.
 - Establish the main cost items and look at remedial options, for example painting:
 1. Establish if the building re-painting can be extended and whether as possible wash-down be utilized.
 2. Investigate the painting option where the building is painted but the payment schedule is extended over a 4/5 year period.
 3. These options could also apply to common area internal upgrades.



MAJOR LONG TERM ITEMS

The following items are deemed to have a life time overall life and are not included in the Sinking Fund.

- Lift maintenance contract. Note: Some contracts include for motor/ pulley upgrades.
 - Overhead and underground electrical cables.
 - Electrical distribution gear.
 - Air-conditioning ductwork and platforms.
 - Water/gas/fire piping.
 - Roof tiles, sarking and insulation.
- Cement screeding to floors and plastering to walls.
 - Garbage chute liners.
- Pool Structure (Excluding finishes).

THINGS TO REMEMBER

- Effective July 2009, all strata schemes are required by law to have a 10 year Sinking Fund Forecast.
- This must be reviewed at least every 5 years; however, we recommend these be reviewed every 3 years.
- The Sinking Fund is not a Bank. Do not hoard excessive amounts of Owners Contributions.
- Administration Funds and Sinking Funds cannot be transferred.
- Sinking Funds cater for capital expenditure in the current year and a reserve for anticipated major expenditure in the next 9 years.
- Administration funds cater for short terms items occurring annually or within a 12 month period e.g. annual insurance premiums, common electricity, wages, pest control, life maintenance etc.
- Use a Quantity Surveyor to prepare the Sinking Fund Forecast.

FREQUENTLY ASKED QUESTIONS

Is the replacement of windows and doors to balconies the responsibility of individual lot owners?

In Queensland, the replacement of windows and balcony doors is the lot owners' responsibility and in New South Wales it is the Owners' Corporation.

Is the maintenance of a balcony balustrade to an individual lot, the owner's responsibility? (QLD)

The maintenance of the balustrade is a body corporate responsibility. Under the Builders Units and Group Titles Act – "the body corporate duties regarding common property includes maintaining in good order and condition the protective barriers on or near the boundary" (e.g. Railings, parapets, balustrades of the lot and common property ...)

Why does the sinking fund allow for the replacement of roof water proofing after 10 or 15 years when a 20 or 25 year guarantee is given? Unfortunately the guarantee is usually a product guarantee and does not cover faulty workmanship. It is generally the workmanship that causes the membrane to fail.

Call us today on 07 5573 4011

Email us on info@seymourconsultants.com.au

Visit our website at www.seymourconsultants.com.au

