

FACT SHEET

All Bodies Corporate have two aspects of their bank account:

1. The Administrative Fund
2. The Sinking Fund

All Lot Owners must pay Annual Contributions into their Body Corporate bank account, which are set from the budget of the Administrative Fund and the Sinking Fund. The Body Corporate Manager (BCM) under their agreement or the Treasurer drafts an annual budget for both funds for anticipated expenditure for the upcoming financial year for the Committee to approve to go on the agenda for the Annual General Meeting.

The BCM refers to figures from the current and previous financial years for the preparation of the Administrative Fund, and refers to the suggested figures in the Sinking Fund Forecast when preparing the budgets for each Annual General Meeting (AGM). At the time of the AGM the Lot Owners vote on whether to accept the proposed budget, and therefore pay the contributions required to meet the budget.

The sinking fund budget must:

- Provide for necessary and reasonable expenditure from the sinking fund for the financial year
- Reserve a proportional amount to meet anticipated expenditure over at least the next nine years after the financial year in question, after taking into consideration:
 - anticipated expenditure of a capital or non-recurrent nature,
 - periodic replacement of items of a major capital nature,
 - other expenditure that should reasonably be met from capital,

- Fix the amount to be raised from contributions to cover the estimated capital amount.

While it has become commonplace to have a 'Sinking Fund Forecast' prepared by a quantity surveyor or other appropriate expert, there is no statutory requirement for such a report. Rather, it is necessary to prepare a Sinking Fund Budget which reflects an estimate of when it is likely that work will be required during a ten year period to ensure that funds are available to cover the cost of such works.

Once the budget has been determined, contributions must be set so that the necessary funds to complete the following 10 years worth of work are accumulated over the intervening years.

Most schemes require the input of an appropriate professional such as a quantity surveyor or engineer because Committee members act in a voluntary capacity and usually do not have professional engineering or construction Management skills.

A Sinking Fund Forecast evaluates the works and associated maintenance or replacement costs (due to wear and tear) needed for common areas, building elements and property infrastructure.

The aim is to keep on top of things so that members of Bodies Corporate don't end up unnecessarily paying for special (and sometimes expensive) levies to cover unforeseen repairs not allocated for. It creates a replacement budget and timeline to ensure there are sufficient funds available to adequately meet expenses of a capital nature. As its name implies, it is a *forecast* only. However, it's still an important report that Bodies Corporate should take seriously and be able to depend on for important decisions.

The Body Corporate and Community Management (Standard Module) Regulation 2008 states the following in relation to the Sinking Fund:

Part 2 Budgets
139 Budgets

(1) The body corporate must, by ordinary resolution, adopt 2 budgets for each financial year:

- the administrative fund budget
- the sinking fund budget.

Note

See section 146 (Administrative and sinking funds).

(3) The sinking fund budget must:

(a) allow for raising a reasonable capital amount both to provide for necessary and reasonable spending from the sinking fund for the financial year, and also to reserve an appropriate proportional share of amounts necessary to be accumulated to meet anticipated major expenditure over at least the next 9 years after the financial year, having regard to:

- (i) anticipated expenditure of a capital or non-recurrent nature; and
- (ii) the periodic replacement of items of a major capital nature; and
- (iii) other expenditure that should reasonably be met from capital; and

(b) fix the amount to be raised by way of contribution to cover the capital amount mentioned in paragraph (a).

Example

Painting of the common property is anticipated to be necessary in 3 years time at a cost currently estimated at \$12000. The contribution amount for the sinking fund in the budget for the financial year must therefore include the annual proportional share for painting of \$4000. Next year, the estimated cost has increased to \$12400 and so the second year levy will be \$4200.

The estimated cost in the third year is \$12800, so with the \$8200 accumulated, a levy of \$4600 is necessary to meet the cost. In larger community titles schemes, the sinking fund will have several projects being funded for various future times.

“The Committee must prepare proposed budgets for adoption by the body corporate at each Annual General Meeting”. In preparing the budget, the Committee must estimate the expenditure required over the following 10 years – in essence a forecast of the sinking fund requirements. However there is no requirement in the Standard Module that the budget be prepared by or on the basis advice provided by an external person.

Andrew Mobley, Office of the Commissioner for Body Corporate and Community Management

SOURCES

http://www.justice.qld.gov.au/_data/assets/pdf_file/0003/12864/Financial_Management.pdf (21/2/12)

<http://www.leary.com.au/Services/ServicesSF.html> (21/2/12)

http://www.qiagroup.com.au/index.php?option=com_content&task=view&id=5&Itemid=7 (21/2/12)

<http://www.austlii.edu.au/forms/search1.html?mask=au%2Fcases%2Fqld%2FQBCCMCmr%2F> (23/2/12)

Body Corporate and Community Management (Standard Module) Regulation 2008, Reprint 1F effective 30 September 2011, Chapter 7 Financial Management—Act, section 150, Part 2 Budgets, s139, pp. 125, 126

Body Corporate and Community Management (Accommodation Module) Regulation 2008, Reprint 1F effective 30 September 2011, Chapter 7 Financial Management—Act, section 150, Part 2 Budgets, s137, pp. 122, 123

Body Corporate and Community Management (Commercial Module) Regulation 2008, Reprint 1F effective 30 September 2011, Chapter 7 Financial Management—Act, section 150, Part 2 Budgets, s98, pp. 87, 88

Body Corporate and Community Management (Small Schemes Module) Regulation 2008, Reprint 1F effective 30 September 2011, Chapter 7 Financial Management—Act, section 150, Part 2 Budgets, s73, pp. 58, 59

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