

Why sectional title schemes need a 10-year plan

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According to the Sectional Title Schemes Management Act (STSMA), a 10-year maintenance, repair and replacement plan for major capital assets must be presented at the annual general meeting for approval by the members of the body corporate.



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What is the real benefit of planning maintenance so far in advance?

In short, planned regular maintenance allows for both time and finances to be managed more effectively. Carrying out maintenance regularly becomes less onerous and, by spreading out costs more evenly over time, preventative maintenance is more cost-effective in the long term than last-minute repairs.

The objective of planned maintenance is to favour the body corporate's financial position and reduce the need for special levies. This, in turn, means that a financially sound body corporate favours the value of your unit. To ensure that your life investment is safeguarded at all times, the body corporate's 10-year maintenance plan must be adjusted and updated regularly in accordance with actual income and expenditure.

Reserve fund planning

The purpose behind the reserve fund is to set aside financial resources for the planned maintenance, repair and replacement of major capital assets.

If a cost item adds value to capital assets, extends their useful life or prevents their deterioration, such an expenditure will typically be allocated to the reserve fund. The following can be considered as reserve fund expenditure:

- Exterior painting,
- Waterproofing,
- Roof replacement,
- Security system upgrades,
- Driveway renovations,
- Modernising elevator cabs, and
- Upgrading to energy-efficient lighting.

The reserve fund is replenished with monthly levy contributions and interest earned on the account. The minimum annual reserve fund contribution is determined by the ratio between the previous financial year's reserve fund balance and total admin fund contribution.

If the funds available are insufficient for the required maintenance, they can be supplemented by either raising a special levy or obtaining a bridging loan. A concise cashflow forecast will help the body corporate avoid these undesirable supplementary contributions - this is achieved by actively utilising the 10-year maintenance plan.

Admin fund planning

The administrative fund is used to pay for operational expenses and routine maintenance activities that keep assets in good working order.

Routine maintenance, required on a frequent or ongoing basis, includes the following examples:

- Replacing a light bulb,
- Fixing a leaking tap,
- Repairing a faulty gate motor,
- Cleaning the pool,
- Gardening services, and
- Elevator maintenance.

Budgeting for the admin fund is an essential step towards maintaining control of a body corporate's expenses. By combining the 10-year cashflow forecasts of both the reserve fund and the admin fund, a body corporate will be in complete control of its financial wellbeing.

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