

## *Managing property properly*

### **Budgeting tips for sectional title schemes**

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**Trustees of sectional title schemes should consider these useful tips when structuring the scheme's annual budget for the year ahead.**

With most sectional title schemes nearing the end of their financial year (many run from the 1 March to the last day of February), the need arises to go through budgets very carefully for the year ahead and to determine the increase in levies with allowance given to the new requirements as set out in the Sectional Title Schemes Management Act, which came into effect on 7th October 2016, says Mandi Hanekom, operations manager for the sectional title finance company Propell.

All sectional title schemes must now have a reserve fund as well as their administrative fund – and provisions should have been made to budget for these two amounts. The reserve fund, per the STSMA, should be approximately 25% of the contributions to the scheme's administrative fund for that year, and levies will need to be increased to allow for this fund to be established - if it hasn't already been done. In addition to these two funds, the monthly Community Schemes Ombud Service levy (which is on a sliding scale according to levy amounts and can be downloaded from [www.propell.co.za/sectional-title-finance/documentation](http://www.propell.co.za/sectional-title-finance/documentation)) must also be budgeted for.

Another aspect of budgeting for the coming year should be to assess how many of the scheme's owners pay their levies on time and what percentage is in arrears, and to make the necessary contingency arrangements to help compensate for the non-payers. This is sometimes a mistake that trustees make in their budgets, in assuming that all the owners pay their levies in full and on time..

In establishing a budget for the year, the trustees should go through the financials of the previous three to five years as well as the maintenance carried out on the building. This will then assist in planning for upcoming maintenance expenses and track the income versus expenditure estimated for the coming year. The need for a written ten year maintenance plan, as set out in the STSMA, makes this report very important, as this will show where the shortfalls are in the funds available

When determining what the income and expenditure of the sectional title scheme might be, it's advisable to treat it as one would a business, she said. Consider what the bills could come to if they increased significantly at some point during the year (it is expected, for example, that electricity costs will increase as well as water costs) and what that would do to the cash flow. A budget should also differentiate between normal levy income, special levy income and other sources, if any.

Expenses can mount up quickly in sectional title schemes and the better prepared the body corporate is in breaking down the financial planning as much as possible, the better they will be at managing the financial health of the scheme, said Hanekom.