

Managing property properly

Reserve Funds – What You Need to Know

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Once the Sectional Titles Schemes Management Act comes into force Reserve Funds for bodies corporate will be mandatory and the Minister will prescribe mandatory minimum amounts...

This means that the lax attitude most bodies corporate in South Africa have been taking towards reserve funds will no longer be an option.

We need to know about Reserve Funds and Reserve Planning. This post hopes to help get you started!

What is a Reserve Fund?

It is a fund set up by the body corporate to cover the costs of future capital expenses such as painting the building, driveway refurbishment, replacement of common property items like carpets, roofing, guttering, lifts and so on.

What is a Reserve Fund Plan?

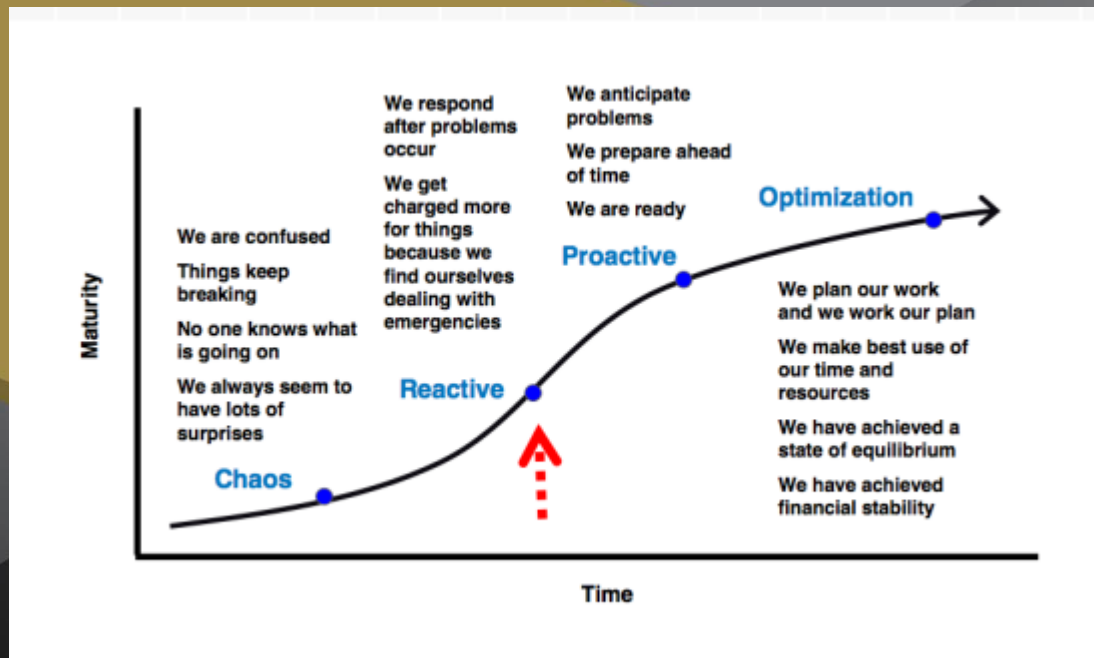
A long-range financial planning tool that provides a funding plan to offset the anticipated costs of repairs to and replacement of common property assets.

Translation: It's a report that tells the BC-

- What common property assets it owns
- When these need to be repaired and replaced
- A realistic estimate of what the repairs and replacement will cost
- How this money should be raised

What's the Purpose of Having a Reserve Fund and a Reserve Fund Plan

- To keep the market value of the units in the scheme up
- Regular reserve fund contributions = fewer special levies: This proactive approach means owners understand their regular liabilities and when they occur rather than nasty surprises when the BC is react to an unplanned major expense.



Developing a Reserve Fund Plan

In the sectional title industry overseas there are companies that specialize in doing professional Reserve Fund Plans for sectional title schemes. In South Africa there may be companies that offer a similar service but it is also possible for the trustees, with the help of their managing agent if they have one, to put a Reserve Fund Plan together themselves. **Here's how:**

Step 1: Make a List of all Common Property Assets

Put together a comprehensive list of all common property assets which included: fences, driveways, paving, letterboxes, intercom, plumbing system, lighting, outer-walls of the building, roofs, gardens, swimming pool, lifts, passages and so on.

Step 2: Estimate When Repairs Will Be Needed (How Long Do Things Last?)

Decide on a time-frame for repair work and replacement of items. Long-term owners or a managing agent that has been looking after the scheme for many years may know from previous experience how often repairs and replacement of certain items are needed. Guarantees from previous contractors may also assist, for example if the company that last painted the building gave a 5 year guarantee you can assume repainting will be needed 5 years from the date the building was last painted. Warranty statements or service plans may help you estimate the working life of items such as automated garage doors, communal washing machines and lawnmowers.

Step 3: Estimate Costs

Investigate the costs of repairing and replacing common property items. To obtain relatively accurate estimate costs we suggest you take inflation into account and obtain current quotes, talk to tradesmen, refer to service plans, previous quotes and invoices.

Step 4: Plan to Raise the Money Required

Once you've figured out how much money the BC needs to raise for the common property assets create a time line and figure out what allocation to the reserve fund is necessary. These amounts should then be included in the proposed budgets for the coming years as and when those budgets are drawn up.