your guide to BODY CORPORATE LEVIES & BUDGETS

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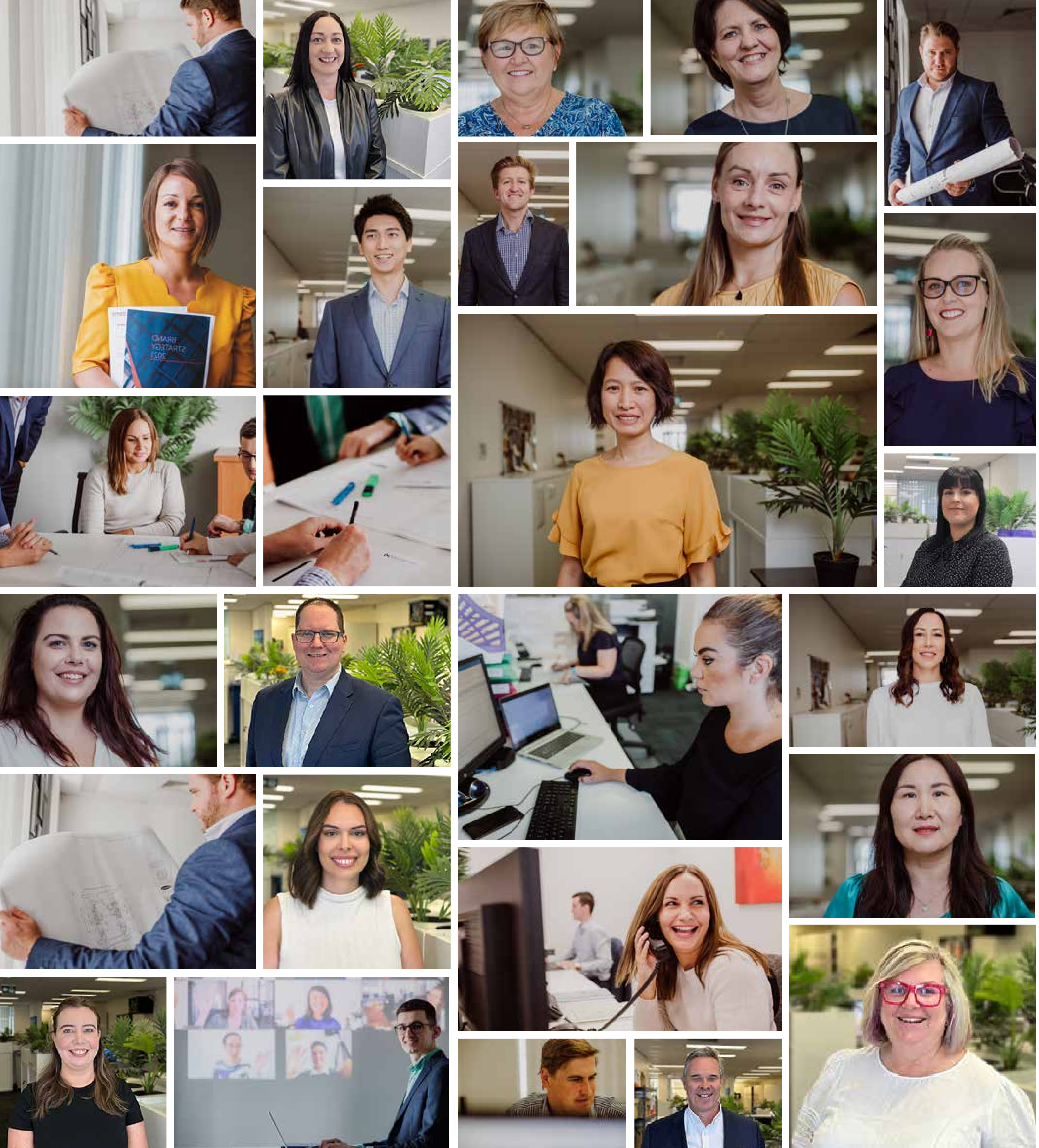

about THIS GUIDE

Welcome to our comprehensive guide to **Body Corporate Budgets and Levies**. Whether you're a seasoned owner, a first-time buyer, or a committee member, navigating the complexities of body corporate finances can be daunting.

This e-book will equip you with the knowledge and tools you need to understand the financial obligations and processes within your body corporate.

the basics of BUDGETING

Each financial year, the body corporate is obligated to prepare budgets for both the **administrative fund** and the **sinking fund**. These serve as financial roadmaps, outlining the projected income and anticipated expenditure for the body corporate's financial year.

They are usually prepared by the committee - with the help of the body corporate manager, and provided to each owner to consider at the annual general meeting (AGM). **The budget can be approved by ordinary resolution** - a vote by all owners with the majority of yes votes passing the motion.

When approved, **the budget directly influences the amount each owner contributes to the body corporate via levy payments**. These payments are typically calculated by the unit entitlements of each owner, reflecting their proportional share of ownership in the property.

CELEBRATING 30 YEARS *in strata* EST. 1994

understanding THE ADMINISTRATIVE FUND

The **administrative fund pays for the annual operating costs of the body corporate.** Think of this as a 'running costs' fund, including things like:

- The building manager or caretaker
- Insurance
- Electricity for the common property
- Grounds maintenance
- Water for the common property
- Minor repairs and maintenance
- Tax
- Legal costs
- The body corporate manager

preparing the ADMINISTRATIVE FUND BUDGET

The administrative fund budget is **set by the body corporate committee, in conjunction with the body corporate manager**, and based on the projected operating costs for the coming year.

As it is not a savings fund, the administrative fund budget generally does not include costs beyond the current financial year, and each expense is based on either an ongoing cost arrangement or a proposal to spend money.

To finalise the administrative fund budget a body corporate must also consider the closing balance from the previous financial year and the total cost of all budgeted expenses for the next financial year. **The goal is for the administrative fund balance to end as close to nil as possible each financial year.**

Watch our video to learn more about the sinking and administrative funds.

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understanding THE SINKING FUND

The sinking fund is the body corporate's long-term savings fund. Owners pay an ongoing contribution via levies towards the future cost of repairing or upgrading major components within the building and common property.

The sinking fund pays for things like:

- Painting the exterior of the building
- Replacing the roof
- Resurfacing the pool
- Replacing or upgrading the lift
- Purchasing new equipment for the gym

preparing the SINKING FUND BUDGET

To create the sinking fund budget, **the body corporate requires a sinking fund forecast**. This document is independently prepared by a quantity surveyor and must show the current year as well as nine subsequent years of capital expenses. Most reports are forecast over a fifteen year period, meaning they need to be updated every five years.

The report takes into consideration:

- the future cost of each item
- the remaining life span of the existing ones
- the total annual levy amount required the necessary savings target

The **goal of the sinking fund budget** is to allow the body corporate to pay for all capital improvements and replacements as they become due, without the need to drastically increase levies, take out a strata loan, or issue a special levy to owners.

THE IMPORTANCE OF THE SINKING FUND

A sinking fund is essential for property upkeep, ensuring funds are allocated for major repairs and replacements to maintain its condition.

what are LEVIES?

Body corporate contributions, generally called levies, are the **payments made by all lot owners towards the maintenance and upkeep of the common property, and the ongoing operation of the body corporate.**

All lot owners must pay annual levies into a separate bank account in the name of the body corporate. These funds are under the control of the body corporate committee, not the body corporate manager.

There are three types of levies payable:

- Administrative fund levy
- Sinking fund levy
- Insurance fund levy

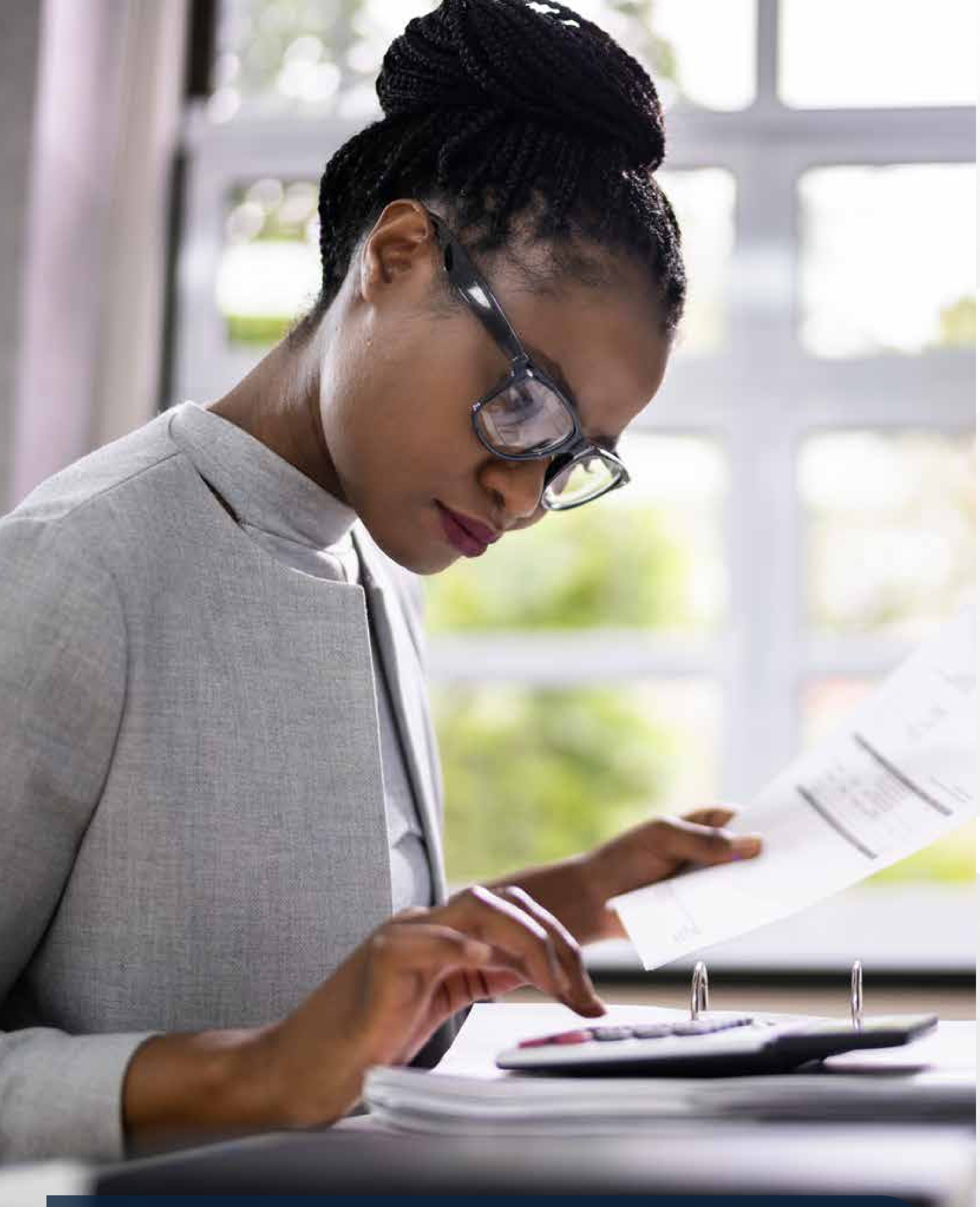
how are LEVIES SET?

The levies for each body corporate are set by a majority vote of all owners each year at the Annual General Meeting (AGM).

Setting the levies is a relatively simple process. The committee and body corporate manager take the sinking fund budget and the administrative fund budget and divide it up by the total amount of lot entitlements. Levies are then assigned to each owner based on their amount of lot entitlements.

There is no profit margin on levies. If your body corporate comes in under budget, the savings are rolled forward to offset next year's levies. If your body corporate goes over budget, the difference must also be made up in the next year's levies.

Entitlements are not always equal for each lot. ***See the section on page eleven.***



SPECIAL LEVIES

This is an additional levy over and above the usual administrative and sinking fund levies. If approved, all owners must meet the agreed repayment schedule.

what are SPECIAL LEVIES?

From time to time a body corporate may be required to issue a special levy to all owners. This is an **additional levy over and above the usual administrative and sinking fund levies**. It is usually issued when:

- There are insufficient funds available in the sinking fund to carry out major works
- The body corporate instigates a major improvement to the common property that is not included in the sinking fund forecast, for example the installation of a new BBQ, a gazebo area or new pool
- The body corporate runs out of money

A special levy **can only be approved at either an annual or extraordinary general meeting.** It must be accompanied by a proposal or quote for the works, and a repayment schedule that includes the amounts each lot is due to pay and by what date.

Most special levies are approved by ordinary resolution however some require either a special resolution or resolution without dissent, depending on the type of work or improvement being considered.

how are they CALCULATED?

Special levies are calculated the same as your administrative and sinking fund levies – by the owner's individual contribution schedule lot entitlement (CSLE).

Special levies may be recovered in one repayment cycle or can be set out over multiple levy periods across several financial years of the body corporate. This is usually done to make the repayments more manageable.

do we have to pay SPECIAL LEVIES?

If the motion approving a special levy is at a general meeting, all owners are required by law to meet the repayment schedule of the special levy, regardless of whether you receive a direct benefit from the works being funded by the levy or not.

how are owners' LEVY AMOUNTS SET?

The amount each lot owner pays in levies is **determined by their lot entitlements**. These are found in your Community Management Statement (CMS) and there are two types – the **Contribution Schedule Lot Entitlements (CSLE)** and the **Interest Schedule Lot Entitlements (ISLE)**. These apportion each owner's administrative and sinking funds levies and special levies if required, voting rights, share of common property and other assets.

Contribution Schedule Lot Entitlements (CSLE)
This is used to calculate:
- each owner's share of most body corporate costs, including levies or special levies if required
- the value of an owner's vote when voting on an ordinary resolution.

Contribute schedule lot entitlements are determined by:
- the size and value of the lot
- access and use of amenities, facilities, or assets,
- any other impact by the lot to common property. For example, in a high-rise apartment complex where there are lifts, the ground floor unit owner who does not require the lift will have a lesser entitlement than the owner who lives on the top floor and requires the use of the lift.

Interest Schedule Lot entitlements (ISLE)
These are used to calculate each owner's share of the cost of insurance (where an insurance levy is applicable). The ISLE is determined by the market value of the lot.

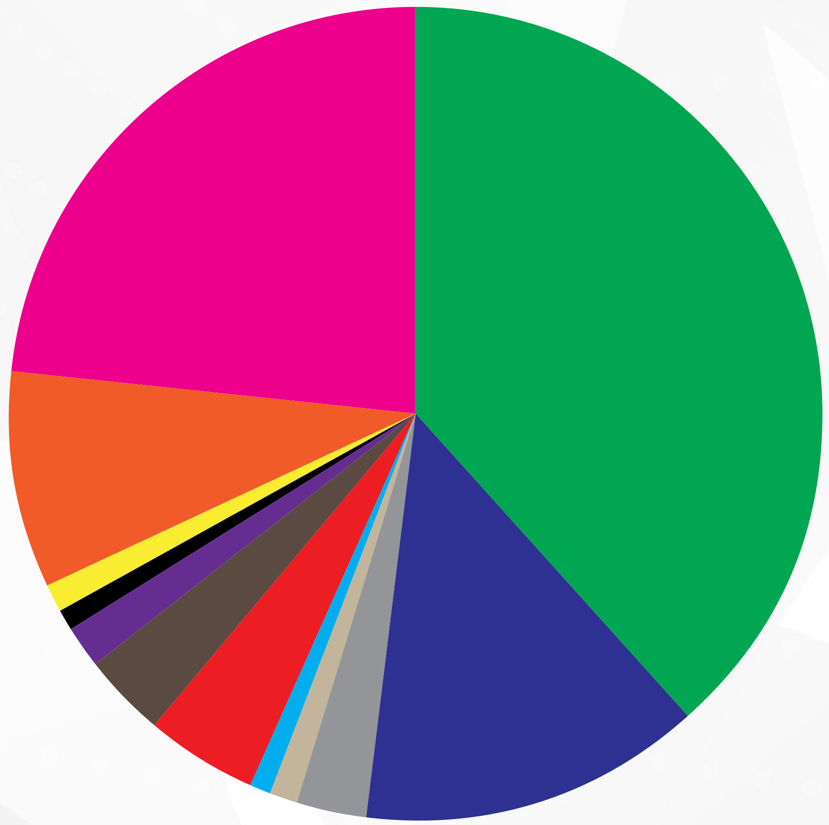
Costs for services supplied to a lot, for example water or power, that can be separately measured and charged are not divided among the owners based on lot entitlements. The owners are separately billed by the service provider for the cost of supplying the service to their lot.

Read our article on what happens if you don't pay your levies.

This chart illustrates **how levies are calculated and allocated** in an average body corporate scheme.

For developments that are larger or smaller than average. the total costs change but the proportion per owner is usually similar.

If your body corporate does not have a caretaker, this cost is usually replaced by separate gardening, cleaning and contractors.



- CARETAKER, INCLUDING MAINTENANCE
- INSURANCE PREMIUM
- PEST CONTROL
- AUDIT & TAX COSTS
- GARDENING & GROUNDS
- BODY CORPORATE MANAGER
- GENERAL REPAIRS & MAINTENANCE
- COMMON AREA WATER
- POOL SERVICING
- LEGAL FEES
- GST
- SINKING FUND

why are my levies HIGHER?

Regardless of a property's similarities, there will always be differences – in the complex itself, the number of lots, the history of the building, or the individual decision-making and plan of each body corporate. These all impact what an owner pays.

In Queensland all bodies corporate are considered to be not-for-profit entities in the eyes of the Australian Tax Office (ATO). This means each owner only pays what they need for the continued operation of the body corporate and the collective upkeep and improvement of the common property. **All levies are paid into a body corporate bank account, and NOT to the body corporate manager.**

Because there is no profit on levies, they are always set at the minimum possible amount required to maintain the property.

Why comparisons are difficult?

Unique building characteristics - Every building is unique, with a different number of units, fixed costs, and operational and long-term savings goals. Comparing levies between buildings is therefore challenging, as the cost profiles are always different.

Individual decision-making - A body corporate will make decisions over time that shape the future of their building. Choices regarding maintenance schedules, repair timelines, and long-term planning will all differ from one scheme to another. These all impact levies. For instance, one building might plan to repaint after 15 years, while another with harsher sun exposure might opt to repaint after 10 years. This creates a different saving schedule for each.

Size of the complex compared to its features - Many owners buy into smaller developments expecting the levies to be lower. Of course, depending on its features, the amount required to maintain a small complex will usually be less than a larger one, but the amount paid per owner may not be.

Think about individual costs. A swimming pool will generally cost a similar amount to maintain whether it's in a private backyard, shared between 5 townhouses, or shared between 20 townhouses. Even as chemical costs rise with more people swimming, the 20-townhouse development will generally produce a cheaper pool cost to maintain than the 5-townhouse development.

LEVIES ARE NOT FOR PROFIT

Body corporate levies are set at the minimum required amount for property upkeep. As they are not-for-profit entities owners only pay what is necessary for maintenance and operation of the body corporate.

factors contributing to DIFFERENCES IN LEVIES

Insurance premiums - Insurance is a substantial annual cost for most buildings and one that can considerably impact levies. While many factors contribute to higher insurance premiums, the history of the building is a significant one.

Has your building made a high number of insurance claims over the years – whether from storms, floods, or even perhaps substandard construction? These claims impact your annual insurance premiums, not only during the year of the claim, but for all subsequent years.

History of the building - If the body corporate chooses not to claim unexpected repairs, then it must source the funds through its own means – whether this be from the existing sinking fund or via a special levy. Either way, a history of unexpected repairs or defects will increase levies.

Sinking fund savings - If a building has kept levies low for a number of years the sinking fund may not have sufficient savings to address the necessary upgrades or maintenance when it arises.

Given there is now a shorter period to save for these impending costs – things like resurfacing the driveway or repainting the exterior of the building or buildings, it may result in a levy increase, or a special levy to 'catch-up'.

Differences in day-to-day expenses - If your levies are higher than your neighbours, then what is your body corporate spending money on that they aren't? Does your gardener and pool cleaner come weekly, while your neighbour's only visits monthly?

Building format plan or standard format plan - The way a building is set up – whether as a building format plan or a standard format plan, influences what the body corporate is responsible for in terms of maintenance and repair. For example, in a building format plan, the body corporate is responsible for the roof and gutters on all lots. This will naturally be reflected in the levies.

OUR COMPLETE GUIDE TO BODY CORPORATE LEVIES?
Want to know more? Click on this link to find our complete guide to body corporate levies.

CELEBRATING
30 YEARS
in strata
EST. 1994

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