



VICTORIA
BODY CORPORATE
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Financial Planning and Control

Series: Effective Governance for Executive Bodies of Strata Communities

Part 9 of 12: Financial Planning and Control

Traditionally, committees have focused well on budgets and financial planning. Sometimes this is to the detriment of other aspects of the management of strata communities. Other times the focus is on reducing fees and levies rather than budgeting for appropriate expenditure. Seldom, if at all, do committees focus on financial control.

The budgeting process typically happens in the last quarter of the financial year prior to the AGM. Last years accounts are taken as the base and some rudimentary calculations are applied to increase the sums thought to have increased over the year.

Budgeting for administrative expenses is not hard. It is budgeting for capital items that presents more challenges and test the strength of the committee. Most agree that it is fair and reasonable that owners of the day should save annually for the repair and replacement of capital items.

However, not all committees back this up with adequate savings. A budget for capital items should be reviewed annually using a quantity surveyors report about the cost and useful life of all capital items. Simplistically, if a fence costs \$10,000 to replace and has a life of 10 years, then \$1,000 should be put away each year to replace the fence. This should be reviewed annually to take account of inflation so that if suddenly the cost of timber rises and the total replacement cost will be more than \$10,000 a catch up payment will be made and future contributions will be increased accordingly.

Strata communities that work on this premise will have adequate funds to pay for repairs and replacements as required, will avoid the trauma of one-off special levies and will find their apartments attractive to purchasers because of a healthy reserve account.

In terms of monitoring the expenditure of funds, again, strata communities usually perform this function quite well. Usually accounts are monitored monthly or quarterly to ensure that spending is in line with the budget.

Next Week: Funding Major Works