



VICTORIA
BODY CORPORATE
SERVICES PTY LTD
your strata care company

Funding Major Works

Series: Effective Governance for Executive Bodies of Strata Communities

Part 9 of 12: Funding Major Works

In strata management there are three options for a committee faced with the responsibility of funding major capital works:

1. Save progressively by making contributions to a separately levied maintenance fund;
2. Strike a special levy when required; and
3. Borrow funds in the name of the strata community.

The most efficient method is the first. It is recommended that committees compile five to ten year forecasts for capital works and some states require this to be funded progressively. Victorian legislation requires that only "prescribed" owner corporations must prepare a maintenance plan, however this affects a very small percentage of properties (normally the larger ones over 100 lots).

This is the fairest way for apportioning costs between new and old owners. If maintenance fund levies are not funded annually, then new owners are disadvantaged. They are forced to pay for the neglect of the former owners.

Special levies are always inconvenient for owners. As an aging society with many older people who are asset rich but cash poor, special levies are traumatic for strata communities and their members. Usually, work can't start until all of the money is received and it may take some time to recover money from unhappy or cash poor owners.

Borrowing involves finding a lender who will lend to a strata community without security. Victorian legislation prohibits a strata community from giving security over common property. Some lenders will lend to a strata community on an unsecured basis because there is a statutory liability on the strata community to levy fees that are necessary to meet the obligations of the strata communities. In the event of a default the lender could have an administrator appointed to levy and recover the funds necessary to repay the loan. Funding will come at a premium to normal borrowings because of the unusual nature of the security. The borrowing costs may be tax deductible for letting owners.



VICTORIA
BODY CORPORATE
SERVICES PTY LTD
your strata care company

Funding Major Works

Although borrowing is a relatively new option very few strata communities use this option. Most find the best method is to pay progressively and update forecasts annually to take account of inflation. This avoids the need for special levies when the work needs to be done.

Next Week: Sharing facilities with other strata communities



Thank you Teys Lawyers for developing great notes for our clients.

<http://www.teyslaws.com.au>