

L&P Strata News

INFORMATION FOR BODY CORPORATE MANAGERS

QLD Edition — Summer 2005

Building Cost Rises Continue - what it means to managers

Anybody who has attempted to hire a builder or a tradesman in South East Queensland in recent times knows that they will be waiting a long time before the job is complete. And it doesn't look like getting any better – at least in the medium term. Supply and demand remains the controlling factor of prices and as long as skilled labour is in short supply, they will continue to rise. By the end of the current financial year, inflation in the building industry in South East Queensland since January 2000, will exceed 60%.

From a body corporate manager's point of view, this is not good news. Apart from the obvious problems associated with obtaining quotations and having work done, there is a hidden administrative time bomb. As mainstream providers of replacement valuations and sinking fund forecasts, we know that bodies corporate are notoriously languid in updating these reports. The old axiom of updating replacement valuations every three years is rarely adhered to. It is not unusual for bodies corporate to delay updates for eight or nine years. Some wait even longer. The average time is five to six years.

When it comes to sinking fund forecasts the story is even worse. It appears many bodies corporate believe that a ten-year forecast is just that – a forecast to last ten years. Of course that is not true. A ten-year forecast is meant for one year only. It forecasts for the current year plus nine years into the future and is intended to be the basis for the current annual sinking fund budget. Each year the forecasting process needs to be repeated to ensure the requirements of the BCCMA are adhered to.

There is another myth that bodies corporate cling to. They seem to believe that if you ask the quantity surveyor to forecast for twenty years, there will be ten extra years for which no forecast is required. This is also fallacious. The economic factors controlling sinking fund forecasts are in essence little different from those controlling administrative fund budgets. Both budgets need to be updated annually to take into account variations in rates of inflation, timing of works and costs from those forecast as well as new expense items.

No body corporate would consider it reasonable to forecast administrative costs ten years into the future and not revise the budget in the interim period. Sinking fund forecasts represent a far more complex set of equations than do administrative fund budgets – so why then does this practice exist?

With the double whammy effect of building cost rises coupled with the new OH&S requirements that have doubled the cost of painting, many buildings now do not have sufficient funds to pay for the real cost of maintenance.

It scarcely needs to be said that sinking fund forecast updates will be required for the majority of buildings in South East Queensland at the present date.

Reports Now Available in Acrobat PDF Format

We have received so many requests to provide our reports in Acrobat's portable document format (PDF) that we now automatically produce all reports that way. This includes replacement valuations, sinking fund forecasts and occupational health and safety reports. This will of course allow you to distribute our reports to committee members by email and to display them within Stratamax and other management packages. As part of our service confirmation process, we will ask if you want your reports presented this way, and the email address to send them to. Our reports will of course also be available in hard copy, however as time goes on, we believe that PDF will be the preferred method for managers to receive information.

For further information about this service, or to register a central address for us to send reports, please call our freecall number 1800 808 991.

Lot Entitlement Adjustments Post 'Centrepont'

After nearly 8 years of often inconsistent rulings, the Supreme Court's appeal decision in the 'Centrepont case' has confirmed the legal legitimacy of the BCCMA 1997's adjustment provisions and laid to rest arguments about its 'constitutionality'.

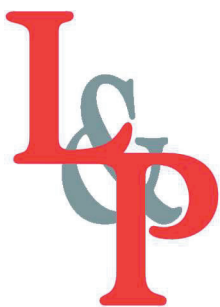
It has also established the basic methodology to be used and the factors to be considered when setting a new contribution schedule. To quote Chesterman J, "More general issues of amenity, value or history are to be disregarded. What is at issue is the 'equitable' distribution of costs. ... the Act is intended to produce a contribution lot entitlement schedule which divides body corporate expenses equally except to the extent that the apartments disproportionately give rise to those expenses, or disproportionately consume services. That determination can only be made by reference to factors which have a financial impact or consequence on the body corporate."

What does this mean to you?

If one of your bodies corporate become the default respondent in a contribution adjustment application, it is now easier to advise them about their response options and how best to manage the overall process. It is also easier for a body corporate committee to make an informed and legally prudent decision about how the body corporate as an entity should respond.

Key facts to know

- Adjustment applications must be based on an accountancy style analysis of the cost impact of the individual lots.
- The body corporate (as default respondent) can only oppose an application on the grounds that the cost analysis is inaccurate. This normally means arguing for a different, but still adjusted schedule.
- If the scheme is large, complex or has a mix of usage types, it is advisable for the committee to seek independent advice about the appropriateness of the applicant's contribution schedule. Doing so ensures the committee can demonstrate it has fulfilled its fiduciary duty to all the lot owners when considering their response to the dispute.
- We recommend initially commissioning only a review of the applicant's report by another consultant. Commissioning a completely independent report from scratch may then be appropriate if there are major issues with the accuracy or equity of the applicant's submission.
- There is no limit on the number of times the contribution schedule for a scheme may be adjusted. If bodies corporate don't challenge potentially inaccurate or inequitable applications they are creating the potential for future adjustment applications by other lot owners. (At least one scheme has already had a second adjustment.)
- Major changes to the scheme development or the subdivision / merging of existing lots will, by default, create the potential for future adjustments to the contribution schedule.



Quality Assured to
AS/NZS ISO 9002:1994

Leary & Partners Pty Ltd

ACN 010 134 148

QUANTITY SURVEYORS

Free Call: 1800 808 991

Free Fax: 1800 808 921

Postal Address: PO Box 38 Toowong QLD 4066

E-mail: enquiries@leary.com.au

On the Web at: www.leary.com.au

Offices • Brisbane • Sydney • Melbourne

Associate Offices • Gold Coast • Cairns • Mackay • Townsville • Sunshine Coast • North Coast NSW • Perth

Professional services available from Leary & Partners:

- Taxation Depreciation Schedules • Occupational Health & Safety Reports
- Sinking Fund Forecasts • Replacement Valuations • Lot Entitlement Adjustment Reports

For information on any of these services, please contact us on the above numbers