strata community association NSW

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Best Practice Guide

Guide For Capital Works Plans

WHEN PREPARING OR REVIEWING A CAPITAL WORKS PLAN (CWFP):

Section 80 of the Strata Schemes Management Act 2015 (SSMA 2015) requires that new and existing strata schemes must prepare a Capital Works Fund Plan (CWFP) – previously known as the Sinking Fund Plan. The only exemption is a two-lot strata scheme where the owners resolve unanimously at a General Meeting (s.74(5)) not to have a CWFP completed, the buildings are physically detached and no part of any building is situated outside of the two lots.

WHAT ARE CAPITAL WORKS?

When setting levy contributions to the Capital Works Fund, s79(2) requires that an annual estimate for "actual and expected expenditure" of a "capital nature" be completed. Works that are considered to be expenses to the Capital Works Fund are expenses that from the following four categories:

1. Painting the common property building or structure.
2. Acquiring new or replacing personal property of the scheme (e.g. chairs for the cabana, lawn mower and hedge trimmer, lobby furniture, gym equipment, pool cleaning equipment).
3. Replacing or renewing fixtures and fittings on common property (e.g. lighting replacements, mail boxes, pool pump, water pumps, common area carpet, motors to electric doors, security and intercom systems, irrigation controller, playground equipment).
4. Major repairs or replacements to common property (e.g. roof, guttering, downpipes, lift, cooling/heating plant, fences, security gate).

Note: operating costs including minor maintenance are considered to be Administrative Fund costs under s79(1). Capital Works Fund costs are for larger items as identified

The purpose of the Capital Works Plan is to assist owners in determining the amount of funds to be set aside for major repairs, and the replacement or refurbishment of common property.

LEGISLATIVE REQUIREMENTS OF SECTION 80

Section 80 of the SSMA 2015 places the following requirements on Strata Schemes.

1. New schemes must discuss the preparation of a 10 year CWFP at the first AGM.
2. Existing schemes to prepare a 10 year CWFP commencing from the date of

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the first AGM and each 10 year period thereafter.

3. Owners may by resolution at a general meeting resolve to review/revise or replace a 10 year plan prepared under this section and must review the plan at least once in every 5 years (or more frequently). Best practice is an annual review of the CWFP by the strata committee prior to the AGM and by the owners at the AGM.

4. A plan under this section is to include the following:

    a. details of proposed works or maintenance

    b. the timing and anticipated costs of any proposed work

    c. the source of funding for the proposed work

    d. any other matter the owners corporation thinks fit

    e. any other matter prescribed by the regulations for the purposes of this section.

5. A plan under this section is to be finalised by the end of the end of the next annual general meeting (i.e. at the second AGM).

6. An owners corporation may engage expert assistance in the preparation of a plan under this section. This is strongly recommended for Strata Schemes due to the highly technical nature of the CWFP and the requirements of the legislation.

7. As far as practicable, (and subject to any adjustment under this section) the owners corporation is to implement the CWFP prepared under this section. The plan is not expected to be restrictive; however, it is an important guide for strata schemes to ensure that suitable levies are being raised at each AGM in order to meet the future expenditure requirements of the building.

WHEN PREPARING OR REVIEWING A CAPITAL WORKS PLAN

1. Engage a consultant or a company that has strong experience preparing CWFPs, are familiar with strata properties and are familiar with the requirements of the SSMA 2015 and the definition of 'common property'.

2. Work closely with any chosen supplier so that he/she has all the essential information for the task. Provide as much history and data as possible, such as recent major repairs, asset replacements, painting works and their costs, the current contributions to and balance of the Capital Works Fund, plus any plans for imminent projects. The best way to do this is to provide the capital works fund general ledger for the last 3-5 years to the company preparing the report.

3. For newly built schemes, seek from the developer, a copy of the Maintenance Schedule for common property items required under Clause 29 of the Strata Schemes Management Regulation 2016 and provide the maintenance schedule to the consultant preparing the report.

4. Understand that the consultant has visited your property and provides recommendations for the estimated cost and timeframe for each item, its observed state and condition and its estimated remaining useful life.

5. Seek feedback on the draft report to the strata committee and building manager (if you have one) regarding project priorities to ensure that the final report is as close to the owners corporations current priorities as possible.

6. After receiving the initial draft CWFP, request that the supplier explains any terms and or time lines in the report you don't understand so that the report can be clearly explained to the owners and strata committee.

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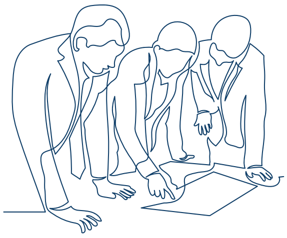

7. Draw on the recommended levy contributions in the CWFP when preparing each year's annual Capital Works Fund budget.
8. At the end of each year, compare the actual Capital Works Fund balance with the forecast balance for that year as well as expenditure incurred against planned. It is important to check that the plan is still relevant and that sufficient funds are available to carry out planned works.
9. Be flexible with your interpretation of the CWFP if urgent items arise. The requirements to maintain common property is mandatory for all owners corporations.
10. Ascertain from owners at the AGM whether they wish for the CWFP to be updated at each AGM.
11. To assist with 5-yearly reviews, keep a record of all Capital Works Fund Expenditure to reconcile actual expenses against the plan. The key details to record are the item replaced, the date and amount of expenditure. The ledgers should then be provided to the consultant prior to the 5-yearly CWFP review.
12. Large schemes must include in the estimates prepared at an AGM outlining specific amounts in relation to each item or matter on which the owners corporation intends to spend money or will likely be spent in the period until the next AGM s79(5).
13. Large schemes are required to explain why a budgeted capital works item of expenditure differs from the forecast estimate in the Plan (s.79(6)).
14. Recognize that the CWFP has estimated time lines for replacement and may require change. The CWFP is likely to be impacted by urgent priority items if the report is not regularly reviewed. In some cases, items may not be required for many years past the original estimation. Regular review of the CWFP is critical to ensure that the document remains relevant.

The Capital Works Fund Plan is a valuable tool in assisting owners corporations to budget and plan ahead for capital works. With sound financial management, suitable budgeting and regular review of the CWFP the need for special levies can often be reduced.

Strata Community Association (NSW) is the peak industry body for Strata and Community Title Management in New South Wales. Membership includes strata managers, support staff, committee members and suppliers of products and services to the industry. SCA (NSW) has in excess of 3,000 members who represent over 75% of strata lots in NSW by way of helping to oversee, advise or manage a combined property portfolio with an estimated replacement value of over $400 Billion. SCA (NSW) proudly fulfils the dual roles of a professional institute and consumer advocate.

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