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**Fact Sheet**

This Fact Sheet accompanies our podcast on Administration and Sinking Funds in strata and community titled groups. The following is in part written by Kelly Borell of Tower Body Corporate. We have made adjustments to suit South Australian legislation...

Many owners are confused about Body Corporate Funds - particularly the difference between the Administrative Fund and the Sinking Fund, and what they're used for.

As an owner within a body corporate scheme, it is important that you to understand these differences and be financially prepared. After all, whether you live in it or rent it out, your lot is a valuable investment, and you want to ensure it's well taken care of.

What is the administrative fund used for?

The Administrative Fund is for the everyday expenses of the body corporate; for example:

- building insurance
- building and pool maintenance
- gardens and grounds maintenance
- body corporate management fees and caretaker fee, if applicable
- common property electricity
- pest control
- regular fire servicing
- any other non-capital expenditure

It is important that the levies raised in the Administrative Fund are enough to cover the total recurrent expenses for the year. This is to ensure that the balance of the Administrative Fund does not end with a deficit at the conclusion of the body corporate's financial year.

If the balance of the Administrative Fund is in deficit at the end of the year, the money will need to be raised in the following year to clear the deficit.

What is the sinking fund for?

The Sinking Fund is for the common property capital expenses of the body corporate; for example:

- painting of the building
- replacement of the roof

- replacement/refurbishment of lifts
- replacement of common area carpeting
- replacement of pool equipment and pool refurbishment
- replacement of fencing
- acquisition of amenities for the benefit of the owners
- any other capital expenditure

In South Australia, Community Titled groups are required to have a Sinking fund, this is not the case for Strata Titled groups, where a sinking fund is optional.

In 2013 the Attorney General released a Fact Sheet (see page 2) stating..

*Apart from 2-lot corporations, all community corporations must establish a sinking fund for irregular maintenance or capital works and make annual estimates, or budgets, of future spending (sections 113, 116 Community Titles Act). Contributions to the sinking fund can, however, be set at negligible levels. Under the Strata Titles Act, there is no requirement to have a sinking fund. This will not change. To improve planning, however, and to encourage sinking funds, strata and community corporations other than small groups (6 or less) will be required to prepare a longer-term forward budget for maintenance and capital works.*

- *Medium sized groups of between 7 and 20 lots or units will have to prepare a 3 year sinking fund budget to be reviewed every 3 years; and*
- *Large groups of over 20 lots or units will have to prepare a 5 year budget and review it every 5 years.*

*Groups with 6 or less lots or units, and community corporations with common property insurance cover of \$100,000 or less, will be exempt from the requirement for these longer-term sinking fund budgets.*

If your group has no substantial sinking fund we suggest you take our Fact Sheet and the Attorney General's Department advice to your next meeting ☐

Links Tower Strata Article

<http://towerbodycorporate.com.au/differences-between-administrative-and-sinking-funds-queensland/>

Link Fact Sheets and Podcasts

[www.unitcare.com.au/fact\\_sheets.html](http://www.unitcare.com.au/fact_sheets.html)

Link Strata Title - Who Owns What

[http://www.unitcare.com.au/bp\\_strata\\_boundaries.html](http://www.unitcare.com.au/bp_strata_boundaries.html)

Link Community Title - Who Owns What

[http://www.unitcare.com.au/bp\\_community\\_boundaries.html](http://www.unitcare.com.au/bp_community_boundaries.html)

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# Mandatory sinking fund budgets

**Changes to community and strata titles legislation  
To take effect from 28 October 2013**

## Introduction

The *Statutes Amendment (Community and Strata Titles) Act 2012* will change the laws (the *Community Titles Act 1996* and the *Strata Titles Act 1988*) governing community and strata titles in South Australia, to take effect from **28 October 2013**.

The changes to the community and strata titles laws are designed to improve protections for consumers who buy into or own units in strata and community titled developments. In doing so, they introduce further rights for owners and further obligations for body corporate managers as well as, in some cases, further obligations for community and strata corporations.

The following fact sheet is one in a series of fact sheets that have been prepared to explain the effects of these impending law changes and what they mean for owners and community and strata corporations and for body corporate managers.

Apart from 2-lot corporations, all community corporations must establish a sinking fund for irregular maintenance or capital works and make annual estimates, or budgets, of future spending (sections 113, 116 *Community Titles Act*).

Contributions to the sinking fund can, however, be set at negligible levels. Under the *Strata Titles Act*, there is no requirement to have a sinking fund. This will not change. To improve planning, however, and to encourage sinking funds, strata and community corporations other than small groups (6 or less) will be required to prepare a longer-term forward budget for maintenance and capital works.

- Medium sized groups of between 7 and 20 lots or units will have to prepare a 3 year sinking fund budget to be reviewed every 3 years; and
- Large groups of over 20 lots or units will have to prepare a 5 year budget and review it every 5 years.

Groups with 6 or less lots or units, and community corporations with common property insurance cover of \$100,000 or less, will be exempt from the requirement for these longer-term sinking fund budgets.

