

Best Practice Guide

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Sinking Fund Plans

There's a lot of unnecessary confusion about Sinking Fund Plans. The section (75A) of the NSW strata act that relates to them is very simple and straightforward (and only half a page long), so if you're ever in doubt, go straight to the source and read the legislation.

Legislative Requirement

The requirements are simple:

1. All NSW strata schemes must have a "sinking fund plan"
2. It is to cover "major anticipated capital expenditure"
3. It must be for a 10 year period
4. It must be renewed every 5 years
5. It is to be prepared by the strata corporation
6. The strata corporation may engage "expert assistance" if it wants

That's the beginning and the end of the legislative requirements.

It's the corporation's decision whether or not to engage "expert assistance" and there is no stipulation regarding the qualifications of the expert assistant.

Section 75A doesn't say anything about how the expenditure identified in the plan is to be funded – that is a separate decision to be made annually by the corporation in its budgeting process.

If you engage an expert assistant they are likely to provide a list of anticipated expenditures (the Sinking Fund Plan) and also an estimate of potential levies to a sinking fund. It's not a requirement that a Sinking Fund Plan contain this kind of financial estimate and there's no requirement to have a levy to the sinking fund.

Now we've covered off the legislative issues, let's look to practical matters.

Why won't our strata manager prepare the report?

Some owners and committees get upset that their strata manager won't provide a Sinking Fund Plan. The answer is simple, it's not that the strata manager is being lazy

or dodging their responsibilities, but that strata managers don't usually have the appropriate skills and experience. Strata managers will assist you in finding and choosing the appropriate expert assistant.

Do we need an expert assistant?

The legislation doesn't require you to engage assistance, you can prepare a Sinking Fund Plan yourself. However, the best default position is probably to engage an expert unless you consider there are compelling reasons why you really don't need to. It might be that owners in your building have the necessary experience. Or it might be that blind Freddie and his dog can see that it's not required in your particular situation. But, if in doubt, bring in the experts!

What to look for in an expert assistant

Like any contractor, you usually get what you pay for and due diligence is essential to ensure you are dealing with the style of company (and person) suitable for your situation. Here is a quick guide:

1. Are they a member of a strata institute? Membership usually indicates a commitment to the strata sector and specialised knowledge of strata matters
2. Are they a member of an appropriate professional body? For example, the professional associations of quantity surveyors, engineers or valuers? Membership is likely to indicate their commitment to professional standards
3. Do they hold appropriate and current insurance and registration?
4. Do they have expertise and experience in your type of property? The skills required to assess the issues of a 2 unit townhouse may not be the same as a 30 storey apartment block and all the plant and equipment necessary to keep it operational
5. Review a sample report – does it have the amount and quality of detail appropriate to your situation? How does it compare with reports of other providers?
6. Ask around – what are other peoples' experiences of the firms you are considering?

Where can we find an expert assistant?

You can choose a general engineering firm, a quantity surveyor, a valuation expert or a specialist strata report provider. The ISTM website contains a list of member firms

