



Financial insights for sectional title owners

Training by Leigh Maingard – 29 May 2023

Discussion points

- Budgets
- Levy calculations
- Special levies
- Financial statements
- Additional expenses since STSMA promulgated in 2016

Basic principles of budgeting

- Ordinary levies must cover expenses
- Exclusive use (EUA) levies - additional income stream
- Maintenance reserve levy = maintenance reserve expense (transfer funds)
- Interest earned on reserves - additional income
- Shortfall in utility recoveries – include as expense
- CSOS levy income = CSOS levy expense
- Never budget negatively (shortfall) – affect reserves
- By default, administrative budget must indicate a surplus

Budgets

Administrative budget

- Income to budget for:
 - Ordinary levies
 - Exclusive use levies (EUAs)
 - Rental – parking bays, store-rooms etc
 - Utilities – electricity, water, sewerage
 - Interest & other income – not a known income stream
- Expenses to budget for:
 - Day to day / monthly / annual expenses
 - Contractual expenses, salaries & wages
 - Maintenance expenses – planned repairs not capital of nature
 - Estimate expenses – unplanned maintenance, i.e electrical/plumbing

Budgets

Maintenance reserve budget

- Expenses of a capital nature over 10-year period (rolling)
 - Cannot be included in ordinary levies
 - Replacement of lifts, redecoration of complex, replacement of roof etc
 - Solar & inverters – necessity of installation
 - Updated MRRP to be presented at every AGM
 - Members must approve at AGM

Levy calculations

- Ordinary levies - participation quota (PQ) of sections
- Exclusive use area (EUA) levies different calculation to sections
 - Parking bays
 - Store-rooms
 - Gardens
- Maintenance reserve calculation – based on reserves & MRRP
 - Reserves at end of financial year + MRRP expenses
- CSOS levy calculation – formula based on primary section levies only
 - Levy – R 500 x 2% (max R 40)

Special Levies

- “...if additional income is required to meet a necessary expense that cannot reasonably be delayed until provided for in the budget for the next financial year;”
- Authority of a written trustee resolution
- Calculated on PQ basis – sections only and not EUAs
- Funding of special levy
 - Determine over how many months to collect
 - External funding – special resolution

Financial statements

- Financial position of scheme at end of financial year
- Income statement – 12 month period
 - All income – levies, interest, utilities, EUAs, special levies, remotes etc
 - All expenses – contractual, budgeted & unbudgeted expenses (ad hoc)
 - Maintenance reserve expenses included
- Balance sheet – cumulative financial position from inception
 - Assets – money in bank accounts & money owed to scheme
 - Equity & liabilities – reserves & money owed to suppliers / levies in advance

Financial statements

- Accounts receivable – levies in arrears, suppliers paid in advance
- Accounts payable – suppliers, levies paid in advance
- Insurance – replacement value of sections & common property
- Repairs & maintenance – breakdown for the year
- Cashflow statement – movement of funds during the year
- Maintenance reserve calculation / recon
- Confirmation of any rule changes / amendments
- Tax calculation – first R 50 000 exempt

Additional expenses since STSMA

- CSOS levy – max R 40 per section
- Maintenance reserve levy
 - Except when reserves = 100% or more of levy income
- MRRP preparation – third party consultant
- Independent valuation – every 3 years – potential premium adjustment
- Annual fees for CSOS submissions – managing agent

Summary

- Sectional title living is more expensive than prior 2016
- Careful consideration must be given to include all possible expenses
- Calculation of the maintenance reserve contribution must be accurate
- Budgets must be prepared prior to year end – allows for increase in income from start of year

THANK YOU